



## EUROPEAN NEW DEAL

A comprehensive economic & social policy framework for Europe's stabilisation, sustainable recovery & democratisation

The idea of Europe is in retreat and the European Union is at an advanced state of disintegration.

With Brexit, one great pillar of the European Union has already fallen. Soon after Europe's establishment acquiesced to its effective disintegration with euphemisms such as 'multi-speed' or 'variable geometry' Europe.

"I don't care what it will cost. We want our country back!" This is the message one hears not only from Brexit supporters in the UK but, increasingly, from around Europe, even amongst left-wingers advocating a return to the nation-state.

So, is Europe a lost cause? Can it be saved? *Should* it be saved?

DiEM25 believes that, yes, we, the peoples of Europe, must take our countries back. Indeed we need to take our regions back. We need to take our cities and towns back. But to take back our countries, our regions and our cities, we need to reclaim common purpose amongst sovereign peoples. And to do this we need an internationalist, common, transnational European project. We need a European New Deal. This document outlines just that.

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## Section 1 – INTRODUCTION

### 1.1 The bitter fruits of austerity that drive Europe's crisis

Europe is facing the perfect storm of a Nationalist International insurgency and of a deep establishment whose failed policies leads it to authoritarianism that, in a never ending circle, reinforces the crisis which feeds the nationalist international insurgency. Unless Europe's progressives act now, not only will the European Union dissolve but, even worse, it will be replaced by something uglier where permanent economic crisis will converge with irreversible authoritarianism and human despair.

While the origins of Europe's malaise are various and complex, the loss of hope lies at its heart. Hope evaporated when a majority of Europeans faced the spectre of *involuntary under-employment* now or in the future. For at least a decade millions of Europeans living in the more affluent countries have been restricted to the soul-destroying, precarious jobs that dominate an increasing segment of the labour market (e.g. in Germany). Meanwhile those living in Europe's periphery, especially the young and older people approaching retirement, are confined to the scrapheap. Thus the young migrate *en masse* to Europe's core where locals already in the clutches of discontent see them, mistakenly, as the root of their problems.

Europe is, therefore, disintegrating as a result of this perfect storm of *involuntary under-employment* and *involuntary migration*.

- *Involuntary under-employment* is the bitter price of austerity. It is the effect of ultra low investment, of a failure to generate the paid work that Europe needs to meet economic, social, human and environmental needs, and of the European economic stagnation that concentrates most of economic activity in a few regions but drains the rest.
- *Involuntary economic migration within the European Union* is the bitter harvest of austerity. The vast majority of Greeks, Bulgarians, Spaniards, Romanians, Portuguese and Poles moving to Britain or Germany do so because they must. With no jobs or prospects at home, with a vast and growing income differential between European countries, what else can they do?

In this fog of under-employment and forced migration, a growing number of Europeans need to exert superhuman efforts to provide for themselves and their families. This reality engenders anger and breeds political monsters that are now exploiting the climate of fear and uncertainty.

Under-employment and migration are the two horsemen of the Nationalist International that is sweeping across Europe today. The Nationalist International proposes protection to create jobs. It proposes walls to block migration, a politics of fear, a state of siege to discourage, and even to evict, those who have already moved.

## 1.2 Protectionism and border fences are not the solution

### Protectionism is not the solution!

Yes, it would have been better, had Europe sought to sustain and develop firms and industries in every country prior to the creation of the single market, rather than encourage the mass de-industrialisation of many countries and regions. But those horses have bolted; the industries that died when the borders came down have gone forever. They cannot be recreated by impeding trade now. If we tried to revive them through protectionist policies, the price will be a breakdown of the existing, integrated Europe, with trade wars inflicting vast new losses on our peoples. Anyone promising that the UK, Italy, France, Greece or Germany would be able to emerge from greater protectionism wealthier is peddling false hope.

### Walls and electrified border fences are not the solution!

Yes, it would have been better if Europe had created conditions for Poles, Bulgarians, Romanians, Greeks etc. not to be forced out of their countries by the unavailability of living wages, housing etc. in their communities. But those birds have flown; these migratory waves have happened. And the price of trying to reverse or to stop them will be a boon for racists, religious intolerance, national chauvinism, as well as a vast cultural impoverishment of Europe.

The promise that the Nationalist International is making, of restoring hope through taller walls that control the movement of people and goods, must be resisted fiercely by Europe's progressives.

## 1.3 A 'multi-speed' or 'variable geometry' Europe is shorthand for a defeated Europe

The President of the European Commission, Mr Jean-Claude Juncker, recently published a discussion paper listing five possible directions the EU could take. Of these, the EU's leaders have been attracted by the idea of a 'multi-speed' or 'variable geometry' Europe. It sounds like a flexible and realistic approach that would allow some member-states to integrate further along the lines of common values while others can take a few steps backwards.

However, in substance, this approach reflects a wholesale acquiescence to disintegration: Some member-states will use the 'multi-speed' narrative to ditch crucial rights and liberties (e.g. freedom of the press, judicial independence, free movement) while the rest will fail to compensate with greater consolidation (as the Eurozone, the prime candidate for a closer political union). In short, 'multi-speed' or 'variable geometry' are euphemisms for a collapsed and increasingly illegitimate, irrelevant EU.

## 1.4 Should Europe be saved?

Until very recently proposals to 'save' Europe aroused sceptics who would say, "that's all very well, but can what you propose be done?" Today the sceptics ask whether Europe is worth saving at all.

DiEM25 answers: Yes! We have a duty to demonstrate that Europe can be saved and must be saved. Except that it will not be saved if its establishment continues to resist the policy interventions necessary to do so. Europe must be saved because the alternative is to impoverish *all* Europeans, in economic, social and cultural terms. The nationalist alternative is to divide, to foster distrust leading to violence and perhaps to war. The nationalist alternative would also endanger the wider world. The world needs a *unified* Europe committed to authentic democracy, to the peaceful resolution of conflicts, to social protections, to saving the planet, and to the on-going expansion of human freedoms.

DiEM25' New Deal offers a blueprint of how Europe can be saved. DiEM25' New Deal conceives of the necessary investment into people's communities like the Green movement conceives of climate change: a joint responsibility of peoples whose fortunes are intertwined.

## 1.5 Will Europe be saved? The unifying role of constructive disobedience

A lost decade and an intensifying crisis have made many Europeans feel that Europe is a lost cause. That the European Union is beyond the point of no return. That perhaps it is better to let this neoliberal, authoritarian, incompetent, unappetising Europe collapse and then start again from scratch, once we have restored democracy in our nation-states.

DiEM25 does not contest the proposition that perhaps Europe is past the point of no return. However, DiEM25 staunchly contests the proposition that we should campaign to dissolve the EU, or that we should let it collapse, so as to start from the beginning. DiEM25 believes strongly that our struggle to save the EU, by putting forward practical proposals for democratising, civilising and rationalising it, will prove essential *even if we fail* and Europe disintegrates as a result.

This struggle, the work DiEM25 does across Europe, to produce the policy proposals that can save Europe builds up the transnational network of democrats that will prove invaluable if Europe ultimately fails. By inciting *constructive disobedience* (i.e. leading with moderate policy proposals while disobeying at every level the edicts of the clueless establishment) and getting Europeans from different national and party political backgrounds to struggle side-by-side to save Europe, we create the transnational Progressive International that will confront both the establishment and the Nationalist International, and will pick up the pieces if Europe collapses.

The narrative of "let this Europe disintegrate so as we can start again once we have recoiled into our nation-states" is only going to strengthen the Nationalist

International. But DiEM25's narrative "let's stick together, put forward proposals for saving Europe while disobeying the establishment and preparing for Europe's disintegration" is the greatest enemy of both the Nationalist International and Europe's culpable establishment. It is also the cement and the glue of the transnational European movement that will oppose barbarism after Europe's collapse.

## 1.6 Stabilisation, recovery and greater national sovereignty must come first

In response to the crisis, the liberal establishment proposes "more Europe" – a *federation-lite* with yet more powers to the bureaucrats of Brussels, with some central economic functions, but also with highly restrictive controls demanded by the Germany Ministry of Finance, the European Central Bank, and the least enlightened parts of the European Commission. Inevitably, under present economic conditions, a federation-lite would deepen austerity and advance the destruction of the European social model.

A federation-lite is not the solution! Had it been established back in 2000 when the euro was born it might have taken the edge of the crisis that followed in 2008. But now, it is too little too late. The tiny federal budget that is proposed in exchange for political union will turn Europe into a permanent Austerity Union. Rather than avert the path to dissolution it will speed it up and maximise the human costs.

Today, Europe needs practical steps that can be taken tomorrow morning to end the free fall, stabilise local and national economies, heal the fault lines between surplus and deficit countries, re-balance the Eurozone and achieve coordination between the Eurozone and other economies falling geographically within greater Europe (e.g. the UK, Switzerland, Serbia, Norway, Turkey, Iceland). These steps need to be taken quickly and thus within the existing institutional arrangements. Any moves to 'more' Europe now will not only produce a permanent Austerity Union in continental Europe but will also be outpaced by the galloping crisis which will ensure that there will be nothing left to unite or federate.

DiEM25's European New Deal proposed policies within existing institutional arrangements that will bring stabilisation. Stabilisation will bring greater national sovereignty. Once investment flows have been restored, public debt management has been coordinated, the bankers have been restrained and abject poverty has been addressed at the European level, national governments will suddenly be endowed with more degrees of freedom – proof that the europeanisation of the solution to basic, common problems, does not require further loss of sovereignty. Quite the opposite: europeanising the solution to, e.g., investment flows and public debt unsustainability gives back to national parliaments and regional assemblies greater powers.

In the longer term, once this stabilisation is achieved, and the elixir of hope returns to Europe, Europeans must then address the crucial question: How do we envisage



Europe in, say, twenty years?

- Do we want gradually to deconstruct the EU, plan for a smooth, low-cost velvet divorce and rely more on nation-states?
- Or do we want to build and maintain an open, continental, federal pan-European democracy in which free men and women can live, work and prosper together, as they choose.

DiEM25 is committed to the latter: Once Europe is stabilised by means of the modest policies outlined below, a real democracy can be built at a transnational European level. This will, naturally, require a European democratic constitutional process underpinned by policies for democratising economic life, breaking down the capital-labour division, enshrining shared green prosperity into Europe's institutional make up, and eradicating all forms of institutionalised discrimination.

### 1.7 DiEM25's European New Deal: An integrated program for civilising Europe complete with an inbuilt mechanism for containing the costs of a potential disintegration

DiEM25's European New Deal offers that which the European establishment has failed to offer: a Plan A for Europe. It maps out ways by which Europe will:

- fund its present and future innovators, whose R&D will be the foundation of the Green Transition to Prosperity Without Growth that we need
- back its maintainers, people who do the multitude of work needed to maintain communities and existing infrastructure (e.g. nurses, carers, teachers, sewer and electricity grid repairers)
- restore the dream of shared prosperity in an era of automation, exploitation and inequality that undermine humanism
- enable democracy at the local, regional, national and pan-European levels.

To fund the above, DiEM25's European New Deal proposes financial mechanisms that will not only minimise the probability of disintegration but that will also minimise the costs of containing a possible disintegration of the existing European Union. This is crucial: Unlike those who argue that the current European Union is 'finished' and thus support a Plan B for its dissolution, DiEM25's European New Deal proposes a Plan A whose implementation will save Europe (by stabilising and civilising it) but also deal optimally with the fallout from a collapse of the Eurozone and possibly of the European Union itself (see section 2.5 below).

### 1.8 DiEM25's European New Deal as a prerequisite for a Democratic European Constitution

The people of Europe have a right and a duty to consider the union's future and to decide between (i) a multilateral cooperation framework and (ii) the possibility of transforming Europe into a full-fledged democracy with a sovereign Parliament

respecting national self-determination and sharing power with national Parliaments, regional assemblies and municipal councils. However, this debate will never take place as long as Europe is buffeted by economic imbalances and deflationary forces that turn one proud people against another. This is why DiEM25's European New Deal, and the policies it proposes for bringing about Europe's stabilisation and recovery, can be seen as a first step to, and a prerequisite of, the dispassionate debate that Europeans have to have about Europe's long-term political future.

Once DiEM25's European New Deal becomes part of Europe's political discourse, thus getting a chance to stabilise Europe and stem the centrifugal forces that are currently tearing it apart, DiEM25 will present a follow up Policy Paper entitled 'DiEM25's European Democratic Constitutional Framework'. Its purpose will be to promote a Constitutional Assembly Process, involving representatives elected on trans-national tickets, to manage the evolution of Europe into a democratic political entity and the replacement of all existing European Treaties with a democratic European Constitution.

## Section 2 – EUROPEAN NEW DEAL: AIMS & MEANS

The fundamental aim of the proposed policy framework is to render Europe worth saving and, concurrently, to propose pragmatic policies for actually saving it. However, as it would be unwise to discount the establishment's resistance to rational policies such as those proposed herein, DIEM25's policy framework also embeds within the mechanisms it proposes shock absorbers that will minimise the economic and social costs of the Eurozone's, indeed, the EU's, disintegration.

### 2.1 INTRODUCTION: Four principles and six aims of a New Deal for the whole of Europe, independently of membership of the Eurozone or the EU

The German philosopher GWF Hegel argued that no one can be truly free if others are in chains.<sup>1</sup> Similarly, no European nation can truly prosper while others languish in permanent depression. This is why Europe needs a New Deal.

DiEM25's European New Deal is based on four simple, motivating principles:

- A. *TURNING IDLE WEALTH INTO GREEN INVESTMENT: Europe's future hinges on the capacity to harness the wealth that accumulates in Europe and turn it into investments in a real, green, sustainable, innovative economy. What matters is not the boost of one European country's 'competitiveness' in relation to another European country but the rise of productivity in green sectors everywhere*
- B. *BASIC GOODS PROVISION: All Europeans should enjoy in their home country the right to basic goods (e.g. nutrition, shelter, transport, energy), to paid work contributing to the maintenance of their communities while receiving a living wage, to decent social housing, to high quality health and education, and to a sustainable environment.*
- C. *SHARING THE RETURNS TO CAPITAL & WEALTH: In the increasingly digital economy, capital goods are increasingly produced collectively but their returns continue to be privatised. As Europe becomes more technologically advanced, to avoid stagnation and discontent it must implement policies for sharing amongst all its citizens the dividends from digitisation and automation.*
- D. *MACROECONOMIC MANAGEMENT CANNOT BE LEFT TO UNELECTED TECNOCRATS: Europe's economies are stagnating because for too long macroeconomic management has been subcontracted to unaccountable 'technocrats'. It is high time macroeconomic management is democratised fully and placed under the scrutiny of sovereign peoples.*

The task is to begin making a reality out of these four principles today. This means that we must begin our work without the tools of a functioning European federation. We must thus make a start by using the existing institutions and work, as far as possible, within existing European Treaties in a manner that *simulates* the federal

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<sup>1</sup> A line put to song by Solomon Burke: 'No one is free'

institutions we lack. In this regard, DiEM25 is focusing on six aims

1. Taming finance and re-politicising money creation: Regulating banking and establishing a new public digital payments platform that ends the monopoly of banks (private and central) over Europe's payments, creates more fiscal space for Eurozone member-states, and minimises the costs of a Eurozone breakup – see section 2.2
2. Funding Green Investment-led Recovery: Linking central bank operations with public investment banks and a new agency for managing and funding Europe's Green Transition & Green Energy Union – see section 2.3
3. Funding basic goods for Europe's 'maintainers' in their own communities (by means of anti-poverty, jobs guarantee and social housing schemes) to prevent involuntary migration – see section 2.4
4. Sharing the returns of capital and wealth and democratising the economic sphere in an era when automation not only boosts unbearable inequality but also represses economic activity – see section 2.5
5. Pan-European coordination of monetary, fiscal and social policies between EU-but not Eurozone, Eurozone, and non-EU member states as a prerequisite for trade agreements – see section 2.6
6. Defeat the euro crisis (before it defeats Europe!) A plan to save the Eurozone by ending self-defeating austerity within the existing 'rules', restoring much of the lost national sovereignty *and* minimising the cost of its disintegration in case of an 'accident' – see section 2.7

Finally, section 2.8 addresses the question of funding the proposed programs and sums up the three new institutions envisaged (in sections 2.2 to 2.7).

## 2.2 Taming finance and re-politicising money creation

### 2.2.1 Regulating banks and financial institutions

The banking crisis of 2008-2009 was the moment when the European project started to come apart, the flawed design of the Eurozone and its consequences becoming fully apparent. The public debt crisis that drove austerity programs was a direct result of transferring banking losses to the weakest taxpayers. More generally, the obsession with public debt (e.g. in the media and amongst establishment politicians) is inconsistent with the fact that it is the dynamics of private, bank-generated, debt that drives public debt dynamics. For this reason, taming finance and limiting private debt is essential in averting ill-effects of public debt and aggregate investment on fixed capital over the longer term.

DiEM25 proposes a regulatory regime consistent with viable, sustainable and accountable banking and financial system. Two simple rules need to be introduced immediately: (1) Minimum equity ratios for Europe's banks of no less than 15% of assets (as proposed by, amongst others Anat Admati and Martin Hellwig). (2) No bank's assets should exceed 20% of the national income of the country in which it is domiciled. Moreover, DiEM25 highlights the links between macroeconomic

rebalancing and bank regulations: to raise investment to the level of existing savings, the original New Deal's aspiration, Europe needs to democratise the governance of banking. To this effect, Appendix 1 presents concrete proposals for banking regulations that include:

- The management of non performing assets & a recovery-resolution framework (NPA/RRP)
- A transitional capital charges and risk regime
- A new macroprudential framework
- Ending the regulatory monopoly of banks and promoting institutional pluralism in financial intermediation

### 2.2.2 Public Digital Payments Platform (PDPP)

DiEM25 proposes the setting up of a PDPP (public digital payments platform) in every European country. Technically, its creation is very simple: A reserve account for each taxpayer is created automatically (one per tax file number) on the tax office's web interface. Tax file number holders are then to be provided with a PIN that allows them to transfer credits from their reserve account to the state (in lieu of tax payments) or to any other tax file number reserve account. The purpose of this payments' system is to:

- Allow for multilateral cancellation of arrears between the state and the private sector using the tax office's existing web-based payments platform
- Introduce a low cost alternative for digital payments to the existing private bank network, especially once payments using that system can be effected via smart phone apps and debit/ID cards issued by the state
- Permit states to borrow directly from citizens by allowing them to purchase credits from the tax office's web interface, using their normal bank accounts, and to add them to their reserve account. These, digitally time-coded, credits could be used after, say, one year to extinguish future taxes at a significant discount (e.g. 10%)
- Reduce the redenomination costs in case of either bank closures effected by the ECB (in the case of Eurozone member-states) or in the case of the euro's disintegration.

Appendix 2 presents DiEM25's PDPP proposal in considerable detail. In summary, the proposed public payments' platform affords national governments more fiscal space, allows for the multilateral cancellation of debts, enables states to borrow directly from citizens (without going through the bond markets), has the potential of creating new sources of investment funding, reduces the power of the ECB over Eurozone member-states (thus boosting national sovereignty) and, lastly, acts as an insurance policy in the case the Eurozone is dismantled. Politically speaking, the proposed PDPP constitutes a new version of an old idea: public payments' systems used for public purpose. In addition, this particular proposal, utilises digital technologies to re-politicise money creation, offer commercial banks a worthy competitor and give Europeans a radical opportunity to take back the direction of their economies from

the ‘independent’ central banks and the large private banks that presently dominate European economic life – and whose malpractice is a fundamental cause of the European crisis.

### 2.2.3 Toward a European Clearing Union

One of the fundamental principles of macroeconomic stabilisation in the context of the European New Deal involves the symmetric treatment of deficits and surpluses. Currently, Europe’s financial architecture penalises deficits but encourages surpluses – an incongruity that must end forthwith. Moreover, under the cover of free trade ideology, Europe sponsors untrammelled capital movements that, in the end, restrict trade. To this effect, DiEM25’s European New Deal proposes two important policy interventions:

#### *Rebalancing the ECB’s Target2*

Under the ECB’s Target2 accounting system, deficits born by a national central bank are penalised (by means of an interest charge) while national central banks in surplus are rewarded (by receiving a share of the interest from the national central bank in deficit). Moreover, whether these deficits/surpluses are independent on whether they emerged due to trade or naked capital flows. DiEM25 proposes that:

- Imbalances due to naked capital flows be restricted to a maximum of +10% or -10% of the volume of trade, while imbalances due to trade deficits/surpluses remain unlimited
- Both Target2 deficits and surpluses are penalised by charges that accumulate in a separate account with the accumulating funds diverted to the European Equity Depository (EED) proposed in section 2.8.

#### *Toward a European Clearing Union (ECU)*

Europe features a number of currencies, that may well multiply if the Eurozone ends up fragmenting. Some have proposed a formed of flexible fixed exchange system like the ERM that preceded the euro. DiEM25 disagrees strongly on this: the euro was born because of the ERM’s collapse which was due to its reliance on the good will of the surplus countries’ central banks (i.e. the Bundesbank). Instead, DiEM25 is proposing a system closer in spirit to John Maynard Keynes’ International Clearing Union proposal at the Bretton Woods conference in 1944. We call it a European Clearing Union (ECU).

An ECU would function as Keynes had envisaged it except that, in place of the abstract bancor that he was recommending as an international unit of account, the ECU would feature a common digital currency, say, the... ECU to be issued and regulated on the basis of a transparent digital distributed ledger and an algorithm that would adjust the ECUs total supply in a pre-agreed manner to the volume of intra-European trade, allowing also for an automatic countercyclical component that boosts global ECU supply at times of a general slowdown.

Foreign exchange markets would function as they do now and the exchange rate between ECU and various currencies (e.g. sterling, the euro, the Danish krona etc.) would vary in the same way that the IMF's Special Drawing Rights do viz. the dollar, the euro, the yen etc. The difference, of course, would be that, under ECU, member-states would allow all payments to each other to pass through their central bank's ECU-account. Further, to exploit the ECU's full potential for keeping imbalances under check, two stabilising transfers would be introduced:

- **The Levy:** A trade imbalance levy to be charged annually to each central bank's ECU-account in proportion to its current account deficit or surplus and paid into a common ECU Fund
- **The Charge:** Private financial institutions to pay a 'surge' fee into the same ECU Fund in proportion to any surge of capital flows out of a country, reminiscent of the congestion price-hike that companies like Uber charge their customers at times of peak traffic

The Levy's rationale is to motivate governments of surplus countries to boost domestic spending and investment while systematically reducing the international spending power of deficit countries. Foreign exchange markets will factor this in, adjusting exchange rates faster in response to current account imbalances and cancelling out much of the capital flows which today support chronically unbalanced trade. As for the Charge, it will automatically penalise speculative herd-like capital inflows or outflows without, however, handing discretionary power to bureaucrats or introducing inflexible capital controls.

Suddenly, through the ECU Fund, Europe will have acquired, without the need for any subscribed capital, a new source of funding that is also channelled into the European Equity Depository – see section 2.8.

[See Appendix 3 for Ann Pettifor's background paper regarding section 2.2.2 above.]

## 2.3 Funding Green Investment-led Recovery and setting up a new agency for managing and funding Europe's Green Transition and Green Energy Union

The European economy is in the doldrums and Europeans are feeling the pain for one main reason: Ultra low investment and the largest savings-to-investment ratio in post-war European history. Even in economies like Germany, where there is some modicum of growth, productive capital is still being eroded at an increasingly rapid pace. At the same time, corporate profits are high, and enterprises are awash with idle cash that does not get invested in productive resources. Last but not least, fixed capital investment, when it occurs, tends to be channelled into 'brown' technologies and activities rather than toward R&D in the Green Transition and Green Energy Union that Europe so desperately needs. As an absolute priority, needed to reverse attrition of productive capital and ecological degradation, DiEM25 proposes a large-scale Green Investment-led Recovery program including a new *European Green*

*Transition Works Agency* whose purpose should be to identify and manage the large and small-scale investment projects) supporting a Green Energy Union and more broadly sustainable prosperity without ‘brown’ growth.

### 2.3.1 Linking Public Investment Banking with Central Bank Quantitative Easing

The principle is simple: In the absence of reflation and reorientation towards sustainable growth by private enterprises that is due to self-fulfilling expectations of low aggregate demand, Europe needs a public investment-led drive toward ‘crowding-in’ idle savings and wealth. However, this must be done in a way that does not involve greater taxation of the exhausted working and middle classes or higher deficits of governments with little fiscal space.

DiEM25 proposes, for this purpose, a investment-led recovery, or New Deal, program to the tune of 5% of European GDP annually to be financed via public bonds issued by Europe’s public investment banks (e.g. the new investment vehicle foreshadowed in countries like Britain, the European Investment Bank and the European Investment Fund in the European Union, etc.). To ensure that these bonds do not lose their value as their supply increases sharply, the central banks (in whose jurisdiction the investments will be made) announce their readiness to purchase them if their yields rise above a certain level.

In summary, DiEM25 is proposing a re-calibrated real-green investment version of Quantitative Easing that utilises the central banks’ balance sheet to crowd in idle private cash into real, green investments.

### 2.3.2 A European Green Transition Works Agency: The Hercules Network

Securing funding of the European New Deal’s aggregate investment program solves only one of the two problems besetting investment. The second problem concerns leadership in designing, pursuing, coordinating and managing much needed, potentially profitable, investment programs. E.g. Eastern and South-eastern Europe’s transport links are woefully inadequate and present great opportunities for coordinated investment in an environmentally sustainable manner. Similarly with the Green Energy Union that the whole of Europe is desperately in need of. However, national governments lack the skills, the capacity to coordinate and the ambition to design a holistic Eastern and South-eastern transport network or Green Energy Union. To this purpose, DiEM25 is proposing the establishment of a new *European Green Transition Works Agency* – which, for short, can be known as the Hercules Network, whose purpose should be to identify and manage the large and small-scale investment projects supporting a Green Energy Union, Green transport systems, and more broadly sustainable prosperity without ‘brown’ growth.

### 2.3.3 Green Energy Union and the proposed pan-European Carbon Tax

DiEM25 rejects the liberalisation of energy markets because of the impossibility of avoiding grand market failures in the energy market. Emissions trading schemes are unstable, inefficient and philosophically problematic – see Appendix 4. Instead,



DiEM25 adopts the idea of a pan-European carbon price compatible with the objective of limiting global warming to at most 1.5 to 2°C. A carbon tax is by far the most efficient and pragmatic means of achieving this target. However, coordination between European states needs to be based on principles that are commonly agreed and which are deemed fair by all. To this end, DiEM25 proposes a progressive carbon price based on the level of a country's development and emissions. More precisely, DiEM25 proposes a reference carbon price based on the HDI (Human Development Index) and the amount of consumed CO2 emissions.<sup>2</sup>

For a given HDI level, countries would thus pay a carbon price based on a reference price set by a multilateral pan-European organisation. If a country consumes more emissions than the amount allocated to its HDI level, then it will pay a higher carbon price than the reference price established in the price scale. As the carbon reference price increases with HDI, emerging countries will have more incentives to develop green energy rapidly and to invest in low-carbon systems.

Finally, wealthy countries will pay a higher carbon price and will thus have incentives to speed up their energy transition. Setting such a carbon price would fall in line with the Climate Convention's principle of "common but differentiated responsibilities", while also making it possible to stop pitting competitiveness and the fight against global warming against each other, as the production systems with the lowest carbon intensity would be the ones paying the lowest carbon price.

Lastly, carbon taxes will also be paid into the European Equity Depository – see section 2.9.

### 2.3.4 Other instruments for promoting the Green Transition: Tax credits and the removal of fossil fuel support

DiEM25 adopts the proposals of the European Greens (see Appendix 5) for deferred tax credits (see section 1.1 of Appendix 5) and for the gradual but speedy removal of all fossil fuel support.

## 2.4 Funding basic goods for Europe's 'maintainers' in their own communities

The Green Investment Program will benefit the innovators and lift all other boats to some extent. Nevertheless, this is not enough as it would leave behind many of society's neglected maintainers – the people who do unfashionable but crucial jobs, like caring for the elderly, repairing sewers and telephone grids etc. It would also leave behind Europeans whose skills are obsolete or who live in areas lacking jobs altogether. For them DiEM25 proposes three programs: An Anti-Poverty, a Social-Housing and a Jobs-Guarantee Program.

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<sup>2</sup> R.H. Boroumand, T. Porcher and T. Stocker (2015), « COP 21 : pour un prix du carbone équitable et progressif », *Le Monde*.

### 2.4.1 *The Anti-Poverty Program*

This solidarity program for Europe has two goals. First, it must relieve some of the most serious hardship inflicted on Europeans since the crisis. Second, it must begin to rebuild the stable, well-supported communities that must underlie Europe's future. A solidarity program therefore complements – and cannot replace – a program of jobs and investment. It must be kept within limits, as a share of economic activity, and act in support of economic stabilisation and recovery, including a vibrant private sector. But such a program is nevertheless essential, both for immediate human and social effect, and for the rescue of Europe as a political project.

DiEM25's European New Deal proposes a common European program for fighting poverty, in particular for nutrition assistance. This would be modelled on the US Food Stamps program, and on the Greek nutrition assistance program introduced by the first Syriza government, providing support for the most vulnerable Europeans. It is a model based on debit cards with restricted uses that may soon include the cards of the digital public payments' platform outlined in section 2.2. At a later stage, it will be extended to unemployment insurance and to 'top up' the lowest pensions – creating the foundation for a European Pension Union – eliminating destitution among the old. [For questions regarding the funding of the programs in section 2.4, see section 2.8]

### 2.4.2 *The Housing Program*

DiEM25's European New Deal further proposes that European countries, both EU and non-EU members, come to a multilateral agreement to *fund and guarantee* decent housing for every European in their home country, restoring the model of social housing that has been destroyed across Europe. This is our longer-term goal, which will take time, planning and new investment and construction.

However, there is something that can be decided immediately with effect across Europe: DiEM25 proposes immediate protection of homeowners against eviction, in the form of a right-to-rent rule that would permit those who are foreclosed-upon to remain in their homes at a fair rent set by local community boards. This moratorium would encourage lenders to renegotiate mortgages rather than to foreclose, stabilising communities otherwise ravaged by blight and neighbourhood effects.

### 2.4.3 *The Jobs Guarantee program*

A jobs guarantee rests on DiEM25's principle that: *All Europeans should have the right to a job at a living wage in their community.* To make this right operational, funding sources need to be determined. However, this determination must take into consideration the following macroeconomic facts: Unemployment cripples the capacity of the welfare state. By cutting incomes it cuts public revenues, and it adds to the burdens of the state for health care, unemployment insurance, disability

payments, food assistance and every other public function. Further, private employers hire the employed; if there are alternatives they do not normally hire the unemployed and especially not the long-term unemployed. Hence unemployment is self-perpetuating, destructive to persons, to families, and to society as a whole. The cure for joblessness is jobs. People with jobs pay taxes. They do not collect unemployment benefits. Their skills and usefulness increase. And they produce what other people want.

DiEM25's European New Deal proposes that European countries, both EU and non-EU, come to a multilateral agreement to *fund and guarantee* jobs for every European *in their home country*. Such jobs would be created in the public and non-profit sectors, by European states, at the local levels. They would be paid at a common, modest living wage rate at national scale. *They would be available on demand for all who want them in conjunction with city and local councils, thus strengthening democracy at the local level where it is most direct.*

The guaranteed jobs proposed could not be used to replace civil service jobs. Nor would they carry tenure. But they would provide jobs and incomes for those willing to take them, in their home communities, and thus provide an alternative option to the cruel dilemma between unemployment and emigration. Those in the job guarantee pool would gain incomes, pay taxes, and come off of public assistance, saving state funds while producing goods and services and social investments. As the private economy improves, those in the pool with good work records will be hired away. The *net* cost, therefore, would be much, much lower than it seems.

Why restrict these jobs to the home country? The answer is, that DiEM25's objective is to stabilise each European country. Without restricting the jobs guarantee program to citizens it would be *destabilising* rather than *stabilising*. Clearly, if every European had a guaranteed job in Germany or France at the German and French pay scales, migration would increase! And the German authorities would have the burden of coming up with the jobs for non-Germans – which is something they could never accept. This is not desirable. European countries should provide jobs for Europeans in their own communities, jobs administered by each European country in their own languages, giving a safe and productive employment option to the peoples of all European countries, while preserving the right to migrate and the right to work for any and all who are motivated by opportunity rather than compulsion.

For this reason, the pay scales should be national, not uniform across Europe. But the pay scales should be common – a modest living wage, better than welfare, but not a substitute for civil service or other professional employment. Europeans will therefore take these jobs when they need them, and move on to better jobs when the occasion presents.

From an economic standpoint, the jobs program would provide exactly what Europe most needs and presently lacks: an automatic stabilisation program geared to ensure the economic and social stability of each European country (EU and non-EU). Such a

program is a solvent of the inherent dynamics of instability and ensuing political upheaval that is now reinforcing the Nationalist International.

## 2.5 Sharing the returns of capital and wealth and democratising the economic sphere – a Universal Basic Dividend

DiEM25 is convinced that capitalism is impossible to civilise in the long term, primarily due to its inimitable capacity to undermine itself through technological innovation that engenders excess capacity, inequality and insufficient aggregate demand for goods and services. Automation and the Rise of the Machines is a clear and present danger in this direction, ‘promising’ to deliver the next crisis even before Europe manages to resolve the current one.

Some propose a universal basic income (UBI) as the remedy. DiEM25 rejects the idea of a universal minimum income if it is to be funded by taxes. A tax-funded UBI would undermine the existing welfare state and sow the seeds of antagonism between the working poor and the unemployed. However, DiEM25 is proposing a different scheme – a universal basic *dividend* which encapsulates the following three propositions: taxes cannot be a legitimate source of financing for such schemes; the rise of machines must be embraced; and a basic unearned payment is a contributor to basic freedom. But if the scheme is not funded by taxation, how should it be funded? The answer is: From the returns to capital.

A common myth is that capital is created by capitalists who then have a right to its returns. This was never true. It is far less so today. Every time one of us looks something up on Google, she or he contributes to Google’s capital. Yet it is only Google’s shareholders that have a right to claim the returns to this, largely socially produced, capital. Moreover, automation, digitisation and the role played in capital formation by government grants and community contributions to the stock of knowledge make it impossible to know which part of a corporation’s capital was created by its owners and which by the public at large.

DiEM25 proposes a simple policy: That legislation be enacted requiring that a *universal basic dividend* (UBD) be paid to every European citizen from funds accumulating in the European Equity Depository (see section 2.8 below) stemming from the income streams generated by: (i) the assets purchased, as part of their quantitative easing programs, by central banks, (ii) a percentage of capital stock (shares) from every initial public offering (IPO) and capital increases of corporations, and (iii) levies on the derived distribution of Intellectual Property rights and on common knowledge monopolies.

The proposed UBD should, and can be, entirely independent of welfare payments, unemployment insurance, and so forth, thus ameliorating the concern that it would replace the welfare state, which embodies the concept of reciprocity between *waged* workers and the unemployed. For Europe to embrace the rise of the machines, but ensure that they contribute to shared prosperity, it must grant every citizen property rights over the monetary returns they produce, thus yielding a UBD.

A universal basic dividend allows for new understandings of liberty and equality that bridge hitherto irreconcilable political blocs, while stabilising society and reinvigorating the notion of shared prosperity in the face of otherwise destabilising technological innovation. Disagreements of course will continue; but they will be about issues such as the proportion of company shares that should go to the Depository, how much welfare support and unemployment insurance should be layered on top of the UBD, and the content of labour contracts.

Additionally, DiEM25 proposes that, in good time, the governance of financial institutions (especially those backed by taxpayers) and other corporations be democratised, with increasing participation on their boards of directors of representatives of local, regional and national communities.

## 2.6 Pan-European coordination of monetary, fiscal and social policies between EU-but not Eurozone, Eurozone, and non-EU member states as a prerequisite for trade agreements

Brexit happened to a large extent because of the massive EU-migration wave into the UK. In turn this occurred because between 2008 and 2012 the Bank of England was practising massive quantitative easing (i.e. extremely loose monetary policy) while the ECB was not. Clearly, Europe's central banks, government and the European Commission must coordinate fiscal, monetary and social policy so as to optimise the economic and social outcomes across Europe. DiEM25's European New Deal will be making specific proposals on the nature of this coordination process.

## 2.7 Defeat the euro crisis (before it defeats Europe!)

Without a credible plan to save the Eurozone, Europe is bound to disintegrate with deleterious effects across the continent. Key to defeating the euro crisis is to end self-defeating austerity within the existing 'rules', restoring much of the lost national sovereignty *and* minimising the cost of its disintegration in case of an 'accident'

The Eurozone crisis is unfolding on four interrelated domains: Banking, Public Debt crisis, Ultra-low Investment, and Increasing Poverty. DiEM25's European New Deal proposes that, in the first instance, existing institutions be used in ways that remain within the letter of European Treaties but allow for new functions and policies. In particular, we propose five policies that make use of proposals already mentioned above in the context of stabilising Europe in general.

### 2.7.1 Policy 1 – The role of the public digital payment platform (PDPP)

The innovative new payment system proposed in section 2.2 can be introduced tomorrow morning by every member-state to enhance fiscal space, finance investment/social programs and, crucially, give Eurozone countries a means to reduce substantially the economic costs of the Eurozone's disintegration or the country's eviction from the Eurozone. (Nb. Once in place, this digital public payment

system can be redenominated from euros to a national currency at the touch of a button.)

### *2.7.2 Policy 2 – Case-by-Case Bank Program*

Banks in need of recapitalisation from the EU's 'bailout' fund (the European Stability Mechanism – ESM) can be turned over to the ESM *directly* – instead of having the national government borrow on the bank's behalf. The ESM, and not the national government, would then restructure, recapitalise and resolve the failing banks. DiEM25's proposal is that a failing bank should be removed from its national jurisdiction and moved to a new, dedicated Eurozone jurisdiction. The ECB appoints a new board of directors with a view to resolving or recapitalizing the bank. In the latter case, the ESM provides the capital and shares equivalent to the needed capital injection will pass to the ESM. Restructuring of the bank may entail a merger, downsizing, even a full resolution of the bank, with the understanding that steps will be taken to avoid, above all, a haircut of deposits. Once the bank has been restructured and recapitalized, the ESM will sell its shares and recoups its costs.

### *2.7.3 Policy 3 – Limited Debt Conversion Program*

The Maastricht Treaty permits each European member-state to issue sovereign debt up to 60% of its national income. Since the crisis of 2008, most Eurozone member-states have exceeded this limit. DiEM25 proposes that the ECB offer member-states the opportunity of a debt conversion for their Maastricht Compliant Debt (MCD), while the national shares of the converted debt would continue to be serviced separately by each member-state. In effect, the ECB would orchestrate a conversion servicing loan for the MCD, for the purposes of redeeming those bonds upon maturity.<sup>3</sup>

The conversion loan works as follows. Refinancing of the Maastricht compliant share of the debt, now held in ECB-bonds, would be by member-states but at interest rates set by the ECB just above its (ultra low) own bond yields. The shares of national debt converted to ECB-bonds are to be held by it in debit accounts. These cannot be used as collateral for credit or derivatives creation. Member states will undertake to redeem bonds in full on maturity, if the holders opt for this rather than to extend them at lower, more secure rates offered by the ECB.

To safeguard the credibility of this conversion, and to provide a backstop for the ECB-bonds that requires no ECB monetisation, member-states agree to afford their ECB debit accounts super-seniority status, and the ECB's conversion servicing loan mechanism may be insured by the ESM, utilising only a small portion of the latter's borrowing capacity. If a member-state goes into a disorderly default before an ECB-

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<sup>3</sup> For a member state whose debt to GDP ratio is 90% of GDP, the ratio of its debt that qualifies as MCD is 2/3. Thus, when a bond with face value of say €1 billion matures, two thirds of this (€667 million) will be paid (redeemed) by the ECB with monies raised (by the ECB itself) from money markets through the issue of ECB bonds.

bond issued on its behalf matures, then that ECB-bond payment will be covered by insurance purchased or provided by the ESM.

#### *2.7.4 Policy 4 – An Investment-led Recovery and Convergence Program*

This is a straightforward application of the Green Investment Program above (see section 2.3) to the case of Eurozone member-states. More precisely, DiEM25 proposes that:

1. The European Investment Bank (EIB) and the European Investment Fund (EIF) to embark upon a pan-Eurozone Investment-led Recovery Program to the tune of 5% of the Eurozone's GDP, with the EIB concentrating on large scale infrastructural projects and the EIF on start-ups, SMEs, technologically innovative firms, green energy research etc.
2. The EIB/EIF issue bonds to cover the funding of the pan-Eurozone Investment-led Recovery Program *in its totality*
3. To ensure that the EIB/EIF bonds do not suffer rising yields, as a result of these large issues, the ECB steps in the secondary market and purchase as many of these EIB/EIF bonds as are necessary to keep the EIB/EIF bond yields at their present, low levels.

#### *2.7.5 Policy 5 – An Emergency Social Solidarity Program to fight against the rise of poverty*

This is an application of the Anti-Poverty (see section 2.4.1) to the Eurozone. DiEM25 proposes that the EU embark immediately on an Emergency Social Solidarity Program that will guarantee access to nutrition and to basic energy needs for all Europeans, by means of a European Food Stamp Program modelled on its US equivalent and a European Minimum Energy Program. These programs would be funded by the European Commission using the interest accumulated within the European system of central banks from the profits of the ECB's Quantitative Easing Program, TARGET2 imbalances, profits made from government bond transactions and, in the future, other financial transactions or balance sheet stamp duties that the EU is currently considering – see section 2.8 below.

[See Appendix 6 for the intuition and more details of the above policies.]

## 2.8 Funding the European New Deal programs: The European Equity Depository

The European New Deal's Green Investment-led Recovery program will be funded by means of the alliance between central banks and public investment banks proposed in section 2.3. To fund the Basic Goods program (section 2.4) and the Universal Basic Dividend (section 2.5), the European New Deal proposes the establishment of a European Equity Depository (EED). Like the Hercules Network (see section 2.3), EED will have a central branch and its national affiliates. The EED's fund inflows will come from the following six sources:

### *2.8.1 Financial assets purchased by central banks in the context of quantitative easing operations profits to be deposited at the EED*

During the crisis, Europe's central banks (e.g. the ECB, the Bank of England, the Swiss Central Bank) purchased large quantities of financial assets (e.g. public and private bonds, structured mortgages). These assets generate an income stream. If the purchased assets were to be deposited at the EED, and central banks were to avoid dumping assets into an uncertain private market by replacing that stock as it matures, a sizeable income stream will be made available for the EED without a need for any radical changes and most certainly without new taxes.

### *2.8.2 Seigniorage Central Bank profits and the ECB's Target2 accumulated profits to be deposited at the EED*

Central bank operations yield substantial profits independently of quantitative easing. These do not constitute a return to risk or to productive effort. They are, essentially, accounting profits that are ideally suited for being put to good use.

### *2.8.3 Dividends from a percentage of shares from every corporate IPOs and capital increase to be passed on to the EED [See section 2.5 above for the rationale]*

### *2.8.4 Levies on the derived distribution of Intellectual Property rights and on common knowledge monopolies [See Appendix*

### *2.8.5 The pan-European Inheritance Tax*

DiEM25 proposes that European countries come to a multilateral agreement on Inheritance Tax to minimise the inheritance of exploitative inequities and to provide a strong, efficient funding base for the Basic Goods programs envisaged as part of the European New Deal.

### *2.8.6 The pan-European Carbon Tax [See section 2.3]*

Finally, DiEM25 proposes that these six sources of EED funds or income be used as follows:

- *Funding of the Basic Goods programs* to come from *Financial Assets* (2.8.1 above), *Seigniorage Central Bank profits* (2.8.2 above), *Dividends* (2.8.3 above) and *Levies* (2.8.4 above)
- *Funding of the Universal Basic Dividend* to come from the *Inheritance Tax* and the *Carbon Tax* (2.8.5 and 2.8.6 respectively)

Finally, DiEM25 has considered the possibility that freedom of movement within Europe as well as privileged access to Europe's common markets should be tied to a country's acceptance of its obligation to provide to its citizens, in their own



communities, a minimum blend of the Basic Goods and Universal Basic Dividend envisaged in sections 2.4 and 2.5 above.

## Section 3 – TIMELINE: POLICY IMPLEMENTATION IN THE VERY SHORT TERM, THE SHORT TO MEDIUM TERM AND THE LONG TERM

### 3.1 The very short term

In the very short term DiEM25 is proposing policies that can be implemented tomorrow morning, by recalibrating existing institutions without the need for bilateral/multilateral agreements or EU Treaty changes.

Examples include:

- The new public digital payments platform that ends the monopoly of banks over Europe's payments – see section 2.2
- Green investment-led recovery: Linking central banking with public investment vehicles, deferred green tax credits, removal of subsidies for fossil fuels – see section 2.3
- The Anti-Poverty Program and the moratorium on evictions that is part of the Housing Program – see section 2.4
- The four policies for dealing with the Eurozone crisis – see section 2.5

### 3.2 The short to medium term

In the short to medium term DiEM25 is proposing policies that need bilateral/multilateral agreements between governments but do not require EU Treaty changes. Examples include:

- The complete gamut of bank regulations mentioned, including the reformed Target2 rules – see section 2.2
- The establishment of the Hercules Network, the European Equity Depository and the Carbon, Inheritance and Basic Corporate Taxes – see sections 2.3&2.8
- The Housing and Jobs Guarantee Program – see section 2.4
- Coordination between Eurozone and non-Eurozone monetary and fiscal policies to maximise Europe's recovery – see section 2.6

### 3.3 The long term

DiEM25's long-term policy proposals are the ones that require deep institutional changes within nation-states and across Europe and the EU. Examples include: The European Clearing Union (see section 2.2.3) and the Universal Basic Dividend (and other policies to democratise the economic and financial spheres - see section 2.5) Policies. Lastly, in the longer term, the European New Deal must go hand-in-hand with the establishment of the European Constitutional Assembly process envisioned in DiEM25' Manifesto and mentioned in section 1.8.

## Section 4 – CONCLUSION

The idea of Europe is subsiding under the combined weight of a *denial*, an *insurgency* and a *fallacy*. The continental establishment's *denial* that the European Union's economic architecture was never designed to sustain the banking crisis of 2008 has resulted in a sinister economic dynamic which delegitimised the European project everywhere. The predictable reaction has been the *insurgency* of a Nationalist International across Europe that seeks Brexit for... all. And the establishment's reaction to this insurgency has been the *fallacy* that business-as-usual, or the vision of federation-lite, or a 'multi-speed' Europe can stem the nationalist tide.

The answer to neoliberalism's Waterloo cannot be either the retreat to a barricaded nation-state or to greater centralisation of illegitimate power in Brussels. The answer to Europe's woes cannot be either a vulgar rendition of free-market ideology or an equally vulgar version of pseudo-Keynesian stimulus tax-and-spend programs. Gigantic fiscal transfers and capital flows between Europe's core and periphery have already been practised – with detrimental effects. For years they financed the periphery's oligarchs and the core's bankrupt bankers. Europe went from its pre-2008 Ponzi growth phase to its post-2008 Ponzi austerity phase. Both cost Europe dearly.

- The answer now can only come from DiEM25's pragmatic New Deal agenda that works equally for surplus and deficit, EU and non-EU European countries, and which demonstrates to Europeans how and why Europe can be saved.
- The gist of the policies DiEM25's European New Deal proposes is not 'economic stimulus' but a rebalancing (primarily between savings and investment as well as deficit and surplus regions) that is conducive to economic stabilisation, societal recovery and democratisation at all levels: regional, national and pan-European.
- DiEM25's European New Deal is not predicated on the *assumption* that Europe will be saved. It is predicated on proposals that can (i) make Europe worth saving, (ii) create the conditions for a calm and rational debate on what kind of democratic Europe Europeans want to build after stabilisation is achieved, and (iii) minimise the costs of the EU's and the euro's disintegration if it proves unavoidable.

In summary, only a pragmatic but also radical European New Deal can stem Europe's disintegration and revive the sovereignty of its people. Every European country must be stabilised and its people helped to prosper. Europe cannot survive as a free-for-all, every-one-for-one's self, or as an Austerity Union built on de-politicised economic decision-making with a fig leaf of federalism in which some countries are condemned to permanent depression and debtors are denied democratic rights.

To "take our countries back" we need a European New Deal that reclaims common decency, restores common sense across Europe, and affords Europeans an opportunity to debate democratically what kind of shared future we want.

## **APPENDIX 1 - Europe's New Deal – which regulatory framework and governance of the financial sector does Europe need?**

**by Ulf Clerwall**

### **Preliminaries**

If seen from a cold statistical, national accounting perspective, Europe's Green New Deal is basically an investment boom. An investment boom that will help to bring us out of the secular stagnation, the erosion of the capital stock, and degradation of productive infrastructure that we find ourselves in since the last financial crisis in 2007-2009. It is also an investment boom that sets us on a rapid path to the energy and ecological transition, something which boosts investment needs additionally. There is quite a bit of capital stock that, even if it has not yet come to the end of its technically useful life, is no longer environmentally, or socially, sustainable. It needs to be retrofitted, or outright decommissioned and replaced with alternative technologies, if we are to avoid 'geocide'.

Moreover, aside from the gross fixed capital formation necessary for the energy and ecological transition, technological change, other infrastructures, the social and circular economy, educational resources etc, all need to tap into considerable capital resources in order to grow at full potential. The investment path necessary to avoid catastrophic climate change is relatively well analysed by the IEA. In those estimates, there is a baseline scenario, whose impact on growth and employment can be analysed.

### **The critique and reactions to anticipate, right and left**

The question always asked when it comes to ambitious policy programmes of this type, will be, "so who and what will pay for all of this then? Taxes? A debt explosion? The printing press?" The resistance will be particularly heavy on the ordoliberal side. Neoliberal too, but slightly different. And both of these will advocate 'market solutions', together with the usual-suspect policies that basically all are based on devaluing labour. Business as usual and failed neoliberal recipes.

On the left, the broad agreement will be there, but perhaps not on the means – the remaining real left parties (and I'm not talking 'neo-liberalised social democrats' here) will want to disintermediate the existing financial system, nationalise banks and put a lot of investment capacities behind public institutions. In this view, nothing short of institutional revolution, akin to expropriation and major economic displacement, will suffice to finance a New Deal.

I think there is a breach down the middle here, where DiEM25 policy proposals in terms of how to finance the New Deal should be focused. It relies centrally on

changing the regulatory and governance framework for the financial institutional sectors of the economy to achieve two things:

- Short term repairing financial intermediation, notably getting banks back to doing their job
- Ensure an medium term evolution of the financial sector that spreads ownership and the 'social investment return' from the transition to post-capitalism as widely as possible

### **The proposals in a nutshell**

Europe has the financial resources to start the New Deal on Monday morning at 9 am. The European economy has, and this we can demonstrate quite easily, sufficient resources already. It is really a question of shifting financial capital to the right objectives. And yes, the European Deal will be debt financed, but by a debt to ourselves, and that will rapidly pay back with a high rate of return in financial, economic, social and environmental terms.

What we need to focus is a fundamental macroeconomic identity that appears to have been misplaced (displaced) – the one that tells us that “savings equals investment”. Then we need to point out that it can be manipulated, both to shorten the time in which savings become productive investments (because resources can become stuck in the pipeline) and raise the share of productive investment in savings (because resources can be siphoned off for financial speculation and being buried in non-productive real estate ...). In short, we need to explain the existence of excess savings and the amounts of liquidity sloshing around, artificially boosting balance sheets and creating the illusion of a solvent financial system. All while the real economy seems starved of liquidity.

We need to point out that in order to finance the European New Deal, we don't need to print one additional euro, and we don't have to raise taxes, not even on the '1-percenters'. We can even do it, lo and behold, without the Tobin tax. What we need to do is to restructure financial intermediation – the way banks function today has a lot to do with the excess of savings over investment. For their own benefit, in a game of rent capture without risk taking, they are holding up savings and liquidity in the financial system. By and large, this is a result of the perverse incentives of prudential regulation, predating the crisis, but reinforced since, in the misguided efforts to attain financial 'stability'. (By the way, the day financial stability becomes compatible with capitalism is the day I stop considering myself a Marxist).

Two, maybe three observations before getting to the bare bones of what arguably should be at the heart of the New Deal proposals.

### **Left resistance to DiEM25 proposals**

First of all, the proposals below will trigger scepticism on the Left, especially among those that would rather just impose capital controls, nationalise banks, rely on other

mechanisms to displace them from financial intermediation, or put their hopes in new financial institutions (Fintechs, crowdfunding ...), or any mix of the above. 'Dispense with banks, no more problem'.

Here, we need to rely on a central argument – our first priority is to stabilise and stop the further slide into the Great Deflation. Reversing course and start coming out of secular stagnation would be to, as Michel Aglietta puts it, 'reinventing the future'. Deep political reform and social change is easier to achieve when you are in the ascending phase of an economic cycle...

Secondly, short of a revolution you cannot get rid of banking, not even at the European scale without some considerable financial displacement, that we would not like the New Deal to be associated with, if we would like it to be politically sustainable.

Thirdly, the banking sector today commands considerable human, informational, technical and not least capital resources. These should also be mobilised for the European New Deal – bypassing and brute force will not in and of itself produce optimal results. If today, in France I say that I want nothing to do with banks, I also desist from using the 1,800bn euros that French households park on their checking accounts. I would probably be better to find a way to mobilise them for extending credit to projects in the domain of the energy transition. Maybe that way I could even raise returns on those liquid financial savings, good for people saving desperately for precautionary reasons.

Fourth, there is a strange idea running around today stating that local savings should be invested locally (some banks have even adopted it in their marketing, it is part of the virtuous banker image that they try to project). Actually, savings going into the banking system is a fungible resource, on top of which you can put some levers. So there is no way of saying that a euro saved locally goes towards financing a local enterprise or project. In fact, it would be sad if it were the case. It would mean that the bank accounts of a wealthy region could not finance projects or companies in a poor one. We have been promised long ago that with European integration, and the Single Capital Market, capital would start to migrate to regions underinvested in. Well let's look at how that may become reality, before we start down the road of capital controls and Soviet-style regional projects.

### **Why banks and not the other types of financial intermediaries?**

Banks are not the sole financial intermediaries. There are institutional investors (ii's), notably, that command vast financial resources and therefore investing capacities. Effectively, most of the initiatives around 'sustainable finance' (by UNEP-FI and others) focus on ii's portfolios, recommending divestment from this, investments in that. The general idea being that portfolio restructuring will bring down capital costs for projects in line with the energy/ecological transition, for instance

Sure enough this is important, but I would argue that it is a second-order concern, for several reasons. First of all, ii's are not the main primary market operators – they are important component for the final demand for securities coming through primary market transactions (look at how they sucked up credit derivatives, chasing yield...) and central participants in secondary markets. But our central problem is enhancing primary market operations that express real financial flows towards new projects. And here, banks excel traditionally (well, they don't at the moment, which is the problem). In any case, credit production and securities emissions is bank business. II's buy the resulting securities, as a way of investing savings placing with them for retirement or life insurance ... Just about the same can be said of the fund and asset management industry, except here, there is no residual risk sitting on the balance sheet of the investment vehicle (all pass through to the retail investor).

The problem here is that financial intermediaries other than banks are followers, not leaders in investment flows. They invest in the stock of securities resulting from primary market transactions. But they are not disintermediating banks.

### **A comment on divestment**

Divestment ideas are mostly flawed. For one to divest, someone else has to invest, otherwise one will disinvest simply through the loss of liquidity of one's asset and the corresponding – negative – capital gains.

If I divest by selling successfully, who's buying, and to whom is he accountable? Do we want the fossil fuel industry to be able to buy back its debt, at a discount because we are throwing it back at them? And what will the balance sheet effects be, especially for the portfolios underpinning retirement and other social liabilities? We are a bit locked in here, and we need to be careful about how we disentangle ourselves. The last thing that we want the New Deal to be associated with is a massive shift in asset valuations that ultimately will hit households. We also know what happens when too much liquidity chases too few securities.

In the absence of a steady stream of new securities emissions and a rise in primary market operations, related to the flow of gross fixed capital formation, divestment is a perfect recipe for a green asset bubble. Neoliberal policy has produced enough of that for us to abstain.

### **Getting to the point**

Assuming for the moment that the argumentation is somewhat complete (it isn't) and that we agree that we should focus on the banking system for first-order solutions, and to work with it in a progressive reform process rather than that expropriate or disintermediate it, what should we do? There are two simple but radical ideas (Yanis, I'm blatantly plagiarising you).

### **1° - In the short term we should see to that banks behave like .... banks**

This is perhaps a bit provocative. People tend to think that we are in this situation because banks behave like banks. I tend to argue that we are where we are because they don't.

Just running through the basics: the macroeconomic role of banks is to do maturity transformation and thereby produce liquidity for the other institutional sectors of the economy, notably households and non-financial enterprises. In the process, banks construct a balance sheet with liquid, short-term liabilities and less liquid, longer dated assets. As long as interest rate curves slope upwards, there is a bit of money to be made here in the form of Net Banking Product. In exchange for NBP, banks carry risks (in particular credit risk and balance sheet liquidity risk). Carrying this risk allows for the other sectors of the economy to take the opposite position in terms of the structure of their balance sheets, securing long liabilities that finance capital investments against shorter assets (notably income streams or other cash flows). The risk is covered by capital, and NBP serves to provide a return on and grow that capital.

In sum, banks are allowed to earn money, not because they produce value added, but because they carry risks. The problem appears when they want to earn money without carrying risks. Banks that carry no risk, but are still able to capture a rent from financial intermediation has become exactly what that implies – rentiers.

And here is the rub. The senseless drive for 'financial stability' through prudential regulation, be it the Fed or the ECB, is driving banks away from risk taking. The regulator and the state behave as if they want a risk-free financial system (as good a concept as an efficient market or a risk-neutral valuation), but they still expect banks to be solvent and able to generate capital. The dilemmas that this imply is clearly visible in the Italian banking system at the moment

Currently banks are leveraging on regulatory reform to disengage from risk, while still earning money. When the interest curve is rather flat, we shift to commissions and fees to boost profitability... or you put huge pressure on your staff with redundancy plans galore (I'm consulting for a bank at the moment that announces a redundancy plan for 420 staff the day after announcing quarterly profits of 800 million euros, an ROI of 15%). Overall, it is almost a perfect collusion between the state and financial capital. I would rather be a rentier than a banker, so I persuade the state to provide me with a perfect regulatory framework that I can use, while theatre-whining about higher capital requirements. In the process, all attempts at monetary policy and quantitative easing is roundly sterilised, a boost to solvency illusions in balance sheets rather than lending.

We need regulatory reform that stops the turning of banks into rentiers, a role their leadership top management and principal shareholders are just too willing to take on, and shifts them back to risk taking as a justification of their profit margins. Unpacking the necessary regulatory reform is where the thinking needs to go.



As a side note, there is a growing awareness in the banking sector that this situation is not sustainable. And there are many thoughtful and competent people in banking that want to step back, reconquering their former roles. These are people the Left should be talking to, not threaten with nationalisation.

Taking and managing risk over different time horizons, and the New Green Deal will contain plenty of this, is the business of banking, and they should be put back to tdoing their job.

## **2° - Over the medium term, banks will have to become vehicles for economic democracy and diversity**

Whereas the preceding point bears on the regulatory framework that can be changed overnight, this one is about new governance for the banking sector that will take more time to elaborate.

A restructured regulatory framework will turn banks back to being banks (under penalty of loosing their banking licence and become 'hedge funds with liabilities'). But turning Monte Paschi di Siena back to lending will not be enough. The institution also needs to climb down from its elite position and become a deliberative institution, within the new framework of economic governance that promotes wider social ownership over the European economy. The central point is this; the European New (Green) Deal has a lot of growth potential. It is imperative that the ownership of this growth is as widespread as possible. Consider the alternative for a moment. Do we really want to hand over the energy transition to the '1%'? Brown Chevron to become Green Chevron, end we are still stuck in the middle?

The energy transition is not only a question of technology, it is a question of energy democracy. The ecological transition is as much a question of inclusive decision making as sustainable use of resources. Economic democracy is closely linked with the European New Deal.

Medium term, but starting now, we need to open up the banking sector to new forms of financial intermediation. The concept of a real mutualist society-based banking sector needs to be revived. Fintechs and crowdfunders need to be included in order to tap into the resources of European savings. Big banking groups will need to be broken up and head for transparency.

In short, banks should not be disintermediated, but the sector should be headed for deep institutional reform that puts their role as intermediating ownership of the means of production front and centre. To me, if we are talking post-capitalism, this is key, and needs to be unpacked seriously.

## APPENDIX 2 – An outline of the Public Digital Payments Platform

by Yanis Varoufakis

*Step 1: A multilateral digital payments platform employing existing a Tax Office's existing online services*

At present, European citizens can get online to transfer funds from their bank account to the state in lieu of taxes owed. This system can be extended easily to allowing taxpayers to hold reserves in an 'account' they are automatically granted on the Tax Office's website. These reserves can be created by the state when the state owes citizens sums (e.g. monies owed to suppliers of state companies, lump sum pensions) or when citizens buy credits from the state by transferring funds from their commercial bank accounts. Tax Office accounts with positive reserves can then be used by their holders both to pay state taxes but, equally importantly, also to settle debts between citizens. E.g. Company A is owed €1m by the state and owes €30,000 to an Employee plus another €500,000 to Company B that provided goods and services to Company B. Moreover the Employee and Company B also owe taxes to the state. In this case, the extended Tax Office system allows for multilateral extinguishment of debts, plus some residual gvt debt that remains within these reserve accounts. That residual can then be sold for ECB-backed euros as the reserves will be freely transferable.

This is a first step toward the parallel payments' platform proposed here. Steps 2&3 take the above idea further.

*Step 2: Introducing an incentive for citizens (including foreigners who do not pay domestic taxes) voluntarily to buy this new form of government debt by offering them the opportunity to invest in future tax credits.*

Purchased tax credits will be date stamped so that, if kept for more than 12 months on one's Tax Office reserve account, they can be used to extinguish taxes X% (e.g. 5% or 10%) more than their face value. In effect, the state will have borrowed central bank money from the citizen in exchange of a discount on next year's taxes - new form of government debt which bypasses traditional T-bill and bond markets and allowed citizens to lend directly to the state at zero transaction cost and for whatever quantity (even microlending). The result should be an increase in government liquidity which could, under the right circumstances, be used for developmental purposes.

*Step 3: Employ blockchain technologies to generate trust in the integrity of the system and remove the suspicion that the government will 'print' more of these future tax credits than is consistent with long-term fiscal sustainability.*

In what follows Steps 2&3 are outlined in greater detail:

## The calculus of Future Tax Credits (FTCs)

**FTCs defined:** A marketable asset, denominated in euros or sterling etc., that offers the bearer the right to extinguish taxes or government charges of a value  $(1+\rho)$  times greater than its face value ( $\rho < 1$ ). If not used within a year, FTCs are rolled over automatically (with the possibility, see below, that their face value grows at a rate reflecting the growth in the economy's tax base).

In essence, the purchaser of FTCs will be pre-paying taxes and, in return, will be receiving a discount equal to  $\rho$ . This is equivalent to saying that citizens, who know they will be paying taxes domestically, are offered an investment asset bearing an interest rate equal to  $\rho$ . As long as  $\rho$  is larger than the commercial interest rates offered on 12-month term deposits, FTCs will be a highly valued instrument for saving. From the government's point of view, as long as its social rate of return  $r$  from other investments exceeds  $\rho$ , FTC issues will yield a positive return (see below).

Let us now take a closer look at the financing of the FTC program:

### Period t

Government collects  $\text{€}X$  from members of the public and issues FTCs with a  $\text{€}X$  face value. Of this  $\text{€}X$ , a part comes from residents interested in extinguishing future taxes at a discount and another part comes from speculators who hope to be able to sell these FTCs at a higher than face value (as tax payers who had not purchased FTCs on time, may want to buy some at a premium just before paying their taxes – since FTCs extinguish  $\text{€}(1+\rho)$  for every  $\text{€}1$  of face value). The larger the proportion of sales to speculators, the greater the probability that some of the FTCs issued in period  $t$  will be rolled over at the end of period  $t+1$  (i.e. not used to extinguish period  $t+1$  taxes).

- Government revenues =  $X_t$
- Government losses = 0

### Period t+1

Suppose that proportion  $\alpha$  of FTCs issued at  $t$  are used to extinguish taxes while  $1-\alpha$  are rolled over.

- Government revenues =  $rX_t$
- Government losses =  $\rho\alpha X_t$

(where  $\rho$  is the discount on taxes given to FTC holders)

Net benefits to government over  $(t, t+1) = rX_t - \rho\alpha X_t = X_t(r - \rho\alpha)$

For this scheme to be attractive to the government,  $r \geq \rho\alpha$  or  $\rho \leq r/\alpha$ .

Alternatively, for the government to enjoy a minimum return of  $\mu$ ,

$$\rho = (r-\mu)/\alpha \quad (1)$$

So, if  $\alpha=1$ , i.e. all FTCs issued at  $t$  are used/redeemed at  $t+1$ , then the government's investments must yield a rate of return ( $r$ ) that is higher (by  $\mu$ ) than the tax discount ( $\rho$ ) FTCs grant to their bearer.

### The steady-state supply of FTCs

#### How many FTCs should the government issue in every period?

In each period  $t$ , proportion  $\alpha$  of circulating FTCs are extinguished (i.e. used to pay taxes and government fees). To keep the stock of FTCs (say  $X_t$ ) constant, the government should issue  $x_{t+1}$  fresh FTCs at  $t+1$  where  $x_{t+1}$  is at least equal to  $\alpha X_t$ , i.e. the stock of FTCs that was depleted (having been used). We say "at least" because if the economy is growing, so is the tax base. Therefore, if  $g_{t+1}$  is the growth rate of the state's tax base in period  $t+1$ , then we should have

$$x_{t+1} = \alpha X_t + (1+g_{t+1})(1-\alpha)X_t = X_t [\alpha+(1+g_{t+1})(1-\alpha)] \quad (2)$$

That way, the stock of FTCs at  $t+1$  is given by (3) below

$$X_{t+1} = X_t - \alpha X_t + \alpha X_t + (1+g_{t+1})(1-\alpha)X_t = X_t + (1+g_{t+1})(1-\alpha)X_t \quad (3)$$

and the growth rate of FTCs by (4) below

$$\theta = (X_{t+1}-X_t)/X_t = (1+g)(1-\alpha) \quad (4)$$

In short, if  $\alpha=1$  (i.e. there are no roll overs) then the stock of FTCs remains constant whatever the tax base's growth rate while, if  $\alpha<1$ , the stock of FTCs in the economy grows in proportion to the tax base's growth rate. E.g. if 20% of FTCs are rolled over ( $\alpha=0.8$ ), and the tax base increases by 3% annually, then FTCs grow by  $0.2 \times 0.03 = 0.006$  or 0.6% p.a.

### Motivating FTCs holders to roll them over

From (1) it is clear that the government has an incentive to motivate FTC holders to delay its use; to roll over their FTCs. The lower  $\alpha$  is, the greater the tax discount  $\rho$  the government can offer FTCs holders (thus making them more attractive) and/or the larger its own return  $\mu$  be.

So, how can FTC-holders be motivated to roll them over? There are two ways to do this. First, to reward them with more FTCs when they roll over unspent ones (i.e. a form of FTC interest). Secondly, if FTCs can receive special treatment in shops as a form of payment. Let us concentrate on the former here, leaving the latter for later.

Suppose that every time an FTC-holder rolls over FTCs with a face value of €X, they receive FTCs with a face value of €(1+m)X (i.e. FTCs receive an effective interest rate of m). A simple mechanism would be to set

$$m = \theta \quad (5)$$

i.e. allocate all new FTCs to those who roll over their previous ones.

The above three equations (1), (4) and (5) define a revenue-neutral scheme. Here they are again in summary form:

|                                          |                         |     |
|------------------------------------------|-------------------------|-----|
| Tax discount for FTEG holders ( $\rho$ ) | $= (r - \mu) / \alpha$  | (1) |
| FTC growth rate ( $\theta$ )             | $= (1 + g)(1 - \alpha)$ | (4) |
| FTC roll over return rate ( $m$ )        | $= (1 + g)(1 - \alpha)$ | (5) |

### The positive feedback effect

At the outset, say  $t=1$ , FTCs will be purchased solely for the purposes of reducing one's tax bill and, therefore, the rollover proportion  $(1 - \alpha)$  will be close to zero. Still, government has an incentive to issue them as long as  $r > \rho$ , i.e. as long as it can gain a premium or spread  $\mu = r - \rho$ . Taxpayers who buy these FTCs at  $t=1$  will also benefit by  $\rho$  during the next period,  $t=2$  (i.e. government and taxpayers enjoy a mutual benefit even in this 'plain vanilla' situation)

**In summary  $t=1$ ,  $1 - \alpha = 0$ ,  $\rho = r - \mu$**

Moving on, as  $t=1$  is coming to an end, the price of FTCs in the secondary market will exceed their face value (since non-owners of FTCs will want to buy them at a premium in order to save *some* tax). The anticipation of such end-of-period effects will bring into the FTC markets non-taxpayers (e.g. those who buy FTCs in quantities greater than their tax liabilities) who wish to take advantage of an asset whose value will rise reliably.

This means that the demand for FTCs in the next period may rise to the extent that the increase in their price happens early on in period  $t+1$ . The fact that these FTCs can be rolled over will further strengthen their price and also reduce  $\alpha$ , as FTC-holders recognize potential benefits from not redeeming them at the end of a period. But, as  $\alpha$  falls, it is clear from (1) that the government can now offer a lower  $\rho$ , making these FTCs even more valuable to new FTC-holders. This boosts demand and, naturally, FTC prices in the secondary markets.

Additionally, by increasing the supply of FTCs and offering an interest rate (paid for by these fresh FTCs) on rolled over FTCs (see above), with  $\theta$  equal to the growth rate of the tax base (due to normal economics\ growth) times the portion of total FTCs that are rolled over  $(1 - \alpha)$  – see equation (4) – the demand for FTCs rises even further.

**In summary  $t=2,3,\dots$ ,  $(1 - \alpha) \uparrow$ ,  $\rho = (r - \mu) / \alpha \downarrow$ , and  $\theta = m = (1 + g)(1 - \alpha) \uparrow$**

Thus, FTCs grow significantly in number and, much more so, in value.

### **Turn FTCs into a fully digital, decentralised asset using blockchain technologies**

One of the major problems with such a scheme concerns the potential for lack of trust. Many may fear that the government will exploit its privilege to print more FTCs than equation (4) renders sustainable. Even though if the government has a good track record for keeping to its own rules, a blockchain ledger-checking Internet-based system for issuing, distributing and exchanging FTCs has at least two significant advantages.

- It solves the problem of trust by turning over the ledger of FTCs to the community of its users – indeed to anyone who wants to check how many FTCs are circulating at any point in time
- It makes FTC transactions straightforward and allows the government to tap into existing bitcoin-like technologies in order to sidestep the banks, their large fees, and their monopolisation of the payments' system

### Turning FTCs into a parallel legal tender as well as into a social policy tool

The process described above can be magnified further by creating a new source of transactions' demand for FTCs. For example, once FTCs have been established, government and private business can agree to allow for FTCs (whose face value is denominated, in any case, in euros) to be legal tender – to be exchangeable for goods and services in shops and various businesses at hefty discounts that reflect the higher than face value prices of FTCs, as well as their no fee transactions cost (e.g. when compared to VISA and Mastercard fees).

Lastly, nothing stops government from giving preferential treatment to certain groups when it comes to the p it offers. For instance, small businesses may be offered preferential p rates or, another example, some of the new FTCs issued yearly may be given away to disadvantaged families as a form of social security payments.

## Summing up: The welfare effects of FTCs

### Benefits to the government

- Net gains (equal to  $r-\rho=\mu$ ) from receiving extra liquidity as part of a system that pays for itself
- The creation of a third government financial asset that helps money markets mature further
- A source of additional (foreign) demand for domestic currency, as foreigners gain an incentive to invest in FTCs
- Greater growth potential for the domestic economy as the effective reduction in intertemporal tax rates has a positive multiplier effect on domestic consumption, investment and, therefore, GDP growth
- A potential welfare improvement if FTC issues are calibrated with a view to assisting small business and the less well off
- The ease with which such a system, once fully developed, could be redenominated in a new currency, if the Eurozone begins to fragment.

### Benefits to businesses

- Combined with the suggested blockchain and digital wallets, business can take advantage of FTCs in order to reduce the economic rents they lose to VISA, Mastercard and Apple Pay
- New demand for vendors due to the rise in the value of FTCs over and above their face value

### Benefits to citizens

- Substantial reduction to their tax bill, from using FTCs to extinguish government fees and taxes
- Higher discounts in the marketplace that accept FTCs as payment, at large discounts
- Potential benefits to poorer families and small business if the government chooses to calibrate FTC issues in their favour.

## APPENDIX 3 – MANAGING CAPITAL FLOWS & IMBALANCES IN THE CONTEXT OF THE EUROPEAN NEW DEAL

by Ann Pettifor

### Introduction and context: 2016, THE YEAR THAT SHOOK EUROPEAN FOUNDATIONS

2016 was a year of momentous events for Europe. On the 23 June more than seventeen million Britons voted to leave Europe, and by so doing shook the very foundations of the Union. But they were not alone. Across Europe millions of European citizens – on both the radical left and the radical right backed political parties that actively repudiated an economic system increasingly detached from the regulatory democracy and accountability of Europe’s member states. This opposition to the principle of self-regulating markets was most clearly manifest in mounting public rejection of Europe’s proposed bilateral trade and investment treaties, and of its mainstream, social democratic politicians.

By opposing global trade treaties, citizens were rightly rejecting the utopian delusions of those George Soros defined as ‘market fundamentalists’. Namely powerful interests that believe it is possible to design and construct a global financial and economic system largely *detached* from democratic, political scrutiny, oversight and management. A system that vested interests would prefer should be governed only by ‘the invisible hand’. One in which *private authority* frees up financial capitalists to exploit a *public good* - the monetary system - to make massive capital gains, while simultaneously dodging obligations faced daily by tax-paying, law-abiding Europeans.

Later in November, 2016 a major insurgency in the United States was triggered, in my view, by the same utopian ambition of economists, financiers and politicians to detach markets – in money, trade and labour – from the US’s regulatory democracy. Millions of Americans, exposed by the economic system to forces destructive of their life chances, of theirs and their children’s futures, and of their way of life, believed these forces to be beyond their control, and beyond the control of public authorities. Their elected representatives in Washington proved either impotent or unwilling to manage a man-made economic system that had caused repeated crises, impoverished millions, enriched the few, created unemployment and insecure low-paid employment, and worsened instability. Despairing of their democracy, politicians and political institutions, Americans turned instead to a ‘strong man’ – a billionaire who led them to believe that he could protect them from the predations of market forces.

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### MARKET FUNDAMENTALISM CAPITAL MOBILITY AND PROTECTIONISM

The ecological economist Herman Daly once noted that democratic, public policy-making requires boundaries. Policies for taxation, pensions, healthcare, criminal justice, working conditions, environmental protection - all require boundaries for



successful implementation. Citizens within the boundaries of democratic states agree to uphold laws, defend institutions and fund policies made by their elected politicians.

Finance capital, on the other hand, abhors boundaries.

The owners of private wealth wish to be internationally mobile; to avoid laws, regulations, taxes and other restraints. In other words to operate solely according to the “laws” of the market and its automatic pricing mechanisms. At the same time, and in contradiction of ‘free market’ theory, many financiers expect to avoid the much-vaunted ‘discipline of market forces’ – the burden of losses imposed when risk-taking goes bad. Most financiers are reluctant to accept losses that can be a consequence of speculation. Unlike those active in other sectors of the economy, and because of the systemic importance of the finance sector, bankers and financiers expect to be protected from such ‘laws’ of the market; to be bailed out by taxpayers and subsidized by governments.

Despite the hypocrisy of this approach, financiers (most often defined as ‘investors’) who follow through on the logic of the market economy – are keen to bypass Europe’s judicial system and its regulations. Hence their enthusiasm for two controversial and secretive ‘trade treaties’ TTIP and CETA.

Progressive forces across Europe mounted intense opposition to first, *The Transatlantic Trade and Investment Partnership* (TTIP) and after its apparent defeat, to its successor, the bilateral investment treaty with Canada – CETA – widely seen as a ‘backdoor’ route for the implementation of TTIP. Central to both these proposed treaties are Investor-State Dispute Settlements (ISDS) which would allow investors to bypass the legal system and sue governments if their policies cause a loss of profits to corporations. After the defeat of TTIP, CETA had to be forced through a reluctant Walloon and then Belgian parliament. It was signed with undue haste, on Sunday, 29<sup>th</sup> October, 2016 by a Canadian social democrat - Justin Trudeau, and by Europe’s right-wing leadership, backed by prominent social democrats, including Martin Schultz of Germany’s SPD.

The real ambition of CETA and of many similar bilateral investment treaties is not only to free up trade in goods (e.g. agriculture and manufactures). Instead its real *intent* is to overcome all barriers to *the movement of capital* across borders, and to grant powers to the owners of such capital to bypass and surmount the regulatory democracy of both nation states, and the European Union.

#### THE SWITCH FROM ‘CAPITAL ACCOUNT LIBERALISATION’ TO ‘TRADE IN FINANCIAL SERVICES’.

These efforts are the result of earlier defeats for finance capital when advocates had fought for, and lost what was then defined as ‘capital account liberalization.’ A proposal in 1997 to make changes to Article VI of the IMF’s statutes, would have given IMF technocrats immense global power – to act on behalf of the owners of

finance capital, and overrule the laws and regulations of democratic nation states. These changes were due to have been implemented at the IMF's annual meeting in Hong Kong that year.<sup>4</sup> However, the outrageous proposal was met with stiff resistance from middle and low income countries. They wanted to maintain *domestic* financial and economic stability and autonomy by *managing* capital flows. As a result, the change to the IMF's Article VI was blown off course and then finally buried by the devastating Asian Financial Crisis.

The advocates of capital account liberalisation were obliged to change tack if they were to remove barriers to capital mobility and overcome public authority over those flows. More than ten years after the IMF's power grab, capital account liberalization was resurrected and reconstructed as "trade in financial services". CETA was but the latest manifestation of the global finance sector's determination to end domestic public authority over the sector, and to fully detach finance from Europe's regulatory democracy.

Because freewheeling capital, unfettered trade and unmanaged waves of migration led to periodic financial crises, followed by social and political crises, there was naturally a societal backlash. Citizens sought to protect themselves from the predations of self-regulating markets. Attempts by the finance sector to bypass the democratic system therefore, quite predictably set off countervailing populist, nationalist, and protectionist movements – just as the economist, Karl Polanyi had predicted in his book, *The Great Transformation* (1940).

If Europe's economies, finance, trade, employment and national income are to be stabilised and made sustainable, then it will be vital for Europe's democratic, accountable governments to manage flows of capital, trade and labour in and out of Europe – and in the interests of their citizens. For such a strategy to be successful will require at the least European, but also international cooperation and coordination.

#### THE EUROPEAN NEW DEAL IN HISTORIC CONTEXT

At Roosevelt's first press conference, on Wednesday March 8, 1933 he told reporters that "what you are coming to now is really a *managed* currency.... It may expand one week and it may contract another week." The end of the dollar's convertibility to gold was not temporary but "part of the permanent system so we don't run into this thing again...." (My emphasis)

Eric Rauchway, 10 March, 2015, *Roosevelt's Money Policy 1933-1934* on Crooked Timber blog.

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<sup>4</sup> Abdelal, Rawi (2006) p. 189 in "*The IMF and the Capital Account*" in *Reforming the IMF for the 21st Century*, and edited by Edwin M. Truman, Washington. DC. Institute for International Economics. Cited by Kevin P. Gallagher p. 42 in *2015 Ruling Capital* Cornell University.

Management of the financial system – both the international financial architecture, international flows and the domestic banking system – was fundamental to President Roosevelt’s New Deal of the 1930s. *The New Deal* itself was an amalgam of dozens of programmes and agencies in sectors as varied as the automobile, construction and agriculture industries, and in the fields of soil and forest conservation, rural electrification, fine arts, literature and history.

**The aim was to refocus the US economy on *domestic activity*, and to achieve full employment.**

**Above all, Roosevelt wanted to begin to end the 1929-32 slump (which because of the magnitude of the catastrophe took some time <sup>5</sup>). His administration proposed to do so by creating jobs and generating income, including tax revenues. Central to the achievement of this ambition was public management of both the domestic and international financial system.**

Roosevelt’s administration enacted many pieces of legislation for stabilising and regulating private *banking*. However, the most urgent of his government’s economic reforms was made on the day after his inauguration, a Sunday, and published on Monday, 6<sup>th</sup> March, 1933. This was to abandon the ‘barbarous relic’ – the Gold Standard - that had capital mobility at its heart, had ‘re-structured’ and depressed economies in the post-crisis period, and was a fetish for all international bankers. As Eric Rauchway explains, Roosevelt

“wanted to establish an international system of managed currencies, with an agreement that would allow them to remain stable for long periods, but adjustable in case of need..” <sup>6</sup>

Roosevelt’s second world-changing decision was to boycott an international conference called by the global banking orthodoxy in 1933, the aim of which had been to uphold and maintain the Gold Standard and its associated policies for ‘liberal’ (self-regulated) finance.

By so doing Roosevelt began to end the control by *private authority* of international cross-border capital flows into the US. In future, and later during the Bretton Woods era, these flows were to be managed by *public authority* – as democratically mandated.

The consequences of these changes to the international financial architecture and system, was an unprecedented period of post-war prosperity between 1945 and 1971 – known to all economists as ‘the golden age’ of economics.

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<sup>5</sup> For more on The New Deal see Eric Rauchway 12 May, 2009, *The New Denialism* in *Dissent*, Winter, 2010.

<sup>6</sup> Eric Rauchway, 10 March, 2015. *Roosevelt’s Money Policy, 1933- 1934, on Crooked Timber*.

In this paper we will draw on the experience of *The New Deal* and of the post-war Bretton Woods period to map out a more optimistic economic direction for the *European New Deal* project.

### **CAPITAL MOBILITY: WHO GAINS & WHO LOSES?**

“Whilst policymakers grapple with the challenges of migration to, and within, the EU, the Union’s financial borders are wide open with virtually no entry controls in place, and what monitoring exists is either inadequate or in the hands of the financial services industry, not governments.”

**Tom Keatinge, 1 writing for the Centre for Financial Crime and Security Studies, 22nd August, 2016.**

#### WINNERS & LOSERS: THE REORIENTATION THE EUROPEAN ECONOMY

I Finance capital has – by way of both re-regulation and de-regulation - forced the reorientation of the European economy *away* from the interests of citizens and democratic states. Instead Europe is now largely oriented *towards* the interests of the wealthy few, active in global, invisible and unaccountable capital markets.

To transform Europe and restore high levels of good, well-paid employment and wider prosperity, it will be necessary to re-focus attention on the health and stability of the union’s many and varied domestic economies. Such an attempt at transformation will be fiercely resisted by the international financial sector. To understand this resistance, it is important to first grasp the sector’s vested interests in capital mobility, and the extent to which the world’s economic architecture has been transformed over the last forty years or so.

#### WINNERS: THE CRIMINAL CLASSES

First, we need to consider the motivations of the large group of financiers that the British regulator, Tom Keatinge (quoted above), worries about. They are drug-dealers, fraudsters, elephant trophy hunters, tax-dodging individuals and corporations, common thieves and gangsters. They have a preference for financial borders with no barriers, no checks and no customs staff. Capital mobility, as Prof. Skidelsky has noted, “has a tolerance for criminality”.<sup>7</sup> It gives both the criminal class and corrupt corporations a free pass to move illicit gains around the world.

They are amongst the biggest winners of financial globalisation.

#### WINNERS: THOSE WHO BORROW CHEAP AND LEND DEAR

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<sup>7</sup> Robert Skidelsky, 12 November, 2016, *Slouching Towards Trump* on Project Syndicate.

For those whose activities in global financial markets are legitimate, the foremost motive is to be free to quickly move capital away from economies that produce low returns to ones that offer the highest returns. The international 'carry trade' is an example of such a strategy. Owners of capital borrow 'cheap' in one financial domain (for example Japan) and lend 'dear' (at much higher rates) in another (for example Brazil). This is a quick and virtually *effortless* way of making substantial capital gains (provided the speculation works out well and exchange rates don't suddenly change.).

In Europe, private financiers based mainly in northern Europe, borrow 'cheap' from the European Central Bank and have lent dear to southern European countries.

They too are winners from globalisation.

#### WINNERS: MONEY-LENDERS

Another motivation is creditors' determination to *recoup* financial gains from lending in full. So, if a creditor lends dear to e.g. Greece or Portugal or Brazil - then he considers it vital to be able collect profits or capital gains from his speculation in that country's credit markets. *To maintain the value of such capital gains*, investors demand that repayment is made, not in a local currency, but in 'hard' currency that upholds the value of the original loan – most often the euro or the US dollar. This was one motivation behind the establishment of the euro and monetary union. Greece's drachma, the Portuguese escudo or the Italian lira were not regarded as reliable, hard currencies. By joining the currency union, these countries relinquished their rights to repay debts in their own currency. Instead they are obliged to repay debts in the currency preferred by their creditors.

As a result of pressures by investors to recoup debts and profits, countries like Greece are obliged to boost exports to other parts of the union, and earn euros. These are then stocked in the national bank and used in part, for the purchase of vital commodities and services. However, invariably priority is given first, to the repayment of foreign creditors and investors. Second, to the financing of profits made in-country by corporations and individual investors and repatriated back to the corporation's country of origin, or its tax haven.

#### LOSERS: DEFLATION VICTIMS

The second flaw in this global strategy is well known and much commented on by development economists. If, as has been the case, all debtor countries are forced to re-orient their economies towards exports, the result is predictable: an over-supply of exports. Excess supply in turn exerts a downward pressure on prices – or deflation. And so it has proved not just for the world's major commodity exporters, many of whom were already impoverished, but also for the rest of the world, now enduring deflationary pressures. From 1980 to 2000, as governments oriented their economies towards exports, world prices for 18 major export commodities fell by 25% in real terms. The decline was especially steep for cotton

(47%), coffee (64%), rice (61%), cocoa (71%) and sugar (77%) (World Commission on the Social Dimension of Globalization 2004: p83).<sup>8</sup>

In a globalised economy deflation is not confined to poor commodity exporting countries. It creates a wider problem as falling prices are exported to the rest of the world. It's a particular threat to the European economy, where, in 2016, and despite a massive expansion of ECB generated liquidity, core inflation has been stuck at, or below 1 per cent, for three years.

Deflation poses threats not just to heavily indebted European governments, but also to Europe's heavily indebted consumers and firms. As prices fall into negative territory, the relative value of debt, and of interest rates, rises. (Just as inflation erodes the value of debt, deflation inflates the value of debt.) While generalised prices might fall to -2%, and interest rates remain at e.g. 2%, then in a deflationary environment, the real rate of interest is 4%. The prospect of debt and interest rates rising in value - regardless of the actions of borrowers or central bankers - even while prices fall and incomes remain low - is of grave concern to the European Central Bank and the EU Commission. Unfortunately, prominent European politicians have a poor understanding of deflation, and have largely disregarded the warnings emanating from global institutions like the IMF, the OECD and the Bank for International Settlements.

This threat comes at a time when central bankers have very few policy tools available for dealing with a deflationary shock. Interest rates are already remarkably low, and cannot theoretically fall below 0% - the zero bound rate - when lenders are charged, rather than rewarded, for lending. The negative rates now applied in some Eurozone countries imply that banks are charging customers for depositing sums in the bank. The German government is imposing charges on investors for the privilege of lending to them. Both of these are bizarre economic developments. And a further expansion of QE is also not sustainable because of this policy's impact on asset price inflation.

So it turns out that re-orienting the global economy towards exports and the interests of foreign creditors and investors, impoverishes many countries, worsens global imbalances, raises the spectre of deflation, and with it economic, social and political instability.

LOSERS: EXPORTERS AND IMPORTERS.

But there is another problem with the IMF's global economic model, and it is one spelled out clearly by an arch free-trader, Professor Jagdish Bhagwati, of Columbia university. *Capital mobility interferes with the efficient functioning of trade in goods*

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<sup>8</sup> Quoted by Martin Kohr 2005, on p. 6 of *The Commodities Crisis and the Global Trade in Agriculture: Problems and Proposals* Third World Network, Trade and Development Series, 25.

and services. In a now famous paper written in Foreign Affairs, May/June 1998,<sup>9</sup> Professor Bhagwati argued that

“when we penetrate the fog of implausible assertions that surrounds the case for free capital mobility, we realize that the idea and the ideology of free trade and its benefits ...have in effect been hijacked by the proponents of capital mobility. ...When a crisis hits...this typically means raising interest rates....” Action that he argued, “decimated firms with large amounts of debt” after the Asian crisis. “It also means having to sell domestic assets, which are greatly undervalued because of the credit crunch, in a fire sale to foreign buyers with better access to funds.”

Professor Bhagwati then questioned “why the world has nonetheless been moving in this direction. The answer, as always” he wrote,

“reflects ideology and interests – that is lobbies... Wall Street’s financial firms have obvious self-interest in a world of free capital mobility since it only enlarges the arena in which to make money. ....This powerful network, which may aptly, if loosely, be called the Wall Street-Treasury complex, is unable to look much beyond the interest of Wall St....”

#### LOSERS: TRADERS AND LABOUR

But mobile capital does not only cause disruption to trade, and periodic crises. It also uses its *absolute* advantage over trade and labour flows, to fatally weaken trade and labour.

Unlike trade or labour movements across borders, capital faces few barriers to its mobility. Flows of trade or labour face geographic barriers (think of landlocked countries like Austria or Slovakia). They also face political, regulatory, physical and in the case of labour, even emotional and cultural barriers to movement. By contrast finance faces few real barriers to its ability to cross borders. Finance therefore enjoys an *absolute* advantage over trade and labour, and its mobility destroys any *comparative* advantage enjoyed by different trade and labour markets. It is the absolute advantage enjoyed by *international* capital markets that causes the finance sector to exercise dominance over the open, *domestic* economies of Europe.

And it is this dominance of finance over the real economy that has persuaded many industrial capitalists that if ‘you can’t fight ‘em, join em’. The result is that the European economy, like many others, has become increasingly financialised. In

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<sup>9</sup> Jagdish Bhagwati, in Foreign Affairs, May/June 1998: *The capital myth: The difference between trade in widgets and dollars*.

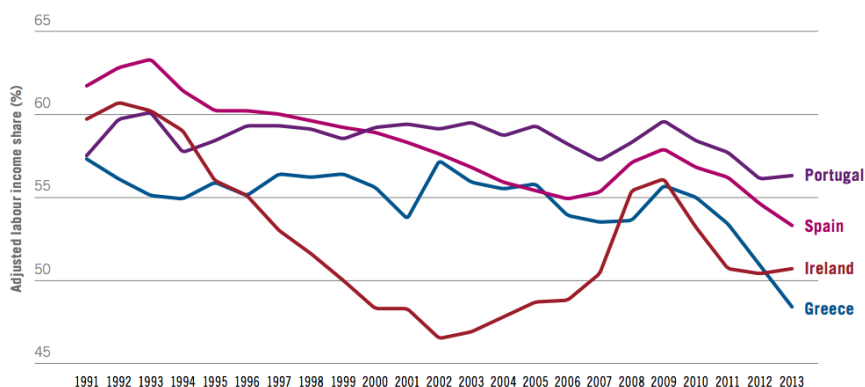
other words, industrial capitalists have tried to find ways of mimicking the finance sector's ability to make gains, or charge 'rent' on virtually effortless activities like international lending and speculation. Industrial capital is learning to compete with finance capital by accumulating unearned income from 'rent' on pre-existing assets. These include income from property, vehicles, algorithms, databases, brands, works of art, yachts etc. Why would they not? To earn income, industrial capitalists like Apple, Siemens, Daimler, Nestle have normally to engage with land – in the broadest sense of the word – and with labour. By engaging in speculation (betting) on whether the value of pre-existing assets will rise or fall, capitalists can bypass both land and labour (in the broadest senses) and simultaneously make fantastic capital gains.

If they can transfer those gains effortlessly across borders to where taxation and other forms of regulation are lowest, then they too are big winners from financial globalisation.

### LOSERS: LABOUR'S SHARE OF NATIONAL INCOME

Those Europeans that do not have the good fortune to own pre-existing assets, cannot profit from unearned rents on these assets. Instead they are obliged to *earn* income - invariably from their labour. As a result, and as many studies have shown, including those from the International Labour Organisation, the decline in Labour's share of the economy in many European economies since the 1980s has been marked, and was exacerbated by the 2007-9 financial crisis.<sup>10</sup>

**Figure 11 Adjusted labour income share in selected European countries most affected by the crisis, 1991–2013**



Note: Adjusted wage share, total economy, as a percentage of GDP at current market prices (compensation per employee as a percentage of GDP at market prices per person employed).  
Source: European Commission AMECO database. Data accessible at: [www.ilo.org/gwr-figures](http://www.ilo.org/gwr-figures)

As the ILO notes this decline

<sup>10</sup> See the ILO's Global Wage Report, 2014-15.  
<http://www.ilo.org/global/research/global-reports/global-wage-report/2014/lang--en/index.htm>



“.....may have been due to a combination of pressure from financial markets for high capital returns, globalization of international trade, technological change and the simultaneous erosion of the redistributive power of labour market institutions (ILO, 2012a).

## LOSERS: DEMOCRATIC INSTITUTIONS

The result? An increasingly unequal and financialised European economy, where investors – both domestic and foreign - get paid, but the interests of domestic economies and their citizens are neglected. This radical re-orientation and financialisation of economies away from domestic interests, and towards the interests of ‘global’ finance capital, helps explain why the continent suffers high rates of unemployment, falling tax revenues, budget deficits . It also explains why income inequality, and populist resistance to the economic system, has risen.

The rise in political extremism is ultimately a threat to the democratic (and also financial) institutions – from political parties and press freedom, through to the judiciary and criminal justice system.

So Europe’s democracies too are losers from financial globalisation.

## THE FIVE PILLARS OF FINANCIAL STABILITY

How would financial stability for Europe be achieved? I would argue that there are five pillars to the architecture of the European Union that should be adopted by the Union’s public authorities if they are to construct a stable and just financial and economic system for the Union as a whole. These are discussed below.

### 1. CAPITAL FLOW MANAGEMENT: BRING OFFSHORE CAPITAL BACK ONSHORE

The management of cross-border flows of money, ensures that democratic governments enjoy what is known in economics as ‘policy autonomy’. The significance of bringing offshore capital back onshore ensures that governments retain the ability to implement policies for national prosperity and full employment. These include policies for a) stabilising the exchange rate, b) keeping interest rates low for the sustainability of domestic enterprises; c) for ensuring the taxation of all home-grown profits; and d) for managing inflation.

### 2. TAX JUSTICE

The second pillar of EU financial stability is the ability of public authorities to oblige all those that use the Union’s currency to pay their taxes in euros – fundamental to the central bank’s creation of liquidity, and to the maintenance of the value of the currency. Taxation of all those that are active in, and that profit from, the public good that is the monetary system, is essential to social and political stability because of its role in managing the distribution of wealth and benefits within states, and within the Union as a whole.

As things stand, capital mobility enables companies like Apple, Amazon, Starbucks or Uber to avoid taxation by simply and quickly moving their profits or capital gains abroad, to tax havens. Law-abiding, tax-paying citizens do not, on the whole, enjoy this privilege.

If tax systems are to be affordable, and if tax justice campaigns are to be effective, then capital controls are vital .

### 3. CURRENCY MANAGEMENT

Without capital control a currency can be over-valued (e.g. the Swiss franc) or under-valued (as is the real exchange rate the Euro, for Germany, for example.). These distortions of the exchange rate are caused by the speculative activities of those active in capital markets, who may sweep their capital into, or out of an economy without any regard to real economic conditions within that economy.

Economists argue that central banks should not enjoy such control over the valuation of the currency, as governments are rent-seeking. In other words, governments seek only to make financial gains from such management. This overlooks the rent-seeking of the private sector for whom manipulation of the currency is fundamental to the making of speculative capital gains.

An over-valued currency unfairly hurts a country's exporters, and benefits competitors, causing trade as well as geo-political tensions. And an under-valued currency unfairly benefits exporters and hurts competitors, and that too leads to inter-national tensions. So stable and fair exchange rates are vital not only to the prosperity of exporting nations but also to international political stability.

As we witnessed in 2007-9, globalised, self-regulated markets can act as electric currents, and transmit crises caused by imbalances in one part of the world, to countries across the world. Unbalanced exchange rates – whether over-valued or under-valued - place the greatest strains on the globalised financial system. Managing the exchange rate to properly reflect the health or otherwise of the domestic economy is vital, not just to the prosperity of individual countries, but for the global economy as a whole. In a 1940 lecture, the economist Karl Polanyi explained how currency crises in the faraway Balkans contributed to the Wall St crash in 1929.

“ An unbroken sequence of currency crises linked the indigent Balkans to the affluent U.S.A. through the elastic band of an international credit system which transmitted the strain of the imperfectly restored currencies first, from Eastern to Western Europe, and then from Western Europe to the United States, until America herself was borne down by the weight of the accumulated deficits of the greater part of the countries of the world. The trade depression which broke over Wall Street in 1929 waxed to a hurricane owing to the tension which had been latent on the Danube and the Rhine since 1919.”

Karl Polanyi Lectures 1940 The Passing of 19th Century Civilization, Crosset Library, Bennington College.

#### 4. MANAGEMENT OF INFLATION, CONSUMPTION & INVESTMENT BOOMS

The fourth pillar of financial and economic stability is in the management by public authorities of price stability, for goods, services and assets. To manage inflation – namely too much money chasing too few goods, services and assets - central banks, the ECB and governments must regulate the level of *private credit or debt* created and issued by bankers, shadow bankers and creditors of all types. Too much credit chasing too few goods or assets is inflationary. It is especially so if credit is used for speculation on for example property, stocks and shares, horse racing and other gambling activities) as opposed to productive, job-creating, income-generating investment.

So it is also important for authorities to regulate the purpose *for* which credit/debt is issued.

And if debtors are unable to repay the excessive amount of debt issued, the second likely outcome is a rise in defaults and bankruptcies. Both of these outcomes – inflation and defaults – are harmful to financial stability.

Rapid and massive inflows of foreign capital can cause inflation, and lead to consumption and investment booms, as has been the experience in Britain and other EU markets recently. It is vital for governments to have the ability to stabilise inflation, and to ensure that consumption and investment levels are sustainable. They cannot do this if capital flows remain offshore, and under the management of *private* authority.

It is also essential for the authorities to manage *public debt* of course. However, a rise in public debt is not so much a failure of regulation, as a consequence of rising unemployment caused by private sector weakness or failure, and the resulting fall in tax revenues. A reduction in public debt is therefore largely achieved by government investment to compensate for the collapse in *private* investment and spending, until the private sector is once again operating at full employment. Full, well-paid employment can be relied upon to increase tax revenues, cut public debt, and restore government budgets to balance. “Take care of employment” Keynes once said, “and the budget will take care of itself.”

#### 5. THE RATE OF INTEREST

The fifth pillar of financial stability is the rate of interest on all loans across the spectrum of lending: *short and long-term loans; safe and risky loans; and loans in real terms*, i.e. allowing for inflation/deflation. If rates on loans exceed the gains likely to be made from the investment of those loans, then defaults will be inevitable. A low rate of interest is also essential for innovation and risk-taking, and ensures that debt repayments for thriving enterprises does not exceed the profits made from their activities. Above all, a low rate of interest is vital to the sustainability of the ecosystem, as it lowers the rate of extraction of earth’s scarce

assets used to finance the repayment of debts – subject to the laws of mathematics, not thermodynamics.

Money-lending at high rates of interest can help stratify wealth and poverty across Europe. The rich, the owners of assets, effortlessly become richer, and the poor and indebted ever more entrenched in their debt and impoverishment.

Rapid outflows of capital make it impossible for central banks to manage interest rates across the spectrum of lending: for short and long-term loans, safe and risky loans, and in real terms (i.e. adjusted for inflation). When in the late 1990s and early 2000s Hungarian borrowers were given the freedom to borrow from Austrian, Italian and Swiss banks at lower rates of interest, they undermined the monetary policies and interest-rate setting of the Hungarian central bank. Over this period, European banks provided \$120bn of credit to Hungary's public sector and private sector, out of total international lending to Hungary of around \$140bn. That credit amounted to 100% of GDP.

When the Hungarian currency the forint, depreciated vs the Austrian euro and the Swiss franc, those debts rose in value and became unpayable. The consequent defaults damaged the banking systems of Austria, Italy and Switzerland; rendered about one million Hungarian households in default; and cost Hungarian and European taxpayers – who were obliged to clear up the mess.<sup>11</sup>

#### TYPES OF CAPITAL CONTROL

There are two types of capital controls: market-based and administrative controls. The former are taxes or the equivalent of taxes, that act as 'sand in the wheels' of financial flows. They do not block foreign inflows or outflows, but invariably require investors to pay a premium on those flows. Administrative controls, like exchange controls, limit foreign investment in specific sectors and assets, and limit outward flows of capital.

By far the most important economy to impose capital controls is China, which limits what Chinese assets foreigners can purchase, and defines which categories of foreigners can undertake those purchases.<sup>12</sup> Brazil, Thailand and Uruguay are amongst many other countries that tax cross-border flows.

Governments can do more: they can make good use of macro-prudential tools to act as forms of capital control. These can be used to strengthen supervision and regulation of risk-taking behaviour by foreign investors operating within a domestic banking system. They can also, for example, discourage investors in the home country from making risky investments abroad, or using borrowed money for purely speculative purposes. In the UK, the Bank of England is beginning to use tools such as loan-to-income ratios to dampen speculation by domestic and foreign investors in the London housing market.

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<sup>11</sup> See Francis Coppola, 27 September, 2014, *Eastern European Risks for Austrian Banks*, Forbes website.

<sup>12</sup> Barry Eichengreen, 15 July, 2016, *Rethinking Capital Controls* Milken Institute review.

## MANAGING IMBALANCES BETWEEN EU MEMBERS

Europe – or the EU-28 – has a balance of payment *surplus* with the rest of the world of about EUR 160 billion, or 1.1% of GDP.<sup>13</sup> The EU is thus in the happy position of being a creditor to her trading partners.

Unlike the United States, the Union has no deficit on its external accounts and so, as Amato and Fantacci observe, “Europe has no need of other people’s money.”<sup>14</sup>

But this is not the case internally. 10 EU Member States reported current account deficits in 2015, while 18 recorded surpluses. The largest deficits (relative to GDP) were observed in the United Kingdom (5.2 %) and Cyprus (3.6 %), while Germany recorded the largest current account surplus (8.5% of GDP) in absolute terms (EUR 257.0 billion). Governments (and especially southern governments) were encouraged, after the introduction of the Euro in 2001, to look to the private banks and capital markets of neighbouring EU members for the short-term finance needed to fund long-term deficits. This was much easier to do thanks to the integration of Europe’s financial markets, made possible by monetary union. By removing the exchange rate risk, the introduction of the euro enabled countries of southern Europe to borrow from their neighbours’ private banks to finance their current account deficits.

After the crises of 2007 the private sector was no longer willing to finance private and public borrowing, as the BIS explains:

“Until mid-2011, the intra-eurosystem debts were concentrated in Greece, Ireland and Portugal. In the second half of 2011, the pattern changed as deficits emerged in Spain, Italy and France, and by the end of the year, Germany had built up an accumulated surplus of nearly EUR 500 billion, or 19% of Germany’s GDP, and the Netherlands an accumulated surplus of EUR 155 billion, or 26% of GDP. Greece’s accumulated deficit at the end of 2011 was EUR 104 billion, or 48% of GDP. ...The surplus of Germany increased further to EUR 739 billion, or 28% of GDP, in the first half of 2012.”<sup>15</sup>

It is perhaps no coincidence that the consequence was greater *divergence*, not convergence, between surplus and deficit countries in Europe. This too would have its consequences.

## A CLEARING HOUSE FOR EUROPE

Europe’s single currency based on monetary union is not working. Indeed it is threatening the break-up of the magnificent project which was the reunification of

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<sup>13</sup> Eurostat, *Balance of Payment Statistics*, April, 2016.

<sup>14</sup> Massimo Amato and Luca Fantacci, 2014, p. 106 *Saving The Markets From Capitalism*, Polity Press, 2014.

<sup>15</sup> William A. Allen and Richhild Moessner, in BIS Working Papers No 390, October, 2012, revised March 2013. *The liquidity consequences of the euro area sovereign debt crisis* Bank for International Settlements, Monetary and Economic Department.

Europe for the lofty purpose of pursuing peace across the continent. There remains an overwhelming demand for unity across Europe; for cross-border collaboration and cooperation. How can balance and stability be achieved – without a single currency and monetary union?

The answer lies in the very recent history of the union itself: the European Payments Union of 1950.

As Lucca Fantucci and Massimo Amato have chronicled, the post-Second World War Marshall Plan

“failed in its endeavour to make of Europe a trading partner for the United States.....it began to dawn that the revival of European trade did not depend so much on *injections of liquidity* in the form of dollars...What European trade really needed was certainly not more money, but a *currency*.”<sup>16</sup>

Answering to this need was the European Payments Union (EPA), conceived in 1949 after just nine months of ‘gestation’ and agreed in 1950.

Instead of many different bilateral accounts with its European trading partners, the Payments Union made it possible for each country to have *one single account* held at a ‘clearing centre’. The country’s position was recorded as a *net* position in relation to the clearing centre itself, and thus as a multilateral position in relation to all the other countries.

Balances were calculated at monthly intervals. As its debt at ‘clearing’ rose, each country had to pay in gold - an increasing share of their debt, or negative balance. In other words, they were penalised for building up a negative trade balance. Creditor countries were entitled to a payment in gold of an increasing share of its positive balance at clearing.

However, a quota was set for each country corresponding to 15% of its trade with the other countries of the Union. Credit and debit balances could not exceed the respective quotas. The system therefore set a limit to the accumulation of debts or deficits with the clearing centre, and provided debtors with an incentive to converge towards equilibrium with their trading partners, as Amato and Fantucci explain.<sup>17</sup> The European Payments Union also exerted strong pressure on the creditor countries to liberalise trade and reduce restrictions, so as to raise imports and cut their surpluses.

With the construction of the EPA, came an extraordinary, export driven growth in production, in Germany and Italy in particular, and the liberalisation of trade not only within the EU, but also well beyond.

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<sup>16</sup> Massimo Amato and Luca Fantucci 2012, *The European Payments Union (1950)* p. 115 of *The End of Finance*, published by Polity Books.

<sup>17</sup> As above.

Thus, argue Amato and Fantucci, trade within war-damaged Europe, did not recover *at the expense* of trade with the rest of the world.

“The union was not a means to protect a non-competitive economic system, but a way to regain a degree of competitiveness sufficient for it to stand up to international competition *without protective measures*.”<sup>18</sup>

#### IS A NEW EUROPEAN PAYMENTS UNION FEASIBLE?

In the Eurozone there is already a clearing house for the precise purpose of optimizing the management of payments.<sup>19</sup> TARGET 2 is the **Trans-European Automated Real-time Gross settlement Express Transfer** system used to settle cross-border payments individually, as soon as orders, e.g. for a BMW truck purchased by a Greek firm, are sent for payment by a commercial bank to the Greek central bank, to effectively transfer cash to the German banking system, and in particular the Bundesbank. Simultaneously the Bundesbank has a future claim on the ECB while the ECB has a claim on the Greek central bank.

Within this system Germany, together with other surplus countries like the Netherlands, has built up substantial credits and has the highest positive settlement balance. Correspondingly, Portugal, Spain, Greece Ireland and Italy have built up substantial debits, and therefore have negative settlement balances. These reflect, to a certain extent, the trade imbalances between northern and southern Europe. The ECB has, as one would expect of a central bank, made a contribution through TARGET 2 towards financing the imbalances, when private sector banks were lacking in confidence to do so.

Massimo Amato and Luca Fantacci in their book *Saving the Market from Capitalism*,<sup>20</sup> make the bold suggestion that these balances could be subjected to

“symmetrical charges in accordance with Keynes’s Clearing Union model...The option can, and we believe must, take on the form of a political proposal bringing all the countries to face up to their responsibility in settling the imbalances in so far as they have enjoyed advantages in accumulating them....It would serve as a reminder to the creditor countries that they, too, have benefited from the single currency, thanks to the opportunity to export to the countries of southern Europe at a competitive real exchange rate. And it would serve to involve these countries in the adjustment process without having to appeal to their ‘kind heartedness’.”<sup>21</sup>

Amato and Fantacci argue that to reduce imbalances, four measures would have to be adopted. Credit would have to be restricted solely to commercial transactions

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<sup>18</sup> As above, p. 117

<sup>19</sup> Massimo Amato and Luca Fantacci in 2014, p. 115 *Saving the Market From Capitalism*, published by Polity Books.

<sup>20</sup> As above.

<sup>21</sup> As above, pp 115-117.

between European countries. There would have to be a limit to the possibility of accumulating positive or negative balances, commensurate with each country's volume of foreign trade. There should be a symmetrical rate of interest applied equally to the creditor and debtor countries to induce them to get back into equilibrium. Finally, there should be the possibility of adjusting the real, if not nominal, interest rates, should imbalances prove persistent.

While we may wish to argue about measures that would need to be adopted to make a European Clearing Union work, we must insist on the principle: solidarity between northern and southern European countries, and solidarity between sovereign debtors and creditors – in order to restore a common purpose to the European project.

Back in the 1950s the European Payments Union worked where every previous plan to revive production and trade in war-torn Europe had failed. It restored equilibrium in their balance of payments, and laid the ground for the development not just of the Bretton Woods system, but also the European project.

If we are to restore stability within Europe; if we are to defeat the authoritarian ambitions of extreme political forces, then restoring policy autonomy to democratic governments, by managing capital mobility, is essential. Economic forces cannot be detached from their entanglement with democratic, political institutions. The attempt to do so is utopian, and has triggered the Polanyian counter-movements that are leading the people of European countries to search for protection from the predatory behaviour of self-regulating markets.

Unless mobile capital is subordinated to democratic interests, then such "protection" will most certainly be offered by strong, and potentially authoritarian leaders – who will likely quickly reverse the extraordinary progress made across Europe since the Second World War.

There is a great deal at stake. And there is very little time.



## APPENDIX 4 - A stimulus plan to boost the energy transition

by Thomas Porcher<sup>22</sup>

The European regulations and choices in terms of economic policy are currently preventing us from fully engaging in the energy transition and from contributing efficiently to the fight against global warming. Investment plans in the fields of building renovation or renewable energy are doomed to failure by the strict fiscal rules. Liberalisation and the trust in market mechanisms (price signal, competition between energies) have disrupted the European market and have not allowed renewable energy, even when combined with support schemes, to develop sufficiently. But there is another approach to European energy policy, one that requires understanding the specificities of energy and leaving the liberal dogma behind.

### From the Strategic State to the failure of energy market liberalisation

The European energy system is a product of planning and centralised management that have given rise to great public corporations. These corporations, often referred to as “historical operators”, developed in a non-competitive environment into state-owned monopolies. The development of these companies is not the product of market mechanisms but above all the result of political choices. This is best demonstrated by the share of nuclear power in the French energy balance. Market forces could never have made nuclear power the leading energy in France, in particular because of the higher costs of nuclear power plants compared to gas or coal plants. There was a strategic purpose behind the choice of nuclear energy, in that it allowed the country to become less dependent on crude oil imports and oil price fluctuations. The remarkable growth of the nuclear sector in France thus originates in a political choice (one that other countries did not make, in particular Italy who refused to develop the nuclear sector), which contributed to create favourable development conditions (a state monopoly).

From the 90s onward, inspired by the example of the Thatcher-Reagan tandem, the European Commission required Member States to liberalise their network industries (telecommunications, energy, postal networks, air transport...). The aim was to break up European state monopolies – which were deemed less efficient – so as to allow for the arrival of new competitors and thus bring about price reductions. However, the outcome turned out to be in direct contradiction with Brussels’ expectations. Let us consider the case of the United Kingdom, often put forward as an “example to follow” by the European Commission. The liberalisation process gave rise to an oligopoly of six companies sharing the market in the absence of any

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credible competitive threat<sup>23</sup>. Of course, whereas electricity prices were supposed to drop, they ended up increasing. In theory, the opening-up of markets was meant to benefit consumers. In practice, it mostly benefited companies. The outcome was the same in France, with an average increase of 33 % in electricity prices since the energy sector was opened up to competition in 2007. This is a far cry from the forecasts made by experts from the European Commission when the single market was created.

By making liberalisation an end in itself, the Commission attempted to apply market mechanisms to all sectors without taking into account their specificities. In the energy sector, the production and consumption structure is highly rigid and inert, entry costs are high due to the necessary infrastructure, and the price elasticity of demand is low. Finally, investments are often heavy and profitable in the long term. Therefore, energy choices should not be driven by the inherently volatile price signals of such and such energy source. And yet this is the choice that has been favoured by the States over the past few years with the help of the deregulation movement impelled by the Commission.

### **Limitations of market mechanisms (price signal, competition between energies)**

According to the advocates of market efficiency, if one wants a good or a production method to prevail, one must make sure that it is less expensive in order to influence consumer choice (this is referred to as a price signal). This argument is what led to the creation of renewable energy support schemes, with the aim of enabling these energies to enter the energy markets while subsequently allowing competition to operate between the different energies. The problem is that the competition conditions are extremely unfavourable to renewable energy, even when taking into account support schemes.

Companies from the renewable sector, which are characterised by a multitude of actors in various industries, are faced with the historical operators, which enjoy long-established technologies and infrastructure. These companies have enough weight to influence market conditions, and actors from the renewable sector – even when assisted by support schemes – remain in an unfavourable position. Now, one of the conditions for the proper working of competition is precisely for all actors to be identical in size. In the case of renewable energy, long-term political choices that were once applied to the nuclear power, gas, oil or coal industries have thus given way to a hybrid model combining support policies and liberalised market. This model has a mixed track record to say the least, and results show that even if renewable energies are developing, they still struggle to gain market share over traditional energies.

The effect of the price signal is also called into question in the case of non-substitute goods. It is the case of oil for instance, for which price increases over the decade 2000-2010 only had a marginal effect on consumer behaviour. No one would have

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<sup>23</sup>. R.H. Boroumand, S. Goutte and T. Porcher (2015), *20 idées reçues sur l'énergie*, de Boeck

thought that consumers could bear a price rising from 20 to over 100 dollars. And yet this is precisely what happened. The price was multiplied by five without naturally triggering a revolution in production methods or consumption patterns. Price elasticity and cross-price elasticity did not work (or very little) because oil is a good that is difficult to substitute in its use. Under these circumstances, advocating a price increase to bring the price signal into play in the hope of reducing consumption can fail to live up to expectations.

Conversely, the price signal proved to be very efficient in the case of the replacement of gas by coal. A number of conditions must be met for competition to operate properly: the various energies must be substitutable in their uses, and they must be at nearly similar stages of development. It is the case of gas and coal for instance. The development of shale gas resulted in a drop in gas prices, thus making it more attractive than coal in the US. The decrease in American demand for coal led to a price reduction that in turn made coal more attractive to Europeans. As a result, American coal consumption shifted towards Europe. Admittedly, the price signal worked from a local point of view; but from a global point of view it only transferred consumption to a different place.

An analysis of the American case in a closed economy (*i.e.* as if it was alone in the world) would lead to the following conclusion: the price signal was efficient because the drop in gas prices brought about a gas-coal substitution effect. But a global analysis (in an open economy) would raise the question of what happened to the good that left the market in a closed economy... On a global scale, there is no difference, only a relocation of consumption and the related pollution. Generally speaking, in the absence of a shared development or common regulations, what one country's market loses, another one takes over<sup>24</sup>...

### **Learning from the failure of the European carbon market**

The development of the European carbon market is also one of the best examples of the lack of objectivity of markets, or rather of their human construction (which is non-objective by definition). To address global warming, the Commission decided to create a carbon market with the aim of assigning a price to CO<sub>2</sub> and using the price signal to give companies incentives to turn to less polluting production methods. Although the principle of this market was to give companies incentives to reduce their emissions, it only served as a tool to encourage them not to change because of the extremely low price of carbon. And yet the project had been off to a good start, as it consisted in establishing carbon emission caps per country for polluting companies and industries. But then through the play of market forces, the most polluting companies were able to buy the allowances of a company whose emissions did not reach its authorised cap. And since emission allowances were over-allocated (thanks to an efficient lobby), the price of carbon dropped dramatically. The price signal, which was meant to provide incentives to stop polluting, had the opposite effect.

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<sup>24</sup> T. Porcher and H. Landes (2015), *Le déni climatique*, Max Milo.

Even if setting a carbon price will not be a miracle solution in the fight against global warming, it nevertheless remains a relatively efficient tool as long as a number of rules are observed. Some economists, such as Nobel Prize laureate Jean Tirole, suggest agreeing on a universal carbon price that is compatible with the objective of 1.5 to 2°C and setting up an independent control infrastructure to measure and monitor the national pollution level of signatories<sup>25</sup>. This is an interesting idea on paper, but the example of the European carbon market reminds us that creating a global market can be a difficult process, in particular because the distribution of allocated CO<sub>2</sub> allowances would spark numerous debates, and because we can easily imagine how, under pressure from various States, these allowances would be over-allocated, thus leading to the same effects as the European carbon market, namely a ridiculously low price.

A tax would be far more efficient, but if each State is responsible for establishing it, some of them may have incentives to cancel this tax through subsidies, thus playing by the rules of tax competition. Finally, a standardised carbon tax set by a multilateral body would probably fail to meet with general support as it would be deemed unfair in the light of the inequalities in development across countries.

A progressive carbon price based on the level of development could be a fairer solution, and therefore more easily acceptable. The idea is to set a reference carbon price based on the HDI (Human Development Index) and the amount of consumed CO<sub>2</sub> emissions<sup>26</sup>. For a given HDI level, countries would thus pay a carbon price based on a reference price set by a multilateral organisation. If a country consumes more emissions than the amount allocated to its HDI level, then it will pay a higher carbon price than the reference price established in the price scale. As the carbon reference price increases with HDI, emerging countries will have more incentives to develop green energy rapidly and to invest in low-carbon systems. Finally, wealthy countries will pay a higher carbon price and will thus have incentives to speed up their energy transition.

Setting such a carbon price would fall in line with the Climate Convention's principle of "common but differentiated responsibilities", while also making it possible to stop pitting competitiveness and the fight against global warming against each other, as the production systems with the lowest carbon intensity would be the ones paying the lowest carbon price.

### **Redefining the European commercial policy, doing away with useless trade agreements**

Every time the IPCC or the COP organizations publish a report, world leaders take turns to move people to action in order to come up with appropriate solutions to

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<sup>25</sup> J. Tirole (2016), *Economie du bien commun*, PUF.

<sup>26</sup> R.H. Boroumand, T. Porcher and T. Stocker (2015), « COP 21 : pour un prix du carbone équitable et progressif », *Le Monde*.

avoid a climate disaster. Everyone has their little formulaic declaration about the energy transition and the need to lower CO2 emissions. And yet, at that very same moment, these leaders are negotiating free trade agreements that are a disturbing illustration of global warming denial insofar as they continue to separate the environment and trade, and worse still, subordinate the former to the latter.

Europe, which for a long time was considered exemplary in the fight against global warming, is no exception to this trend. In 2006, it devised a strategy on commercial policy which consisted in seeking to conclude free trade agreements with its main trading partners. This project called “Global Europe: Competing in the World” resulted in the signature of free trade agreements with Peru, Colombia, Honduras, Nicaragua, Panama and Canada. Others are in progress with Ukraine, Moldova, Georgia, Armenia, as well as with regional organisations such as the Gulf Cooperation Council or Mercosur<sup>27</sup>. The notorious transatlantic partnership with the US, better known as TAFTA, also falls within the scope of this strategy<sup>28</sup>.

The problem is that such agreements, given their principles and consequences, run directly counter to the issue of global warming. They first and foremost consecrate the trade in goods. What matters is the movement of goods, and this regardless of environmental consequences. Even at the WTO, the scope of the term “environment” is still awaiting definition and specific protection. Admittedly, paragraphs *a* and *b* of article XX of the GATT allowed countries to protect policies aiming to preserve natural resources and life behind trade barriers. But for various reasons, the term “environment” has never been added to paragraph *b* of the article in question. The WTO bases its decisions not on a precautionary principle or any other ethical consideration but on expertise. In other words, nothing related to the environment or climate is taken into account by the WTO. We thus find ourselves with leaders who acknowledge the role of human activity in global warming and advocate a reduction in CO2 emissions, but willingly decide to disregard all this when the time comes to talk about trade<sup>29</sup>.

Besides favouring the multiplication of trade, these agreements risk lowering goods standards. Indeed, one of the specificities of these next-generation trade agreements is that in addition to reducing customs duties, they extend their scope to include all commercial fields and deal with “behind-the-border” trade barriers, *i.e.* based on norms established inside a country.

The objective of these free trade agreements is thus to bring about a standardization of the norms of different countries so as to define common production and consumption standards. The problem is that, under these conditions, if a State decides to implement new regulations to take into account environmental costs, it will be penalized compared to those who do not. In order to protect the

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<sup>27</sup>. Common market comprised of various countries of South America.

<sup>28</sup>. T. Porcher and F. Farah (2014), *TAFTA : l'accord du plus fort*, Max Milo.

<sup>29</sup>. Although a number of developed countries are starting to address some of the topics relating to climate at the WTO, in particular by accusing emerging countries of environmental dumping.

competitiveness of their industries, countries are thus likely to avoid setting up regulations that take into account environmental dimensions, as it would amount to running with sandbags.

This state intervention will be all the more limited as rival companies can easily reach an agreement when their interests coincide. When the objective is to lower standards to generate more profit, rival brands are able to act together. The case of shale gas in France showed us how French or Canadian firms that were originally rivals managed to reach an agreement when the objective was to try and reverse the legal ban on hydraulic fracturing. Under these circumstances, it will be difficult to bring about a model that is environmentally demanding.

Incidentally, trade agreements provide for mechanisms that make it possible to fight regulatory evolutions, namely arbitral tribunals. This type of tribunal is inspired by the doctrine of ICSID<sup>30</sup>, which stipulates that a company is entitled to the legal framework it knew when it first went into business, and therefore has the right to be compensated for profits lost due to any modification in the legislation or regulations that is to its disadvantage. In other words, with the introduction of this mechanism, it will be either impossible or very costly for a State to enact new rules either through a law or regulation. These tribunals will therefore be weapons in the service of multinational corporations, since investors will be able to call upon them whenever they feel that the regulatory framework has been modified to their disadvantage.

However, to further the energy transition and the fight against global warming, it will be necessary to impose sanctions on certain energies (such as the nuclear power phase-out in Germany or the ban on hydraulic fracturing in France) while promoting renewable energy, encouraging low-carbon production methods through tax benefits and regulating some industries more strictly. But all these policies may be viewed as barriers to trade or distortions of competition, and the affected companies could therefore challenge them before an arbitral tribunal. In this kind of trade agreement, commercial law clearly takes precedence over social or environmental issues.

These agreements are thus additional proof of our leaders' climate denial. They first and foremost consecrate trade between countries and aim to suppress any obstacle to the movement of goods. They contain no clause addressing the climate issue, and the standardization of norms they introduce is likely to result in a lowering of environmental and social standards. Finally, the arbitral tribunals, much like a sword of Damocles over the State, provide multinationals with a legal guarantee against regulatory evolutions.

### **For a European recovery in favour of the energy transition**

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<sup>30</sup>. The International Centre for Settlement of Investment Disputes (ICSID) is an institution based in Washington, created by the International Bank for Reconstruction and Development (IBRD) to deal with disputes between a State and an investor from another country.

Faced with the failure of the European Commission's liberal policies, it has become imperative to change course. As they have done in the past with other energies, governments must now choose the new winners (renewable energy and energy efficiency). For instance, the French State could steer the companies of which it is a shareholder towards renewable energy. The EDF and Areva fiasco shows that the nuclear sector is not as attractive as it used to be. The decreasing costs of renewable energy – even though it is still only in the learning phase – indicate that this sector is full of promise. This strategic choice would allow us to position our companies in high-growth sectors while making sure that they are complementary. Such a turning point would remove a number of obstacles to which the renewable energy sector is currently subjected, such as regulatory instability (the “stop-go” phenomenon) or a lack of knowledge on the part of all stakeholders (citizens, investors, political decision-makers). It would also inspire investors with confidence and generate positive spillover effects for the thousands of small and medium size businesses working in the renewable energy sector.

The development of renewable energy must be combined with building renovations in order to allow for a decrease in consumption volumes – and ultimately in households' bills. The EU must relax its rules to allow the States to introduce ambitious policies aiming to improve energy efficiency in various sectors (industry, agriculture, construction, transport...). In France, buildings are responsible for 44 % of energy consumption and 25 % of greenhouse gas emissions. F. Hollande had set a goal of renovating 500,000 residential buildings per year. There is still a long way to go. The main argument is that renovation works are costly and that the European regulations do not allow for such reflationary policies.

But these liberal rules must be reconsidered, and each of us must understand that there is nothing economically toxic about public expenditure when investments are made in sectors that yield returns on investments. In addition to being useful in the fight against global warming, reducing energy use in buildings generates earnings for the State. The example of Germany is highly conclusive in this respect. A study conducted by the IDDRI shows that for each euro invested in renovation works, the German State gets back two to four euros through taxes due to the business thus generated. Finally, it must be noted that energy efficiency and the development of renewable energy also create employment. A study conducted by the University of Massachusetts shows that a one-million-euro investment creates 19 jobs in energy efficiency and 14 in renewable energy against five in the nuclear sector<sup>31</sup>. Solutions are thus within easy reach, and it is now up to political leaders to make sure that the transition speeds up.

In conclusion, for the energy transition to be successful, European regulations should be modified to allow for these reflationary policies over a first phase, and then European countries would need to implement coordinated strategies over a second phase. Because if each of us carries out its transition on its own, without regard to its neighbours, there is a risk that the security of energy supply will be disrupted. With global warming, the energy transition has become an imperative in Europe. The time

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<sup>31</sup> Political Research Institute, University of Massachusetts.

has come to place this project at the centre of EU governance and to free ourselves from the neoliberal rules that prevent us from setting up policies that are up to the challenges of the 21<sup>st</sup> century.



## **APPENDIX 5 – The European Greens’ view of what a European New Deal should involve**

**by Vincent Hurkens, *Greens in the European Parliament***

Europe needs a new economic dynamic, creating prosperity and a decent life for everyone, based on the principles of equality and democracy and respecting the ecological limits of our planet. The problem of climate changes requires fast and significant reductions in greenhouse gas emissions to stabilise the concentrations of these gases at a level which is sufficient to limit the increase of the global mean temperature to a level not exceeding 1.5-2°C above pre-industrial levels. In addition to climate change, finite fossil fuels, energy dependence on politically unstable or authoritarian countries, volatile oil and resource prices require the EU to decisively move towards energy savings, renewables and a circular economy.

Addressing the investment gap in Europe requires bold action. The lack of investment between present and pre-crisis levels as well as the investment needed to create millions of jobs, to upgrade infrastructures of general interest and to save our planet from heating up more than the critical threshold of 1.5 to 2 degrees Celsius would require at least 750Bn EUR of net and fresh public and private investments. Given the political and legal constraints imposed by the EU’s current fiscal framework and macro-economic situation, there is limited space to add new government debt to finance these fresh investments.

The existing EU investment plan (European Funds for Strategic Investments, EFSI or “Juncker plan”) has at least two major shortcomings. First, it is mostly focused on stimulating supply of private capital, rather than stimulating the demand for useful investments. Second, the criteria for using public money (i.e. the EU budget) as a guarantee to leverage private investment, are insufficiently steering towards those sectors and regions we would like to see growing. We argue that incentives like subsidies are required to ensure that these flaws are addressed.

Rather than only investing in projects that are considered “economically viable” today, Europe needs to ensure that investment projects are realised that become viable once environmental and social externalities are internalised. Near viable projects which are beneficial for society must be made viable not only by providing sufficient resources to finance them, but also by giving subsidies to make them economically viable for private investors. Experience shows that many green innovations do not appear out of nowhere, but require determined and targeted government support.

Beside the financial attractiveness of investment projects, it is at least equally important to funnel fresh money through social infrastructures such as school, hospitals, retirement homes, etc.

Short-term GDP growth e.g. through 'money for roads' or over-investment in the construction sector could rather generate new bubbles similar to the bubbles that contributed to the current crisis. In the transport sector, misguided use of public

funds for socially and environmentally unsustainable projects (e.g. Stuttgart21, Lyon-Turin tunnel project, regional airports) has led to inefficient allocation of resources for decades. Therefore, the investment we argue for is defined in terms of its sustainability and to what extent it benefits the whole of European societies, also in the mid - and long-term, and its impact on the environment.

Regulations and incentives should internalise externalities into prices, creating new markets and steering investments in the right direction. A notable example here is the renewables feed-in tariff in Germany which not only boosted the uptake of renewable energies but also created a whole new class of energy entrepreneurs with individuals investing in renewables and renewables cooperatives being established. Another existing attempt to define a price for pollution is the Emission Trading System (ETS). If a sufficiently high price is attached to emitting CO<sub>2</sub>, companies will integrate the emission of greenhouse gases into their balance sheets. These policies should be improved and enhanced in order to support the right type of investment.

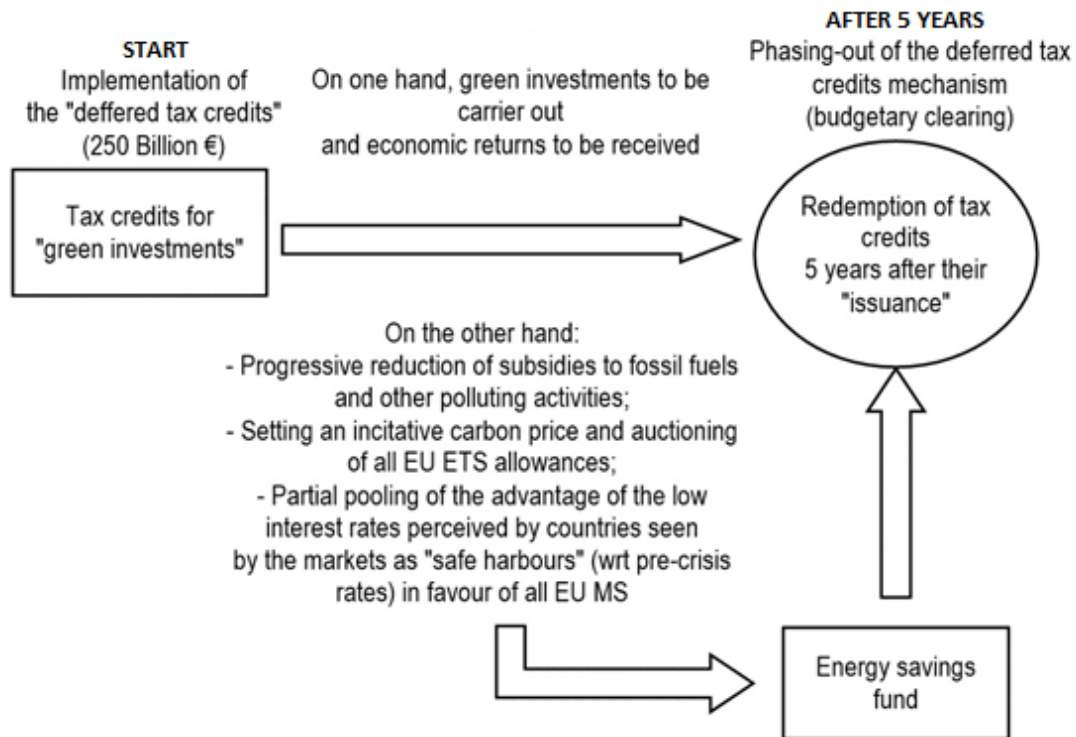
## **European New Deal policy proposal**

### 1. Mobilising net public and private money for sustainable development

A number of initiatives should be taken to boost investment in the short and medium term. These proposals can be implemented without Treaty change and are compatible with the current economic governance framework (that, however, needs a profound reorientation). Therefore, it should be relatively easy to put them into motion without entering into time-consuming and painful legislative negotiations.

#### *1.1 Deferred tax credits and energy saving funds*

Additional investment can be generated in a manner that is fiscally neutral over the business cycle. Direct and indirect public subsidies and transfers could be financed by means of a system of tradable Green Certificates which would provide deferred tax credits to be redeemed after a period of 5 years after issuance under strict condition of using the funds on specific investment priorities to be framed at the EU level. Such certificates would be easily converted in cash as their value resembles the value of a zero-coupon bond with a five year maturity.



The certificates would be designed to frontload and (re)distribute the discounted value of financial resources so as to provide a fiscal stimulus which is fiscally neutral in the medium term and therefore does not add to public deficits or debt. Guidelines for the issuance of Green Certificates should entail that tax deferrals granted are conditional on equal revenues to offset the tax credit in the year it is redeemed. Such revenues could consist of binding commitments for equal decreases of direct and indirect subsidies, especially for nuclear energy and fossil fuels. An alternative offset could be through the projected decrease of energy-costs through the renovations undertaken. The additional benefits generated by the deep renovation of the housing stock in terms of declining energy imports (estimated at 130bn EUR per year in 2020, 260bn EUR in 2030 and 455bn EUR in 2050)<sup>32</sup> would provide additional space for financing new technologies and explorative innovation required for the ecological transformation of the EU economy.

### 1.2 Using and creating fiscal space

The amount of additional public investment needed should be identified for each Member State and the Member States should then reorganise their budgets accordingly. Member States with limited fiscal space should increase their tax revenue, possibly in a demand neutral manner. In other Member States there is however some fiscal space within national legal constraints that should be used if the identified additional investment cannot be financed solely by reshuffling the budget. Moreover, the flexibility clause of the Stability and Growth Pact should be

<sup>32</sup><http://www.greens-efa.eu/fileadmin/dam/Documents/Studies/%C3%96ko-Institut%20%282010%29%20-%20Vision%20Scenario%20EU-27%20Report%20%28final%29.pdf>

fully used. The Commission should therefore put forward an updated and flexible recommendation for a time-frame for convergence towards budgetary medium term objectives. Such increased flexibility and the trickle-down effects of the investment plan on activity would subsequently allow for a reduction of deficit towards reaching the respective medium term objectives.

One particular stream of revenue that could make fiscal space for additional investment, is a decisive policy agenda for fair corporate taxation. Although, in the long term a common corporate tax base is needed in order to close all existing tax avoidance loopholes, a common coordinated effort aimed at closing the most pressing national loopholes could already free up significant amounts of tax revenues in the short and medium term. The investigations by the European Commission into multinational companies such as Apple, Starbucks and Fiat have found tax advantages granted to these companies to constitute illegal state aid. These foregone tax revenues should not only benefit the countries that have actually granted these unfair tax advantages, but rather serve Europe's recovery by contributing to investment.

### *1.3 The European Investment Bank*

The EIB capacity for lending at concessional rates must be gradually and substantially increased up to 400Bn from current levels (200bn) over the next 5 years in order to finance green infrastructure projects. In order to preserve the EIB capital base, a combination of public guarantees provided by those Member States having the fiscal space to do so and additional subscriptions of capital provided by all Member States. Member States that have benefited for financing their sovereign debt issuances over the last few years given their status of 'safe harbours' allowing them to attract massive capital inflows from the rest of the euro area should shoulder a higher proportion of the recapitalisation. Moreover, the European Investment Bank could finance investments in sustainable infrastructure by issuing bonds, which the European Central Bank could buy in the secondary market. However, any increase in lending capacity by the EIB should be accompanied by substantially tighter sustainability criteria, a rapid and complete phase out of support for fossil projects, and a far more ambitious climate action strategy.

## 2. Regulatory measures to support sustainable investment

An ambitious regulatory agenda aimed at internalising externalities is needed to ensure that projects are financed which are useful rather than harmful for society. Private investments will not flow into useful areas by themselves, but need a mission oriented regulatory policy which creates new markets and new products.

### *2.1 Putting a price on carbon*

While a number of barriers inhibit more green investment, by far the most important one is that GHG emissions are under-priced compared to the negative externalities they impose on society. Almost all estimates suggest that the current price is too

low. Many low carbon technologies become viable at prices of €30-70 a ton. We want to reform the EU-ETS system to ensure that it steers investments into efficiency and renewable energies. In the short-term, we want to retire at least 2 billion CO<sub>2</sub> allowances and decrease the total cap on emissions for it to be close to zero by 2050. An EU-wide CO<sub>2</sub> tax of Euro 20 on the nearly 50% emissions not covered by the EU Emissions Trading Scheme should be introduced and all allowances under the EU ETS should be fully auctioned. To stimulate green investments and reduce their perceived riskiness, the EU should also issue an official version of its expected carbon price curve which should preferably be supported, at least on the minimum price, either by a carbon tax or by a commitment to withdraw emissions quotas.

For those energy-intensive sectors that are really suffering from international competition, sector-specific measures should be taken in order to maintain an equal level-playing field for the European industry vis-a-vis their international competitors who are not required to pay for their carbon emissions. For some of these sectors a carbon tax at the EU's borders would be the best solution. This new financial resource could go to an innovation fund that helps energy-intensive industry to reduce carbon emissions substantially.

## *2.2 Promoting renewable energies and markets for energy- and resource efficiency*

Europe should transform its energy system to a high energy and resource efficient, 100% renewable European energy system. This would not only reduce our imports of fossil fuels and costly natural resources thereby increasing our security but it would also reduce our energy and raw materials import bills while simultaneously reducing our greenhouse gases. In order to create more certainty for sustainable investors, the EU should set ambitious and binding targets for renewable energy (45%), energy efficiency (40%), and emission reductions (60%) by 2030. Based on scientific recommendations longer term reduction targets and carbon budgets should be set through to 2050, divided into annual/five-year targets/budgets.

The EU and its Member States must immediately phase out support for fossil fuels and nuclear, including indirect support such as lower taxes or other forms of state aid (Member States that are part of the G20 have already committed to this objective by 2020 and the remaining EU Member States should do the same by 2025). Also, coal, oil and gas must be removed from energy mixes and from other processes in which they are deployed as industrial raw materials step-by-step. Member States should ban shale gas and fracking, in order to prevent a switch from coal to shale gas with all the unacceptable related impacts and risks. The EU bans the import of extremely polluting energy sources such as tar sands. These measures should be accompanied by social measures such as training and up-skilling measures supporting integration into new employment in sectors on the rise.

Eco-labelling should be promoted and environmental criteria and efficiency benchmarks should be set for products (eco-design). Public procurement should also be used as an innovation driver promoting the uptake of more efficient and sustainable solutions. In addition, the regulatory framework should also establish

proper incentives to promote a faster retrofitting of the existing building stock, including public buildings, complying with the highest energy efficiency performance standards.

Transforming our wasteful linear economy into one which is based on durability and reparability of products is likely to create jobs along the whole product lifecycle in the areas of maintenance, repair, upgrade and reuse. The EU should formulate clearly the ambition to make its industry the cleanest and most efficient in the world. Compared to 2008, full compliance with the EU waste acquis in the coming years could create 400 000 new jobs. Moving towards the objectives of the EU Roadmap on Resource Efficiency could help to create 526.000 jobs. Waste prevention, ecodesign, reuse (for instance by introducing reduced VAT rates for repairing activities), responsible use of biomass (cascade utilisation) and similar measures could bring net savings of € 600 billion, or 8% of annual turnover, for businesses in the EU, while reducing total annual greenhouse gas emissions by 2-4%. In order to promote the circular economy, a binding resource efficiency target which limits consumption in absolute terms and a corresponding lead indicator should be included both in the European Semester in the framework of the scoreboard for macroeconomic imbalances and the review of the Europe 2020 strategy.

### *2.2.2 Funding research and development*

In order to shape future sustainable markets, a pro-active state role in fundamental research and development is crucial. Direct public research funds should be targeted primarily towards fundamental research, through support to universities and public research centres, building the long-term knowledge and capacity on which firms and the public sector can base their innovation in the future. The share of public R&D funding towards meeting societal challenges must be radically increased. To increase R&D intensity within the constraints of public R&D expenditure, private industry funds must also be leveraged towards delivering wider benefits to society such as sustainability and resource efficiency, better quality of life, social advances, the creation of accessible knowledge and the creation of decent jobs and their retention in Europe.

Finally, public funds can help translate research and knowledge into innovation, by providing funding opportunities for innovative start-up and SMEs, which are often the vehicles bringing innovation from the labs to the market. This should be done through grants and financial instruments including debt and equity financing but also through reinforcing learning mechanisms (acquiring information, developing skills, networking, involving users) and addressing “systems failure” that can stifle the abilities of market players to innovate (such as the granting of exclusive exploitation rights).

### *2.3 Integrate risks related to climate change into investors’ risk assessments*

Institutional investors, many of whom have universal portfolios (i.e. they are exposed to most asset classes) face significant climate risks. Not only are their

investments physically threatened by climate change but they are also heavily exposed to the policy responses such as an increase in the price of greenhouse gas emissions that the EU may impose to help tackle climate change. They may also face legal risks for not fulfilling their fiduciary duty as well as serious reputational risks. All financial institutions (banks, fiduciary institutions such as pension funds and other financial institutions such as mutual funds) in the EU should have to subject their existing portfolios as well as new investments to carbon stress tests to measure and publish the effects of future higher prices of emissions on their investments. This mandatory requirement to evaluate the carbon exposures of their investment and lending portfolios would be a prudent policy that would also help divert hundreds of billions of Euros of investments from dirty investments towards green ones.

Some private banks and development banks – including the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) – are leading the way by developing procedures for assessing the climate risk related to their own activities. These banks should team up with other larger institutional investors to develop a common methodology for risk assessment. A tax break according to the share of green assets in a bank's balance sheet could further incentivise banks to reduce the climate impact of their investment activities. For example, the European Commission's proposed bank levy for resolution financing could have green exemptions. The EU should introduce the consideration of climate risk and risks related to a late and sudden transition, which is also a form of systemic risk (acknowledged by the European Systemic Risk Board) into its capital requirement regulations that govern how much capital banks and other credit institutions have to hold against their assets.

#### *2.4 Adapt or clarify internal market and competition rules to support investment by services of general economic interest*

A significant part of the new resources for investment should be channelled through services of general economic interest. These sectors (energy, transport, water, post, health, social, education, cultural, etc.) are cornerstones of sustainable and social development. Furthermore, they are controlled to a large extent by public authorities, hence the use of the money attributed to them can be subjected to democratic accountability. There are different organisational modalities of such services of general economic interest: direct administration by public authorities; bodies fully controlled by public authorities; mixed bodies combining public and private participation; private bodies with public service obligations; private non-profit organisations. Whichever of these organisational forms is used, it will be essential to clarify that their financing is governed by the principle of free administration of public authorities, i.e. they are subject to internal market and competition rules only insofar these rules do not contradict their public missions (according to the Treaty). It may be necessary to clarify this principle in secondary EU legislation, in conformity with the new article 14 of the Treaty and of its new protocol 26.

#### *2.5 Review the use of EU funds*

The EU budget could be refocused to help channel investments into European public goods such as renewable energy infrastructure, energy efficiency improvements, digital infrastructure, and skills developments to enable workers to take up green quality jobs or the care sector. Agricultural spending needs to be reoriented with less direct payments and more rural development measures. Agricultural subsidies need to be linked to strict environmental standards. Eligible expenditure for cohesion policy is to be established according to investment priorities compatible with Treaty objectives such as full employment and combatting climate change. Focus on quality investment means a consistent application of performance audits on the supported projects and programmes, based on clear indicators.

### **Path to implementation**

The EU's "Annual Growth Survey" (AGS), should include a specific section providing general investment guidelines for channelling the public resources involved towards the priority sectors and targets as outlined above. These guidelines should ensure that member states move closer to achieving strengthened and updated EU2020 objectives (for inclusive, smart and sustainable growth). These guidelines will also establish an action plan outlining a number of regulatory reforms to be performed within the next three years and to be integrated in the Commission Work Programme.

The guidelines outline a set of tools for monitoring the national implementing programmes. According to Article 4.1 of Regulation (EU) No 473/2013, the so-called two pack, "National medium-term fiscal plans and national reform programmes shall include indications on how the reforms and measures set out are expected to contribute to the achievement of the targets and national commitments established within the framework of the Union's strategy for growth and jobs. Furthermore, national medium-term fiscal plans or national reform programmes shall include indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact. National medium-term fiscal plans and stability programmes may be the same document."

Member States should closely involve national parliaments and civil society organisations in the programming and allocation of funds in their country in order to draft their national investment programs. Member States draft the programs in close consultation and dialogue with the European Commission and the European Investment Bank. The national implementing programs shall demonstrate how the public share of the national implementing program will be financed, identifying for each of the following channels how much money will be mobilised through it respectively: 1) green certificates, 2) using the flexibilities in the Stability and Growth Pact, and 3) credit lines from the European Investment Bank. The national implementing programs should be submitted to the EU Commission, together with the national reform programs and stability/convergence programs.



The country-specific recommendations by the Commission shall assess the national implementing plans in accordance with the investment guidelines, and propose modifications if necessary. The Annual Growth Survey and related country-specific recommendations must ensure that policies designed and implemented at EU and national levels fully support the goals set out in the Paris Climate Agreement as well as the UN Sustainable Development Goals, both adopted in 2015. Member states report annually on the national implementation. Progress is assessed by measuring progress towards a set of indicators similar to the ones used in the EU2020 strategy. Additional indicators, e.g. on resource efficiency, unit capital costs, inequalities and job quality should be adopted in the context of EU economic governance and EU2020 strategy reviews. Member States also report on public participation in the implementation of the plan at national and regional levels. The Commission and Council will evaluate these reports and consider their assessment in the country-specific recommendations.

Existing legislation on the EU semester process already backs up such an approach. According to Article 6.3 of Regulation (EU) No 473/2013 “the draft budgetary plan [to be submitted by October each year as part of the EU semester cycle] shall contain the following information for the forthcoming year: (...) indications on how reforms and measures in the draft budgetary plan, including in particular public investment, address the current recommendations to the Member State concerned in accordance with Articles 121 and 148 TFEU and are instrumental to the achievement of the targets set by the Union's strategy for growth and jobs.”

In order to avoid that public money involved in the plan is misspent on projects of poor quality or on activities that beneficiaries would have undertaken anyway, the achievement of results and their quality shall be monitored by the consistent application of performance audits. In order to improve their accountability for the management of EU funds, Member States should issue national declarations, a possibility foreseen in the new EU Financial Regulation, that their responsibilities and obligations have been fulfilled when it comes to managing and controlling EU funds, including on the effectiveness of their respective national control and audit systems.

In line with the requirement of Article 16 of the 'two pack' Regulation (EU) No 473/2013, the Commission shall report on the possibilities offered by the Union's existing fiscal framework to balance productive public investment needs with fiscal discipline objectives in the preventive arm of the SGP, while complying with it fully. Such reporting could take the form of an interpretative Communication which would provide guidelines for establishing a qualified treatment for public investment expenditure in line with common established practices regarding the budgeting of capital expenditure in undertakings which allow amortizing investment expenditure over the life cycle. The qualified treatment might also attribute different weights to such qualified treatment according to the economic cycle. Certain categories of social expenditures (as long as they have a substantial and measurable social impact) might also benefit for the same qualified treatment. Such guidelines should be then integrated in the legal framework as a part of the economic governance revision process.

## APPENDIX 6 – Elaborating the policies for defeating the euro crisis (Section 2.7)

**Extracts from *The Modest Proposal for Resolving the Euro Crisis*, by Yanis Varoufakis, Stuart Holland and J.K. Galbraith, June 2013**

...The Eurozone crisis is unfolding on four interrelated domains.

**Banking crisis:** There is a common global banking crisis, which was sparked off mainly by the catastrophe in American finance. But the Eurozone has proved uniquely unable to cope with it, and this is a problem of structure and governance. The Eurozone features a central bank with no government, and national governments with no supportive central bank, arrayed against a global network of mega-banks they cannot possibly supervise. Europe's response has been to propose a full Banking Union – a bold measure in principle which is left permanently in abeyance in practice.

**Debt crisis:** The credit crunch of 2008 revealed the Eurozone's Principle of Perfectly Separable Public Debts to be unworkable. Forced to create a bailout fund that did not violate the no-bailout clauses of the ECB charter and Lisbon Treaty, Europe created the temporary European Financial Stability Facility (EFSF) and then the permanent European Stability Mechanism (ESM). The creation of these new institutions met the immediate funding needs of several member-states, but retained the flawed principle of separable public debts and so could not contain the crisis. Thus, beginning in the summer of 2012, the ECB came up with another approach: monetizing public debt first through a policy that was announced but was never activated (the Outright Monetary Transactions' Program - OMT) and, in 2014, actual quantitative easing based on the odd principle of buying public debt in proportion to each national economy's size (and not in proportion to its deflationary spiral). While these measures have ameliorated the credit crunch, they have overcome neither the debt crisis nor the deflationary process afflicting the whole of the Eurozone.

**Investment crisis:** Lack of investment in Europe threatens its living standards and its international competitiveness. As Germany alone ran large surpluses after 2000, the resulting trade imbalances ensured that, when crisis hit in 2008, demand and investment in the deficit regions collapse. With the burden of adjustment falling on the deficit economies on the deficit zones, which could not bear it, and no mechanism for offsetting by reflation in the surplus nations, the scene was set for disinvestment in the regions that needed investment the most. Thus, Europe ended up with both low total investment and an uneven distribution of that investment between its surplus and deficit regions.

**Social crisis:** Years of harsh austerity have taken their toll on Europe's peoples. From Athens to Dublin and from Lisbon to Eastern Germany, millions of Europeans have lost access to basic goods and dignity. Unemployment is rampant. Homelessness and hunger are rising. Pensions have been cut; taxes on necessities

meanwhile continue to rise. For the first time in two generations, Europeans are questioning the European project, while nationalism, and even Nazi parties, are gaining strength.

The proposals below introduce no new EU institutions and violates no existing treaty. Instead, we propose that existing institutions be used in ways that remain within the letter of European legislation but allow for new functions and policies.

These institutions are:

- The European Central Bank – ECB
- The European Investment Bank – EIB
- The European Investment Fund – EIF
- The European Stability Mechanism – ESM

### ***Policy 1 – Case-by-Case Bank Program (CCBP)***

For the time being, we propose that banks in need of recapitalization from the ESM be turned over to the ESM *directly* – instead of having the national government borrow on the bank’s behalf. The ESM, and not the national government, would then restructure, recapitalize and resolve the failing banks dedicating the bulk of its funding capacity to this purpose.

The Eurozone must eventually become a single banking area with a single banking authority, a single deposit insurance scheme and a common fiscal backstop. But this final goal has become the enemy of good current policy... Our proposal is that a failing bank should be removed from its national jurisdiction and moved to a new, dedicated Eurozone jurisdiction. The ECB appoints a new board of directors with a view to resolving or recapitalizing the bank. In the latter case, the ESM provides the capital and shares equivalent to the needed capital injection will pass to the ESM. Restructuring of the bank may entail a merger, downsizing, even a full resolution of the bank, with the understanding that steps will be taken to avoid, above all, a haircut of deposits. Once the bank has been restructured and recapitalized, the ESM will sell its shares and recoups its costs...

### ***POLICY 2 – Limited Debt Conversion Program (LDCP)***

The Maastricht Treaty permits each European member-state to issue sovereign debt up to 60% of its national income. Since the crisis of 2008, most Eurozone member-states have exceeded this limit. We propose that the ECB offer member-states the opportunity of a debt conversion for their Maastricht Compliant Debt (MCD), while the national shares of the converted debt would continue to be serviced separately by each member-state.

The ECB, faithful to the non-monetization clause in its charter, would not seek to buy or guarantee sovereign MCD debt directly or indirectly. Instead it would act as a go-between, mediating between investors and member-states. In effect, the

ECB would orchestrate a conversion servicing loan for the MCD, for the purposes of redeeming those bonds upon maturity.<sup>33</sup>

The conversion loan works as follows. Refinancing of the Maastricht compliant share of the debt, now held in ECB-bonds, would be by member-states but at interest rates set by the ECB just above its (ultra low) own bond yields. The shares of national debt converted to ECB-bonds are to be held by it in debit accounts. These cannot be used as collateral for credit or derivatives creation.<sup>34</sup> Member states will undertake to redeem bonds in full on maturity, if the holders opt for this rather than to extend them at lower, more secure rates offered by the ECB.

Governments that wish to participate in the scheme can do so on the basis of Enhanced Cooperation, which needs at least nine member-states.<sup>35</sup> Those not opting in can keep their own bonds even for their MCD. To safeguard the credibility of this conversion, and to provide a backstop for the ECB-bonds that requires no ECB monetization, member-states agree to afford their ECB debit accounts super-seniority status, and the ECB's conversion servicing loan mechanism may be insured by the ESM, utilizing only a small portion of the latter's borrowing capacity. If a member-state goes into a disorderly default before an ECB-bond issued on its behalf matures, then that ECB-bond payment will be covered by insurance purchased or provided by the ESM.

### ***POLICY 3 – An Investment-led Recovery and Convergence Program (IRCP)***

The IRCP we propose is supported by the following fact:

- Europe desperately needs growth-inducing, large-scale investment.
- Europe is replete with idle cash too scared to be invested into productive activities, fearing lack of aggregate demand once the products roll off the production line.
- The ECB wants to buy high quality paper assets in order to stem the deflationary expectations that are the result of the above.

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<sup>33</sup> For a member state whose debt to GDP ratio is 90% of GDP, the ratio of its debt that qualifies as MCD is 2/3. Thus, when a bond with face value of say €1 billion matures, two thirds of this (€667 million) will be paid (redeemed) by the ECB with monies raised (by the ECB itself) from money markets through the issue of ECB bonds.

<sup>34</sup> Any more than a personal debit card can be used for credit.

<sup>35</sup> Article 20 (TEU) and Articles 326-334 (TFEU) provide that:

*“Enhanced cooperation should aim to further the objectives of the Union, protect its interests and reinforce its integration process. Such cooperation should be open at any time to all Member States. The decision authorizing enhanced cooperation should be adopted by the Council as a last resort, when it has established that the objectives of such cooperation cannot be attained within a reasonable period by the Union as a whole, and provided that at least nine Member States participate in it”.*

The Council approval of an enhanced cooperation procedure may be unanimous or by qualified majority.

- The ECB does **not** want to have to buy German or Italian or Spanish assets lest it be accused of violating its charter or favoring Germany, Italy, Spain etc.

Here is what the ECB could do to achieve its complex objectives:

4. The European Investment Bank (EIB) [and its smaller offshoot the European Investment Fund (EIF)] should be given the green light to embark upon a pan-Eurozone Investment-led Recovery Program to the tune of 8% of the Eurozone's GDP, with the EIB concentrating on large scale infrastructural projects and the EIF on start-ups, SMEs, technologically innovative firms, green energy research etc.
5. The EIB/EIF has been issuing bonds for decades to fund investments, covering thus 50% of the projects' funding costs. They should now issue bonds to cover the funding of the pan-Eurozone Investment-led Recovery Program **in its totality**; that is, by waving the convention that 50% of the funds come from national sources.
6. To ensure that the EIB/EIF bonds do not suffer rising yields, as a result of these large issues, the ECB can to step in the secondary market and purchase as many of these EIB/EIF bonds as are necessary to keep the EIB/EIF bond yields at their present, low levels. To stay consistent with its current assessment, the level of this type of QE could be set to €1 trillion over the next few years.

In this scenario, the ECB enacts QE by purchasing solid eurobonds; as the bonds issued by the EIB/EIF are issued on behalf of all European Union states (lacking the CDO-like structure of ESM bonds). In this manner, the operational concern about which nation's bonds to buy is alleviated. Moreover, the proposed form of QE backs productive investments directly, as opposed to inflating risky financial instruments, and has no implications in terms of European fiscal rules (as EIB funding need not count against member-states' deficits or debt).

#### ***POLICY 4 – An Emergency Social Solidarity Program to fight against the rise of poverty (ESSP)***

We recommend that Europe embark immediately on an Emergency Social Solidarity Program that will guarantee access to nutrition and to basic energy needs for all Europeans, by means of a European Food Stamp Program modeled on its US equivalent and a European Minimum Energy Program.

These programs would be funded by the European Commission using the interest accumulated within the European system of central banks, from TARGET2 imbalances, profits made from government bond transactions and, in the future, other financial transactions or balance sheet stamp duties that the EU is currently considering.

#### ***Rationale***

Europe now faces the worst human and social crisis since the late 1940s. In

member-states like Greece, Ireland, Portugal, but also elsewhere in the Eurozone, including core countries, basic needs are not being met. This is true especially for the elderly, the unemployed, for young children, for children in schools, for the disabled, and for the homeless. There is a plain moral imperative to act to satisfy these needs. In addition, Europe faces a clear and present danger from extremism, racism, xenophobia and even outright Nazism – notably in countries like Greece that have borne the brunt of the crisis. Never before have so many Europeans held the European Union and its institutions in such low esteem. The human and social crisis is turning quickly into a question of legitimacy for the European Union.

### *Reason for TARGET2 funding*

TARGET2 is a technical name for the system of internal accounting of monetary flows between the central banks that make up the European System of Central Banks. In a well balanced Eurozone, where the trade deficit of a member state is financed by a net flow of capital to that same member-state, the liabilities of that state's central bank to the central banks of other states would just equal its assets. Such a balanced flow of trade and capital would yield a TARGET2 figure near zero for all member-states. And that was, more or less, the case throughout the Eurozone before the crisis.

However, the crisis caused major imbalances that were soon reflected in huge TARGET2 imbalances. As inflows of capital to the periphery dried up, and capital began to flow in the opposite direction, the central banks of the peripheral countries began to amass large net liabilities and the central banks of the surplus countries equally large net assets.

The Eurozone's designers had attempted to build a disincentive within the intra-Eurosystem real-time payments' system, so as to prevent the build-up of huge liabilities on one side and corresponding assets on the other. This took the form of charging interest on the net liabilities of each national central bank, at an interest rate equal to the ECB's main refinancing level. These payments are distributed to the central banks of the surplus member-states, which then pass them on to their government treasury.

Thus the Eurozone was built on the assumption that TARGET2 imbalances would be isolated, idiosyncratic events, to be corrected by national policy action.

The system did not take account of the possibility that there could be fundamental structural asymmetries and a systemic crisis.

Today, the vast TARGET2 imbalances are the monetary tracks of the crisis. They trace the path of the consequent human and social disaster hitting mainly the deficit regions. The increased TARGET2 interest would never have accrued if the crises had not occurred. They accrue only because, for instance, risk averse Spanish and Greek depositors, reasonably enough, transfer their savings to a Frankfurt bank. As a result, under the rules of the TARGET2 system, the central bank

of Spain and of Greece have to pay interest to the Bundesbank – to be passed along to the Federal Government in Berlin. This indirect fiscal boost to the surplus country has no rational or moral basis. Yet the funds are there, and could be used to deflect the social and political danger facing Europe.

There is a strong case to be made that the interest collected from the deficit member-states' central banks should be channelled to an account that would fund our proposed Emergency Social Solidarity Programme (ESSP). Additionally, if the EU introduces a financial transactions' tax, or stamp duty proportional to the size of corporate balance sheets, a similar case can be made as to why these receipts should fund the ESSP. With this proposal, the ESSP is not funded by fiscal transfers nor national taxes.

### **CONCLUSION: Four realistic policies to replace five false choices**

Years of crisis have culminated in a Europe that has lost legitimacy with its own citizens and credibility with the rest of the world. Europe is unnecessarily still on a low investment, negligible growth path. While the bond markets were placated by the ECB's actions, the Eurozone remains on the road toward disintegration.

While this process eats away at Europe's potential for shared prosperity, European governments are imprisoned by false choices:

- between stability and growth
- between austerity and stimulus
- between the deadly embrace of insolvent banks by insolvent governments, and an admirable but undefined and indefinitely delayed Banking Union
- between the principle of perfectly separable country debts and the supposed need to persuade the surplus countries to bankroll the rest
- between national sovereignty and federalism.

These falsely dyadic choices imprison thinking and immobilize governments. They are responsible for a legitimization crisis for the European project. And they risk a catastrophic human, social and democratic crisis in Europe.

By contrast the Modest Proposal counters that:

- The real choice is between beggar-my-neighbour deflation and an investment-led recovery combined with social stabilization. The investment recovery will be funded by global capital, supplied principally by sovereign wealth funds and by pension funds which are seeking long-term investment outlets. Social stabilisation can be funded, initially, through the Target2 payments scheme.
- Taxpayers in Germany and the other surplus nations do not need to bankroll the 2020 European Economic Recovery Programme, the restructuring of sovereign debt, resolution of the banking crisis, or the emergency humanitarian programme so urgently needed in the European periphery.

- Neither an expansionary monetary policy nor a fiscal stimulus in Germany and other surplus countries, though welcome, would be sufficient to bring recovery to Europe.
- Treaty changes for a federal union may be aspired by some, but will take too long, are opposed by many, and are not needed to resolve the crisis now.



## APPENDIX 7 – UBD funding through taxation of private monopolies on common knowledge

by Joren De Wachter

### 1. *Private monopolies on common knowledge*

Just like “old” capital is acquired through work, so is “immaterial” capital. It is commonly called Intellectual Property, and it consists of copyright, patents and other similar rights.

Old theory states that by providing a temporary monopoly, invention and creativity will be rewarded, and this will incentivize new invention and creativity. The reality is starkly different, mainly because of two reasons:

- the first is that the monopoly is no longer temporary; copyright lasts 70 years after the death of the author (it used to be max 14 years after registration), and patents are extended through artificially tweaking technology and obtaining “me-too” patents, patent thickets and other artificial extension techniques;
- the second is that the monopoly is transferable – companies collect and hoard the monopolies from the people doing the innovation and creativity, and use those hoarded monopolies to extract rent from society;

However, all IP originates from either the creative work of individuals or from government funding<sup>36</sup>, and often a combination of both. It always uses pre-existing knowledge – in reality, the process of invention is largely the same as the process of copying, even in the neural circuits that perform the brain actions<sup>37</sup>.

The fact that employers pay employees for creative work should entitle the employers to use that work, BUT not to block others from using it through a legal artificial monopoly, or to transfer that monopoly to others for the sole or main purpose of rent extraction.

IP is a new application of the old enclosure of the commons – it privatizes the capital consisting of common knowledge, and, in addition, it converts the results of further innovative and creative work and labour into privatized capital, protected by a transferable monopoly on distribution and reproduction.

### 2. *Value of monopoly*

Monopolies harm the economy and slow down innovation. The hoarding of IP

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<sup>36</sup> Mazzucato “The entrepreneurial state”, but also education in general

<sup>37</sup> Oded Shenkar : “Copycats, how smart companies use imitation to gain a strategic edge”, 2010.

monopolies has several negative effects:

- it makes products that should be very accessible very expensive, and transfers money from those who work to those who extract rent
- it puts up high barriers to entry-to-market, shielding the monopoly holders from market efficiency and competition

The value of these monopolies and their rent extraction is enormous. According to WIPO, 30 percent of global output “depends” on IP<sup>38</sup>.

In 2009, the worldwide value of patents was calculated to exceed \$10trillion<sup>39</sup>.

The phenomenon is far from being specific to the US and its patent trolls – European companies hoard just as many monopolies as their US counterpart, and the damage they do to innovation and creativity, by extracting rent and blocking access to markets is just as high – it’s just less visible because there’s no separate category of parasitic behavior like patent trolls.

Copyright is just as valuable and damaging. Content and knowledge hoarders like Elsevier, Taylor & Francis and Springer reach margins of 35% (Facebook, also a *de facto* monopoly only manages 27%)<sup>40</sup>.

The WTO estimated that in 2014, cross border payments of royalties and licensing on all IP were at \$300bn, three times the estimate of 2000. They do not include film music and video, equal to \$19bn in 2013. It should be estimated that the total proceeds of IP royalties, remaining within countries, is a multitude of that \$320bn. This means that the order of magnitude of the IP monopoly rent, worldwide, is probably somewhere between \$1tn and \$10tn, but closer to \$10tn than \$1tn. As the EU represents roughly 20-25% of the world economy, the amount of IP rent in the EU can be conservatively guesstimated at between €0.5 and €2tn.

These numbers include the software industry, which has, in addition, a very different story to tell. In 20 years time, Open Source Software has turned from a fringe phenomenon to the most important source of code. More than half of all code written today is Open Source. Yet Open Source specifically rejects IP monopoly, and, through clever use of licenses, is shielded from derivative development being privatized under IP (no “enclosure of the commons”). So, when put on a level playing

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<sup>38</sup> These studies are typically in favour of IP, so they tend to inflate the value quite a bit.

<sup>39</sup> M.Lupu, K.Maeyr, J.Tait and A.J. Trippe (eds), “*Current challenges in Patent Information Retrieval*”(Heidelberg: Springer-Verlag, 2011). I’m assuming value here is market value as an asset, not income. So it includes discounted cash flow (future rent).

<sup>40</sup> <https://www.theatlantic.com/science/archive/2016/01/elsevier-academic-publishing-petition/427059/>  
<http://journals.plos.org/plosone/article?id=10.1371/journal.pone.0127502>

field, anti-IP clearly out-innovates IP-based software<sup>41</sup>.

So while the value is not necessarily clear, it is clearly vast.

The most important industries affected would be:

- Pharmaceuticals (cost of health care could, as a result, drop significantly, and there would be no negative effect on R&D output: most real R&D in health is done by governments, and later privatized and made expensive – the pharmaceutical industry spends a lot more on marketing than R&D, and 75% of their resulting patent applications are phoney “me-too” applications)
- Bio-industry (similar story, especially in genetic engineering)
- Chemicals & new materials
- Energy (especially renewables)
- Software & IT
- Content-copyright based industries (film, books, music, but also significant parts of social media)

### 3. Proposal

The suggestion is that DiEM25 would propose two policies:

First, protect the individuals who actually do the creative and innovative work.

This will be done by exempting them from the levy discussed below – they can still charge money based on their personal IP, as long as they do it directly themselves.

Practically, this will be done in two ways:

- the individuals who generated the patents are known – they must be mentioned on the application today;
- for copyright holders, a free registration system, open only to the individuals who actually created the work, will be set up.

Second, a levy on monopoly rent from derived monopolies will be applied.

Derived monopolies are the distribution and reproduction monopolies acquired by companies when the IP created by individuals is assigned, transferred or licensed to them, or further transferred or licensed.

Any income from a formal IP right like patents or copyrights will be subject to such levy, unless the recipient of such income can prove either that;

- a) they are registered as the individual that created the innovation or work that gave rise to the IP right; or
- b) as holder of derived monopoly, they give a royalty-free public license to

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<sup>41</sup> it should be noted that the value of Open Source is often not counted in GDP – since it is not monetized as IP.

anyone to reproduce the work or invention.

This levy on the derived IP distribution and reproduction monopoly – a privatized monopoly on common knowledge - will be used as an additional source to fund the Universal Basic Dividend. A dividend deriving from the Capital of Common Knowledge.

Today, most companies claim tax exemptions based on their patents and copyrights (in effect a subsidy on monopoly and rent extraction), so there is a clear basis on which to start the levy.

Where that information is not available, the rent can be calculated as a % on the revenue generated by the products and services into which the IP is incorporated (taking into account non-monopoly directed investment costs).

In addition, a copyright registration system that is only tax-based, would solve both the Berne prohibition on making copyright validity subject to registration (since copyright would remain valid without such registration, but become taxable under the levy), and resolve the massive problem of orphan works and works where ownership is transferred by private contract, but breaches are sanctioned under criminal law. This is a major hurdle to applying the commons of knowledge, since very often it cannot be known who actually holds the copyright without having a full paper trail, which is always private, and often incomplete. The risk means a lot less innovation and creativity occurs than would otherwise be possible.

#### *4. Risks*

Would this levy on intellectual capital under private monopoly damage technology and innovation in Europe? Quite the contrary. Countries with weak patent protection historically tend to out-innovate countries with strong patent protection. This is the reason the German chemical industry (which had weak IP protection in Germany, but competed against companies with relatively stronger domestic IP protection in the UK, France and the US) had reached such dominance in 1914, that the Entente Powers found themselves to be dangerously short of ammunition in 1914-15, since the production of that ammunition required those chemicals – so they nationalized the German plants on their territory and “stole” their IP. In a similar way, the Dutch and Swiss chemical and pharmaceutical giants we know today are all based on a starting period of fast innovation based on copying and weak or no patent systems. The same principle, by the way, applies to China. Strong IP arises in economies that are already ahead, and want to project it onto competitors to slow them down. The EU is not ahead, it is falling behind. Weakening IP is one of the answers.

In addition, there is the observation that Open Source in software flatly contradicts the old theory that by creating artificial scarcity and monopoly, innovation and creativity will increase. We observe strong evidence of the opposite. IP based software is being pushed to the fringe, and even Microsoft and Apple now embrace

## *5. Open Source*

Levying the privatized monopoly on common knowledge in order to give citizens the economic freedom of a universal basic dividend, while lowering entry to market to new, innovation and technology-based entrants, may well be one of the solutions that the European economy is waiting for.

**APPENDIX 8 – Responses to an earlier draft of DiEM25’s European New Deal Policy Paper by members of DiEM25’s Spontaneous Collectives, summarised and commented upon by Ulf Clerwall and Yanis Varoufakis**

DiEM25’s European New Deal is and will remain an open-source project in constant flux. A constant dialogue between DiEM25 members, but also between DiEM25 and other actors across Europe, will lead to its periodic revisions. This document summarises the first batch of responses from DSCs following the publication of DiEM25’s 20-page summary of the European New Deal. For the purposes of open debate, no points of view below are at this stage assigned to a particular person or group, but are submitted here as a collective body of work on which to build. Naturally, none of the points summarised below represent the official, collective DiEM25 position.

*Section 1 – INTRODUCTION*

The overall response to the first draft of the END on the above points can be summarized as follows: the European New Deal needs a stronger expression of the ideas, ideals and realities that drive it, as a counterweight to the emotional appeal and the narrative proposed and pounded through media by the populist, neo-nationalist and social-xenophobic right. To a lesser extent, there is a worry about Lexiteers, but the main sword of Damocles hanging over us is the Right, seen as less amenable to coming around; the Left’s internationalism can still be brought back to life, and the problem with Lexit is practical rather than ideological.

There is also here a strong sense of an already existing element of a *European demos* – there are sufficient elements of a European identity and polity to nullify the claims that this and that political and institutional initiative on the European level is not “legitimate” because of the absence of a European state. There is a strong suggestion that we should build further on these, reinforcing the transformative capacity and legitimacy, over the different timeframes, of our policy proposals. The evolving nature of the state and sovereignty in Europe is to be seen through this perspective, not limiting us to the current institutional framework.

The imperative to reinforce the ideational appeal of the END, results from an anxiety linked to the rise of the populist right across the continent and the US. Insecurity and polarization is growing. Nationalists and the political establishment (populists and the elite) are opposed and yet symbiotic. More and more communities are pitted against each other. Will and eventual future Prime Minister Wilders, President Le Pen or Prime Minister Jimmie Akesson ban Muslims and expel the migrants? Will three million EU citizens have to leave Britain after Brexit? Will dissenting citizens be imprisoned by the government, as in Turkey? The social and political pain that a right-wing social-xenophobic disintegration of Europe will generate, and Brexit is the closest example, is substantial. Elements of the European demos exist, it is these that are threatened by disintegration and that will hurt when they are torn apart.

Democracy at the national level is today linked to the existence of a transnational European demos – the latter is an important component of the former.

Against this background we must ask whether what we propose, the European New Deal, can save Europe? Regardless how the clash between nationalists and the current political establishment turns out, it will be at the expense of citizens and society. What can we do to prevent this kind of future? The establishment will keep us telling that these things will not happen. In his discussion paper on the future of Europe Juncker outlines five scenarios, none of which hit the real issue: the relationship between Europe and the nation state. The perspective of the nationalists is short-sighted. They are obsessed by an opponent, and guided by emotions. They opt for protection and walls, and do not look at what is happening on the other side of those walls. *DiEM25's European New Deal attempts to offer the answer. Can END reduce the growing polarization?*

For some DSCs and members, the answer is unfortunately no. The END proposals are good. The plan is courageous. It is not easy to keep a balanced story that goes against both the nationalists and the establishment. The proposals are practical and they can be executed immediately. That should appeal even to segments of the establishment. But at the same time we must disobey and mark our difference. Otherwise we cannot exert enough pressure on the rapidly deteriorating balance of forces. The END is an equilibrated approach, but something is missing: the emotion, at par with the emotion deployed by the nationalists.

A first step is to elaborate on our identity: we need to define and explain who we are. DiEM25's narrative "let's stick together, put forward proposals for saving Europe while disobeying the establishment and preparing for Europe's disintegration" is the greatest enemy of both the Nationalist International and Europe's culpable establishment. It is also the cement and the glue of the transnational European movement that will oppose barbarism after Europe's collapse.

The question is how do we stick together? And who are we? The term "transnational progressives" is unhelpful. DiEM25 members are locally, regionally and nationally located. Our task is to combine loyalty to our communities and our patriotism, with an anti-nationalist, transnational, solidaristic internationalist Europeanism. However, some DSCs and some members feel that, because we do not really yet know who we are, because we have no established identity, we have no power (we are only a small movement). The fear is that DiEM25 is a small player in the European field, which will be crushed between the nationalists and the establishment. Disobedience will not help. What DiEM25 needs is something nationalists have: a narrative that builds on emotions, emotions should be associated with a progressive story.

To achieve this goal we have to create a whole different deal. A deal that evokes as strong emotions as the nationalists (appealing to the heart) and at the same time outlines a new direction for Europe that cannot be ignored by the establishment (appealing to the head).

One proposal is to leave a door open for a deal with the left nationalists. In exchange of recognising the logic of left nationalists who wish to leave the EU they must recognise our concerns that the EU's disintegration will reinforce economic forces that only strengthen the xenophobic Right.

*Proposal: Offer European citizens everywhere the right to an exclusively European citizenship (for which national citizenship can be exchanged)*

One proposal was that DiEM25 should aim at creating a new identity and a new citizenship. A real European identity, in which all European citizens can participate. Any citizen who wants to exchange a national passport for a European passport must be able to do so. This new identity also includes a new Europe. A true European state. DiEM25 should proclaim on March 25 (the 60th anniversary of the EU) a new European State and appeal to all citizens of Europe to throw off the chains of the nation state and join this new European state. Of course, this is a highly symbolic act. There is no European State and there are no exclusive European citizens. It only sets a goal. Members of DiEM25 should subscribe this goal and act on it.

The new European state is a fully-fledged state, like a nation state. The European state has its own currency: the Euro. It can have its own tax system, social security and labor system that distributes employment. The state shares the ground with the nation states of Europe. Indeed, Europeans live anywhere. The idea raises many questions. If the land is shared who will build houses and roads? The nation states or the European state? Will there be separate enclaves of Europeans? How do you split tax systems? And social security? Has the European state a constitution? What about the administrative organization? Do Europeans vote only European politicians? Will there be a European and a national police? Who will maintain order? Will there be a European TV? A European cultural policy? Can local currencies be converted into Euros and vice versa? Who determines the exchange rate? Are there shops where you can pay only in local currencies like guilders? Must companies choose whether they will be national or European companies? Must Europeans have a work permit to work in national companies? These and many more technical questions will be solved in negotiations between states. While these problems have no solutions, considering them has its merits.

Behind this proposal lies the ambition to create a creative tension. Nationalists will call the people that 'leave' the national state traitors. They believe it is not possible to exchange national pride and identity for a new European identity. The establishment is suddenly saddled with a group of people who really want to do something with Europe, and which cannot be referred to a Nation State. This idea creates other words, a completely new "frame" that requires new relations, solutions and creativity. Nobody can really predict the impact of this tension, but one thing is certain, it is contrary to our current course the potential to grow into something beautiful.

European federalists can embrace this idea because it actually maps out a route to a European state. Some nationalists will say, when the leftist elite has left the national



state the nation-state will be more homogeneous and national identity can be preserved better. Both, however, should realize that they are no longer exclusively entitled to a piece of territory. But above all, stands the new freedom of European citizens. Ultimately they are the ones to determine the relationship between the nation states. Every citizen, every DiEM25-er will have to make a choice: Do I want to stay within a nation-state, or do I want to be a European? These choices realize the power relations between states. These relations are dynamic. People can change their mind, and switch states.

### Criticism: END does not discuss Europe's future institutional structure and constitution

DSCs commented critically that END does not include a discussion, in the part concerning the longer term, of the future European Constitution and the re-design of existing European institutions – e.g. the European Commission and the European Parliament. A DSC asked if DiEM25's vision differs substantially from Benoit Hamon's treaty proposal. The answer to this criticism is that DiEM25 has always stated it will dedicate a separate White Paper to the EU Constitutional Process and Constitution. In our very Manifesto we say the following:

#### Constitutional Assembly

The people of Europe have a right to consider the union's future and a duty to transform Europe (by 2025) into a full-fledged democracy with a sovereign Parliament respecting national self-determination and sharing power with national Parliaments, regional assemblies and municipal councils. To do this, an Assembly of their representatives must be convened. DiEM25 will promote a Constitutional Assembly consisting of representatives elected on trans-national tickets. Today, when universities apply to Brussels for research funding, they must form alliances across nations. Similarly, election to the Constitutional Assembly should require tickets featuring candidates from a majority of European countries. The resulting Constitutional Assembly will be empowered to decide on a future democratic constitution that will replace all existing European Treaties within a decade.

### *Section 2 – EUROPEAN NEW DEAL: AIMS & MEANS*

The Public Digital Payments Platform has created a great deal of discussion among the members. On the one hand, some members raise serious questions of privacy and data protection – having the entirety of transactions data available on a public platform is a source endangerment of privacy. However, on the other hand, the PDPP breaks up the oligopoly that the banks have established on transactions and payment systems, and that inserts them in all spheres of life. Moreover, this omnipresence also created BigData problems – banks can, with their access to our daily lives and behaviour, become formidable repressive machines, even more than they already are. The PDPP would put this under public control where privacy and data protection issues can be better taken into account than in the current system.

Other responses indicate a great deal of support for PDPP, but underline that there are still a number of questions to be resolved:

1. What differentiates this system from a public bank? It would be useful to outline the advantages of such a system over the establishment of a public bank.
2. Would all EU member states be required to implement a digital payments system at the same time? Or could it be implemented independently by each individual state at varying paces?
3. What EU body would be in charge of initiating and overseeing such a system? Or would such responsibility lie in the hands of state governments?
4. What prudential controls would be placed on this system or on the governments which manage the system?
5. How would this affect the private banking sector? For example, if a great number of people transfer their private bank savings to the public payments platform? In order to protect their interests, what will the private banking sector's arguments be against such a system and how can these arguments be countered?
6. It would be useful to have an overview or diagram of the roles and competencies of commercial banks, investment banks, central banks and the ECB in a system which incorporates national public payments platforms.

Another DSC made the following point regarding the example of a 10% future tax discount for funds brought into the PDPP: "Will this not result in a loss of 10% of the state's tax income! This would be a tax gift to all citizens including the super rich and would correspond to an interest rate of 10% on a loan without any risks!" The answer is that: Yes, taxpayers, including the rich, will be given a tax discount next year for lending to the state this year. But this is desirable for at least three reasons: First, the state acquires today more fiscal space which it can use to create more income (and thus more taxes) tomorrow. Secondly, it gives the state the opportunity to borrow directly from its citizens, bypassing the notoriously volatile money markets. Thirdly, it creates more liquidity within the PDPP so that it can compete better with the traditional commercial banking system, thus yielding efficiency gains (e.g. reduced bank fees).

#### *Further objections/questions regarding the PDPP*

1. Do tax offices have the infrastructure?

"No payment system is operated by tax offices in countries like Germany."

Our answer is: The fact that something does not exist is no indication that it cannot be brought into existence quickly and efficiently. The reason why the German tax system has not incorporated the PDPP idea is not because it is technically difficult. It is merely because our PDPP proposal is low-tech but high-concept!

2. Is a PDPP necessary? Is there not enough competition already amongst financial institutions?

Our answer: First, we must not mistake rivalry and non-fee competition with actual competition. The banking sector, including in Germany, is fully oligopolistic and its fee structure reflects this. Secondly, the purpose of PDPP is not just to enhance competition but, crucially, to restore the state's capacity to regulate liquidity (counter-cyclically) outside the circuit of commercial banking – and also to bypass notoriously volatile money markets.

3. "If DiEM25 wanted to tackle this position the public payment system would also have to include a possibility to grant loans to the citizens which would require a huge administration"

Our answer: At first there will be no loan provision at the micro level. Funding will go directly to schemes managed by large, well-established organisations. Later on, we can discuss meso-lending or micro-lending based on a decentralised system that minimises administrative burdens and costs. But, again, let us stress that the benefits of PDPP are large even if this meso-lending or micro-lending is never implemented.

4. Using PDPP in case of a euro break up

The objection from a DSC was this: "Further, it is argued that PDPP lowers costs of a possible disintegration of the Euro because redenomination can be done by one press of a button. The problem in the redenomination process from the administrative point of view is the exchange of cash which is just a logistical nightmare."

Our answer: The costs of redenomination will never be eliminated. DiEM25's (correct, we think) point is that PDPP will substantially lower them.

5. Fully transparent citizen

Data protection has been mentioned as a serious concern. One DSC member said: "Against this background, it is a nightmare for me that the state will be able at one press of a button to monitor my entire money transactions. Another step towards Orwell's 1984..."

Our answer: They already can. As can the private banks, the NSA and a host of other organisations. Money and transactions will become full digitised one way or another. The task of making citizens opaque and powerful organisations transparent is a separate DiEM25 goal. But this is no reason for abandoning the PDPP idea.

6. Use PDPP as a system by which the state can borrow directly from the citizens but not as a payments system

A DSC put forward this view: "One aspect of the public digital payment system is

actually brilliant: the possibility of the state to borrow directly from its citizen and the possibility of the citizen to set-off the state's tax claim against the repayment claim of the citizen against the state. As a result, the citizen can borrow to the state at almost no risk of default (because if the state becomes bankrupt the citizen can regain its money by setting-off tax claims). This aspect could be a bit emphasised in the White Paper. To make use of this effect, it is not necessary to have a payment system covering also transactions among the citizens. It would be sufficient if a state-owned bank offered the opportunity for every citizen to directly subscribe for (short, middle- or long-term) debt and if the state provided for the law which allows a set-off of the tax obligations."

Our answer: First, the need for a free public payments' platform independent of the commercial banks and the ECB is an essential tool for democratising money and for shielding the state and its citizens, to a large extent, from the volatility of private finance. Secondly, unless citizens are offered an opportunity to use the same system in order to make payments or to lend to the state, the capacity of the system to do either will be very weakened.

### *On taming finance and banking*

On taming finance, and notably putting it to work on the accompanying efficiently the European New Deal by allowing entrepreneurs and economic initiatives to 'crowd in' behind the public sector programme, DiEM25 is proposing a rich gamut of policies. The rationale for these proposals is manifold. In the first place, we need to realise that the banking sector in Europe has been delegated a responsibility for a common good – monetary creation – that at the moment it is handling more in its own interest than in the public interest. Also, the banking sector is omnipresent in the lives of citizens and enterprises while excluding them from it and limiting the capabilities of nations, regions, cities, families, individuals and enterprises to play their role to the fullest extent, in creating employment and sustainable economic growth, amongst other things. By way of its omnipresence, with the development of BigData capabilities and other technical change such as digitalisation of the payments systems, the banking sector is also capable of becoming a significant repressive machine and a first order factor in financial and economic exclusion of citizens, families, and enterprises with alternative economic models that don't fit the established paradigm of "shareholder value". It is a sector whose governance is in dire need of transparency and democratisation, if it is to play a positive role in its handling of the mandate that it has been given.

### *Policies for viable, sustainable and accountable banking.*

DiEM25's policies for the European banks have three objectives. The first is a *viable* banking sector, meaning a sector populated by institutions with sound economic models and in line with the needs of the real economy – a real utility and public good, in which the interests of investors and shareholders are not assumed by default to be congruent with that of society as a whole. A *sustainable* banking sector, and the wider landscape of financial intermediation, is one regulated in such a way

that it ceases, in so far as possible to be a prime source of economic instability. This is closely related to an *accountable* banking sector – the governance of banking will have to change in order to open up the banking policy and regulatory circle to include a wider range of participants, to break up the close relationship between regulators and their clients which is the case today. This also include promoting institutional plurality in financial intermediation, starting to shift ownership of the sector from capital interests to society, and from the highly concentrated sector to a more decentralised form of ownership. “Saving equals investment” is today a question as much of democracy as the efficient allocation of capital. And only the former, i.e. democratic governance of banking, can produce the latter, when efficiency is dictated by social and environmental needs.

For these purposes, four main policies are being canvassed, the first two of which requires none or little Treaty and legal change, but nevertheless a profound paradigm shift in the current policies. These policy interventions also require the integrity of the European project (as they are impossible properly to implement if Europe comes apart entirely) but do not depend fundamentally on the integrity of the Eurozone – common banking regulation existed before and exists outside of the Eurozone. However, a degree of integrity of the institutional project is required for a new orientation of banking policy, given the globalisation of the sector. These policies and their required institutional supports are another reason for taking the “European high road out of the crisis”.

#### *A non performing assets & recovery-resolution policy (NPA/RRP)*

This is a more elaborate and up to date version of the stress tests plus European recapitalisation that was in the Modest Proposal, with the objective to clean up the sector and re-establish their real lending capacity. It updates to take into account the fact that the main planks of the Banking Union have been put in place, and elaborates to take into account a more detailed understanding of the difficulties of the banking sector in Europe today, and its capacity to exploit the current regulatory framework. In particular, this policy has to be capable of discerning different types of NPAs. Especially, banks should not, as is the case today, be able to dump their speculative mistakes and flawed business models on the taxpayer (Deutsche Bank Commerzbank), nor should they be penalised by assets turning bad as the result of austerity politics (viz. Italian banks). Banks should also be prevented from dumping assets that just perform lower than expected (the QE programme is full of this type of dumping)

Also, the European resolution fund should be sped up in terms of its financing, and the way in which banks contribute to it should be reviewed. In particular, contributions should be calibrated as to how aggressively banks model risk (increase the contribution), and how they support the investment policy (rebate for large levels of support in new lending).

*Uses current Banking Union institutions, platforms and mandates – no treaty change required.*

A transitional capital charges and risk regime: This is the policy designed to change the economic model of banking, shifting the sector into financing productive investment rather than speculative ones, and from “brown” to green capital. It is simultaneously the banking policy complement to the Green Investment Programme, and to the “greening” of monetary policy (green QE or liquidity support for green financing, carbon money). The centrepiece of this is a set of radically shifted capital costs for banks for shifting the flow of new lending, extending over time into the stock of outstanding financing to shift capital from brown to green. The policy departs from the assumption that the capital regime should be neutral and that the banking sector is collectively capable of allocating capital in accordance with interest of society. It needs direction, not by way of incitements but through penalties for not financing the real economy in a sustainable manner. The proposal, some have noted, suspends the current capital regime for new lending demonstrably linked to the European New Deal and introduces specific guarantees and time-horizons – and requires no treaty change.

#### *A new “macroprudential” framework*

The main addition to the regulatory framework (Basel Accords and the CRD/CRR) after the crisis is “macroprudential” regulation – a capital regime intended to compensate for the “procyclical” (better read as destabilising) properties of the “micro-prudential” framework (rules applied to the institutions individually). The current combination of the two is perverse; instead of acting as a countercyclical device, together the two frameworks are pushing a further retrenchment of the sector towards no risk taking. Moreover, the theoretical basis of the current framework is flawed – it is based on the notion that you in some ways can “data mine” the banking system with a huge Big Data algorithm to come up with its overall position vis-à-vis financial stability. It does not work, but pushes banking away from taking any risks, i.e. away from its essential function. Instead of this, we need a macroprudential framework that allows for banks to come back to effectively take on and handle risks, notably those associated with a wave of new social and environmental investment. The current situation suppresses the capacity of the banking sector as a whole to respond to the challenges before us. Capital planning timeframes should be extended to allow for a better integration risks on a longer horizon. It must be noted that this is the first policy of two aimed at a more fundamental transformation of the banking sector. It still does not require Treaty change, just another form of using the Basel Committee on Banking Supervision.

#### *Ending the regulatory monopoly of banks and promoting institutional pluralism in financial intermediation*

Over the longer perspective, the regulatory monopoly of banks on certain types of financial intermediation (deposit taking and credit production centrally) needs to be both broken and opened up to alternative forms and institutions. Generating a stable, sustainable financial sector depends crucially on diversifying the economic models and modes of doing business in the sector. Big, uniform “universal banks”, under pressure from shareholders need to come under pressure from other types of

financial institutions, with less interest in satisfying shareholders. New forms such as crowdfunders/crowdlenders and “fintechs” should be actively allowed a wider berth in the financial system. This also means resuscitating and reinvigorating older forms of financial intermediation that have been pushed out – mutual societies, credit unions and so forth. The policy programme should allow for public support and capitalisation/guarantees for alternative forms of financial intermediation. It must be noted that this requires no treaty change but fundamental revision of competition policy. In particular, the current paradigm for competition policy needs to shift back to what it was before the neoliberal revolution; back to pre-neoliberal anti-trust policy. State aid rules must be revised to allow for a broader conception of the public interest, as applied to the financial sector.

### *German banks*

A DSC from Germany wrote us this: In Germany, a dense system of local state-owned (Sparkassen) and cooperative (Volks- und Raiffeisenbanken) banks exists. These local banks form the backbone of local industry and business (in particular for SMEs). They are usually (exemptions exist) not active on capital markets (in contrast to regional state-owned banks, the “Landesbanken”, which have suffered badly in the financial crisis). However, the local banks are (i) depending on the savings of customers (with less ability to address central banks) and (ii) depending on the fees for bank transactions (due to the recent low interest environment). The White Paper’s PDPP may drive these local banks out of the market. Generally, if the state took over the banking business at dumping prices, other European banks may collapse. Thus, instead of stabilizing Europe, we may create our own bank crisis.

Our answer to this is: A gradual, well-managed unwinding of non-viable banks is consistent with the restructuring of finance DiEM25 envisages.

### *Summary of the background to the proposals and links with investment and monetary framework*

The objective of the policy proposals in the banking and financial markets area is first and foremost to exit from the slow burning, variable geometry/geography but very real banking crisis. Europe is full of ‘zombie banks’, not only because their balance sheets are full of non-performing assets (NPAs), but also because their business models are increasingly not viable. In other words, it is not just a question of cleaning up with a couple of stress tests and sending the NPAs into a bad bank, recapitalise and Bob’s your uncle; this carries significant risks and pitfalls of its own. Therefore the second dimension: the banking sector needs some deeper policy-driven changes that send them back to doing what they should – being banks cum *utilities* for financial intermediation in the service of the real economy. In other words, the sector needs policy-driven change that generate deeper repair and reconstruction of the sector as a whole, in order not to fall back into the same situation as the run-up to 2008. The financial sector should become a buffer for managing the risks emanating from the real economy, and notably those associated

with productive investments. Without this role – as a risk-carrying utility on behalf of – the banking sector really has no *raison d'être*.

There are, in Treaty terms, no real institutional or legal constraints on the European level to these policies, initially. Nor is there a need to create new institutions; the network of regulators exists covering the entirety of the Eurozone banks, regulated either by the ECB or the corresponding national authority. However, they do require, and sometimes consist of, changing the prudential policy and regulatory framework applied to banks as a whole (the so-called 'macroprudential' framework) or establishment-by-establishment (the 'microprudential' framework). This framework emanates from the Basel Accords, under the aegis of the Basel Committee of Banking Supervision (BCBS). This is composed by central bankers primarily, but consults closely with the industry in negotiating the Accords. This is really a good example of an industry 'regulating itself' (in the Greenspan tradition), with the effects that that has. Institutional change, longer term, will have to focus on this governance more than anything else.

Further on from this, the policies aimed at restructuring the banking sector can conflict with EU competition policy and state aid rules. On this point we should remind ourselves that the bank rescue in 2008-2009 already exploited exception clauses in that framework. There is no reason for why the current situation should be regarded as less critical.

#### *Banking crisis and the shortfall of Aggregate Demand in the Eurozone*

The best way of cleaning up bank balance sheets is to fill them up with performing assets. Existing non-performing assets NPAs (e.g. loans that are not being repaid) can start "performing" again. Newly produced assets based on good underlying projects and with solvent borrowers is actually what banks are looking for (idle liquidity weighs down on performance, even if its cheap). The problem is that in a secular stagnation, with increasing unemployment and poverty in employment spreading, with hoarding of cash by the corporate sector, asset quality deterioration is on the rise. Demand for financing, especially for investment in productive capital, has become structurally weak. So while there is actually room in bank balance sheets and capital ratios for increasing credit production, there are few opportunities for doing so. We have tried all conceivable supply side measures by now, and monetary policy transmission is still broken. The problem is not 'to get banks lending again', as the mantra goes. *The problem is confidence in a more positive outlook that calls forth real economy projects with financing needs that addresses demand to banks.*

#### *The best policy for resolving the banking crisis is ending austerity policies and triggering an investment wave and employment growth*

From the perspective of depressed demand, the key policy for getting out of the banking crisis is actually the public investment policies. Resolving the Twin Peaks problem – channelling existing financial resources into productive investments that will allow us to come out of secular stagnation and grow out of indebtedness, can



only come with the end of the investment depression that Europe is in. This is a contextual sine qua non for repairing the broken state of financial intermediation and getting banks back to behaving like banks should, to justify their existence.

Therefore, to a large extent, reversing course and starting to come out is a demand-side problem rather than a question of supply of credit or availability of other types of financing. Demand for bank financing for productive investment is near historical lows in the Eurozone, and the rate of self-financing gross fixed capital formation being close and at times superior to 100%. This links the bank and financial markets policies closely with the policies for recovery through investment; if public investment is allowed to expand, alongside a stabilisation of income and demand, and decline of excess household savings via the end to austerity policies, it is reasonable to expect public investment to crowd-in private financial resources, credit to expand, and alternative sources of finance to be forthcoming. This is especially so given the low point that we are starting from.

*But this needs to take another trajectory than before to avoid errors of the past*

The best policy in the short term for getting onto a more sensible, socially useful trajectory in terms of the activities of banking and financial markets is the policy for aggregate investment. However, for this to be sustainable and in order to avoid generating new bubbles (we don't want a green bubble to top everything off), or a new private debt expansion (that was what got us in trouble in the first place), the financial sector needs *deeper repair and reconstruction*. And this goes well beyond just cleaning up encumbered balance sheets to generate new room for a new credit flow. We would advise against a stress-test campaign + European bad bank such as that advocated in the past. Banks should, under close supervision be required to work out their non-performing assets (NPAs) themselves, shifting the costs of past excesses to shareholders and investors (no household bail-ins).

This also opens the question of how to handle NPAs that have emerged as a consequence of the crisis and the punitive macroeconomic regime (viz. the Italian banking system). Arguably, an individual bank that has extended credit prudently to a company in better times cannot be held responsible for a deterioration of assets that takes place as result of bad macroeconomic policy. In any case, if the Mittelstand collapses, the German government will hardly blame the Sparkassen for their NPAs...

Overall, in tandem with a well-designed public investment programme the banking sector needs to be simultaneously pushed towards a role in the ecological transition and the social economy, away from its procyclical behaviour and start functioning as a factor for stabilising the economy. In several ways, this will depend on modifications of the prudential regulatory regime.

*Where the problems are not – false starts*

Relative to discussion in the past it is a non-starter to demand moving up banking supervision to the EU level; with the Banking Union that is already the case for all banks with more than 30bn EUR on their balance sheets (exception made for certain German banks). The Single Resolution Mechanism is also drawn up and the Single Resolution Fund should amount to 1% of covered deposits in the Eurozone over 8. Yes, these dispositions are imperfect, untested and very probably insufficient but formally they do exist, which we must take into account.

So if 'europeanising' banking supervision via the banking union is not the problem, what is? The problem is that the rescues that have been undertaken have recapitalised Eurozone banks but then essentially left them to carry on as before. No fundamental change to the economic models of banking has been enacted. While some regulatory reform has taken place to reinforce capitalisation and solvency requirement, no fundamental shift in the regulatory paradigm has taken place. Some practices have been marginalised, some additional risks regulated, but no overhaul has been made to make the economic model of banking viable in the short term, sustainable in the long term and socially and politically accountable. And this is our objective.

Other non-starters include:

- “Stop the banks from speculating with our money”. It solves nothing if speculation continues in the silo that has been cut off. Separation of speculative activities (Volcker rule, Moscovici Law) has been watered down in any case.
- “Small is beautiful and we need to breaking up too-big-to fail banks”. Again, if the business model does not change, breaking up in smaller parts does not change anything, it just increases entropy of the system.
- “100% reserve banking and back to the gold standard”. This is a libertarian fixation based on the illusion of the possibility and desirability of apolitical money – a notion in sharp opposition to DiEM25’s commitment to democratising money and all economic policy.

To give one example, Italian banks are not going bad because of speculative behaviour; they are becoming fragile because of austerity policies. If they were properly self-interested, they should be on the front line against the current, disastrous paradigm. But for now they are happy to be locked into a regulatory context that allows them to disengage from risk and extract rents from contracting balance sheets and an economic decline. They need to strike a new bargain with the Left to get out.

### *2.3 Green investment-led recovery: Linking central banking with public investment vehicles and the new public digital payments platforms*

This section of END gave rise to a very large array of sub-debates to which DiEM25 will dedicate a separate Assembly and a separate White Paper process, falling under the headline of Green Transition. For now, DiEM25’s concern is twofold: (a) How to

bridge the gap between creating investment flows of the right size, and (b) how to ensure that the investment flows made available are channelled into the right projects – something that requires a new Pan-European Green New Deal institution – see the END White Paper’s latest iteration.

#### *2.4 Backing the maintainers in their own communities to stem forced migration*

A crucial point here concerning the Anti-Poverty Program, The Housing Program and The Jobs Guarantee Program is the source of funding. The typical arguments against such programs are that “we can’t afford them or as to who will pay for them”. The Anti-Poverty Program explicitly states that funding will be provided at the EU level (although the “fiscal space made by the digital payments system” is also mentioned.) Would the Housing Program and the Jobs Guarantee Program also be funded at the EU level? If so, how much autonomy of decision would local governments have as to its use? Would there be supervision or control from a EU organism

The proposal of “a special tax on the market value of land used by corporations that is a decreasing function of the corporation’s waged employees” would be appropriate if this were a EU tax which could then be distributed among the member countries; but if it were a national level tax, countries without a strong presence of these types of corporations would be at a disadvantage.

DSCs suggested that if taxing and the corresponding funding were done at the EU level, it would help to close the gap in standard of living between countries and create a greater sense of common identity and solidarity.

#### *Universal Basic Dividend and inequality*

Another viewpoint on the Universal Basic Dividend is that to finance the UBD, the END specifies "that legislation be enacted requiring that a percentage of capital stock (shares) from every initial public offering (IPO) be channelled into a Commons Capital Depository, with the associated dividends funding a universal basic dividend (UBD)". Numerous questions arise that require elaboration. For instance, would this legislation only cover future IPOs, such that existing public companies would not have to contribute? What IPOs is this proposal referring to: all IPOs at the European level? What about non-public companies?

Moreover, the summary reads as if the UBD shall be entirely funded from a certain percentage of the capital stock of IPOs. With this as the only source of funding, it would take centuries until you have a sufficient capital stock for a Europe-wide UBD. One estimate (from working experience) is that, on the average, the number of IPOs in Frankfurt (and, thus, in Germany) during the last ten years did not exceed ten/fifteen per annum. I would not expect that the situation is much different in the rest of Europe. Ten to fifteen IPOs per annum does not mean ten to fifteen “Innogys” or “Unipers” but more frequently rather small businesses. *Thus, the risk of the current wording is that it looks as if DIEM25 does not know what it is talking about.*

These are all pertinent questions. DiEM25's 'opening' bid is to say that we begin with all IPOs at the European level, before embarking on negotiations with multinational companies (see above) to exchange access to the single markets for stock and before we consider non-public company shares. Also, see the important addition of a policy to fund IBD from patent income. Additional funds for UBD can be secured, as DSCs have suggested, from sovereign wealth funds at a national/European level. These funds would have the aim of building up the net wealth of the states by investing in companies and property. It could be managed by a public investment authority (as proposed by the late Tony Atkinson in his last book *Inequality - What Can be Done?*) or by the central bank (as proposed by Eric Lonergan and Mark Blyth in their [HBR article](#)). The purchase of assets could be achieved via a combination of countercyclical asset purchases (after a crisis, which most states have done in the case of banks' balance sheets), mandatory share issuances (as DiEM25 proposes), wealth taxes, and by issuing government bonds (thus taking advantage of their low rates of interest) to invest in equities (whose real rate of return vastly outstrips the return on government bonds). The profits from this fund could be distributed as a national dividend to all citizens (as the Alaska Permanent Fund does in the USA) and/or could be used over the longer run to reduce the tax liability of European households and/or finance public capital and social expenditures, such as environmental projects and pensions (as the Norwegian sovereign wealth fund does). Further, there is an additional argument against relying solely on the IPOs: You can bet that the European IPO market would be dead as soon as your suggestion was implemented. The finance industry will quickly find some opportunity to guide investments to non-listed entities.

Two additional funding ideas for UBD follow:

a) IPOs and capital increases

Referring to IPOs *and capital increases* would at least widen the scope a little bit (however, from my point of view, would not solve the problem).

b) Sovereign wealth fund

The European Union (or each national state) could run a state-owned sovereign wealth fund which acquires stakes in listed and non-listed companies (whose profits will be distributed via the UBD). The operation of state-owned sovereign wealth funds is current practice in other parts of the world and, to my knowledge, Norway, China and some Arab countries are quite successful in doing so. DiEM25 would not run the risk of being considered naïve utopists but could refer to existing examples. Funding of the sovereign wealth fund could be procured from inheritance tax (see 2. below).

*Inequality of Wealth Distribution / Inheritance Tax*

One of DSC comments was that no part of DiEM25's END agenda which addresses

properly the inequality of wealth (not income) distribution. There are estimates that in Germany alone 3,100 billion will be inherited during the next ten years (study from 2015). However, in 2015, inheritance tax was only 6.3 billion (due to, inter alia, massive exemptions from taxation) in Germany.

If we deem it realistic that European countries sign a multilateral agreement on the “housing guarantee scheme” and the “job guarantee scheme” in the short and middle term, then we should deem it also realistic that those countries agree on a substantial, effective and reasonable inheritance tax in the long term. From the numbers mentioned above, the additional income from such inheritance tax would certainly exceed what can be expected from IPOs (and capital increases).

Thus, the sovereign wealth funds mentioned above could be financed by inheritance tax: As without such reasonable inheritance tax, the Quandts, Krupps and the like would remain owners of technology and capital, they will partially be replaced by the sovereign wealth funds which, in turn, would finance the UBD.

### *Democratising the economic sphere and a Universal Basic Dividend*

There is broad agreement with the ultimate objective of the democratization of financial institutions and corporations and the reasons put forth for funding by taxation on the returns to capital. However a few questions arises about various aspects involved.

1. It is not clear that a tax-funded Universal Basic Income would “sow the seeds of antagonism between the working poor and the unemployed”. The argument here was that by taxing the wealthy and corporations we could fund a UBI, and therefore such a tax burden would not be placed on the working classes. The counter-argument here is that taxing the wealthy is always harder to effect than to proclaim and, in any case, funding a UBI from taxes immediately creates trade-offs between UBI and funding of the conventional welfare state.
2. Could a Universal Basic Dividend be protected from market shocks if it depends on income from a percentage of capital stock from IPOs? What happens when a company goes bankrupt? The answer is: No. If a company goes bankrupt, its shares are wiped out – both the ones held by privateers and by the common UBD fund.
3. Another question highlighted the difficulty in comprehending the essence of the UBD proposal: “Would this taxation on returns to capital be at the EU level or at the state level (and therefore also the payment of a UBD)?” It is not taxation of the returns to capital. It is property rights. When Bill Gates collects his dividends from his Microsoft shares, he is not taxing Microsoft! Similarly, the UBD fund will not be taxing the returns to the capital it owns. It will simply collect its rightful income.
4. A pertinent question was asked: “How would multinational corporations be dealt with in the enforcement of such a tax on returns to capital?” A trade agreement between the EU and, say, the USA or China must include a provision for avoiding double UBD property rights transfers. Ideally, the US and

Europe should negotiate a common UBD scheme, and then bring China and the rest of the world in. Until this is possible/feasible, the EU can enter into a negotiation with multinationals demanding a quantity of their stock to be placed in Europe's UBD fund as a condition for trading in Europe's single market.

5. Related to the last point, a DSC wrote to us: "We were surprised to see that the summary of END did not deal with some of the current issues involving finance and taxation. In particular:
  - a) How to restrict the use of fiscal havens
  - b) The offering of lower corporate taxes by some countries to attract large corporations which are then able to use this for tax avoidance purposes.
  - c) Trade relations with non-European countries or the threat that trade agreements such as TTIP or CETA may have on EU member countries' loss of sovereignty to multinational corporations.

Regarding 5. above, it is a good point. DiEM25's position must be clear on these: Tax havens must be eliminated forthwith. A pan-European minimum corporate tax rate must be imposed. Transcontinental agreements that have nothing to do with trade, like TTIP and CETA, must be fought against.