Saving the Euro !/?

(German: „Retten wir den Euro!“, Deuticke, 2012)

Summary by Christian Felber

<u>The book (150 pages) ist divided in 8 parts:</u>

1. Faulty design of the euro
2. Antidemocratic construction of the EU
3. Oficial strategies don't save the euro
4. Alternative rescue strategy for the euro
5. Alternative economic policies to stabilize the euro
6. Regulating financial markets - a new financial system
7. Alternatives to the euro
8. Democratic reconstruction of the EU

<u>**1. Faulty design of the euro**</u>

There is a saying: „A currency without a state won't last for long.“ This showes true with the euro. This does not means the „The United States or Europe“ are the conditio sine qua non of the euro, but it does mean: Or the EU changes its competitive approach in some key areas of economic policies or the euro will collapse sooner or later. Three areas of economic policy require cooperation:

1. *Regulation of financial markets.* A common market needs strict regulation, no free movement of capital for speculative and evasive money as well as banks that are small enough to fail. The EU provided all the contrary with the „common financial market“ (1999), declared a EU priority by common market Commissioner Mario Monti, following the demand of Josef Ackermann (media campaign, 1996). The subsequent breeding of „global player“ financial institutions = banks that are too big to fail (and jail); and the free movement of capital (1994). Free movement of capital allowed the importation of financial toxic waste; that made humble banks that are too big to fail; their rescue by states and the subsequent economic crisis led to the public debt crisis: no stable ground for a common currency.
2. *Common fiscal policy.* Whereas the euro member states cooperate fully at the level of currency policy, the compete each other in the field of fiscal policy. Subsequently, all states

have budget problems. If there were a common taxation of mobile tax bases like financial property, capital income, corporate profit, financial transactions and high incomes, the revenue of all states could rise, the household troubles were less. Greece is a special case of tax poverty: If Greece over the last 10 years had raised taxes in the same proportion to its GDP as Austria, it would have enjoyed budget surpluses in nearly every single year.

3. *Wages and trade policy.* In the mainstream media discourse, Greeks are said to be „lazy" and Germans „efficient". I looked up how much higher the gain in labour productivity has been in Germany since the introduction of the euro than in Gereece. The astonishing result: productivity has risen slightly faster in Greece (source: Eurostat). Whereas in Germany the gains in productivity were not passed to workers' wages, in Greece this was the case. As a consequence, due to Heiner Flassbeck, Greece lost about 25% in competivity since 1999. So the reason of Germany's extreme trade balance surplus and Greece's deficit is not efficiency, but unjust distribution. In the long run, a trade balance surplus of one country is the bankrupcy of another country (that with a structural deficit).

So even if the euro member states manage to solve the public debt crisis, the euro will collapse if they do not regulate strictly financial markets and pass over to cooperation in at least these three fields of economic policy.

2. Antidemocratic construction of the EU

Also within Attac, there is a permanent discussion if the EU should become a federal state or remain a confederation of sovereign national states. However, the EU is already both: A big part of all binding laws are made at the EU level. Thus, the „constitution" of the EU should be made by the people (constituent power) and not their representatives (constitutet power). The Lisbon Treaty was forced on 27 sovereigns although 3 of 5, who had been asked, had said „No" to the Constitutional Treaty (France and Holland) and the Lisbon Treaty (Ireland in its first vote). As the EU treaties are not made by the citicens, its content reflects the interests of the elites:

- no binding fundamental rights
- no obligation to peace
- no welfare state
- no public goods at the EU level
- no clean separation of powers

Moreover, the governments do not implement thier own rules which they forced against the sovereign people's will. In seven occasions, they broke the Lisbon Treaty:

1. Member states are not supposed to rescue private companies (Art. 107 TFEU).

2. This is also a violation of competition law (Art. 106 TFEU).
3. The ECB is not allowed to finance states (protocol Nr. 4, Art. 21). It ownes public debt in a dimension of more than 200 bn.
4. The Commissoin does not have an own budget, it only shall „execute the budget“ (Art. 17 TEU). On what bases does it participate in the ESFS with 60 bn?
5. States are not allowed to finance each other (Art. 125 TFEU).
6. The deficit of the euro states is not supposed to exceed 3% GDP (Art. 126 TFEU and protocol Nr. 12). In 2010, the average deficit was 6,1%; in 2011, 4,1%.
7. Dpublic debt must not exceed 60% GDP (Art. 126 VAEU and protocol Nr. 12). In 2011, it was 88 per cent, in 2012, it rises up to 90%.

Not only democracy is a weak value in the EU, also the state of law does not mean a lot to the political elites. The Lisbon Treaty is null and void. It is surprising that the people respect the laws while governments don't.

3. Official rescue strategies don't save the euro

The political elites execute and discuss three rescue strategies for the euro. I am afraid that all three will fail:

A) The *take over* of the debt of weaker countries by stornger countries through rescue funds will not work because the countries and banks to be rescued become more and bigger whereas the rescuers become less and – due to the upcoming recession – weaker. Or they sink all togeher or the euro falls apart. One figure: If Spain took a comparable amount (in relation to its GDP) as Greece, Portugal or Ireland, this alone would require about 800 bn euros – more than what is left in ESFS and ESM together.

B) The *forgiving* of the debt or *haircut*, ideally in a legal insolvency process, would be the best solution. The problem is: too many banks that are too big to fail depend on states; if the states fail, also the banks fail, too. Consequently, the rescue funds would have to prevent chain reactions. The chain reaction triggered by the failing of Greece might be absorbed by the other states; but the chain reactions triggered by an insolvency of Spain or even Italy would be so heavy that again, like in szenario A, all states would sink together, or the euro will break apart. As markets have not been disarmed: 1. few private banks still decide on the interest rate for public debt; 2. private rating agencies decide on the credibility of states; 3. private investors are allowed to speculate against states (trading with government bonds and CDS), 4. private investors have the power to seed media rumors that can trigger speculative attacks on states or even the euro zone – it is very probable that a series of state insolvencies will be caused by the markets themselves.

C) Some highly esteemed economists like Kenneth Rogoff recommend the ECB directly to *monetize* the debt via a moderate inflation (5 to 10 per cent over a decade). This could halve the real debt burden. If this strategy works (which requires, by the way, the 8th violation of the Lisbon Treaty, that obliges the ECB to secure price stability), the least collateral damage would be a devaluation of all financial assets in the same degree as the public debt, or, in other words, an expropriation of all financial wealth by about 50%. In the worst case, the ECB loses control over the inflation, and the euro breaks up in a scenario of hyperinflation. Nevertheless, at the moment, *deflation* is much more probable than inflation, as we enter a recession that might last years and turn into a depression (due to austerity policies and public expenditur cuts in nearly all countries). In times of depresseion, deflation is much more probable than inflation. On the other hand, a depression would boost public debt and we end in scenario A.

4. Alternative rescue strategy for the euro

The euro could easily be saved with a fourth option, that is – so far – no discussed at all: paying back the debt through European wide coordinated taxes. The core of the proposal: Private property exceeds public debt in the average of the euro countries about five times. For instance, the relation in Italy is 424%, in Germany 475% and in Austria 675%. A property tax of only one per cent coud diminish public debt by five per cent – in one year. In ten years, public debt could be cut down on the half. 90 per cent of the population could go tax free because they hardly own property. Ten per cent of the population own about two thirds of the whole private property. It would be enough to tax them. And they can easily carry an average tax of one (or even two) per cent.

The introduction of a property tax could last 1 – 2 years in some member countries, thus there has to be found a measure with immediate effect: The ECB could give a security to the bonds of all countries that oblige themselves to participate in the European tax cooperation. This would have to immediate effects: 1. AAA for the bonds and 2. interest rates tending to cero.

In addition to the property tax another three tax categories could be implemented cooperatively:

- on all kinds of capital income (closing of all loopwholes of the EU savings directive),
- on corporate profit (harmoinzation both of the tax base and rate)
- financial transactions; according to both Austrian Institutes for Economic Investigation the possible revenue of a tax of 0,1 per cent on all transactions would amount to about 270 bn euros per year – five times the result expected from the EU commission in their scenario (which was a clear sign of the Commission's opposition to the FTT).

Adding all four taxes („four taxes pack"), the entire revenue would amount to 770 bn euros in the eurozone and more than 1 tn euros in the EU (see fact sheet attached). Public debt could be cut down in the eurozone from the present 90% to its half: 45% in five years. This strategy would finally call to account the economic elites that profited from the neoliberal policies that led to the crises. But still it would be in their favour as the alternatives are: series of state insolvencies and bankrupcies, inflation, implosion of the euro, or civil war.
This reflection is shared by the Boston Consulting Group (BCG). In its remarkable study „Back to Mesopotamia" from October 2011, the BCG proposes to „haircut" the debt of the three mayor sectors of the national economy – households, enterprises, state – to 60% GDP.[1] Reasoning: Above this thresold all sectors enter into danger of insolvency. The financing of the haricut should be effected by one-time tax on financial property: 26% in the US, 27% in GB, and even 34% in the eurozone! Why so radical? In Mesopotamia it was a tradition that with the start of a new governor all debts, that were registered publicly, were forgiven.

5. Alternative economic policies to stabilize the euro

The remaining 45% of public debt could be transformed into interest-free loans from the ECB. There is no reason to fear an inflationary effect from that. The balance sheet of the ECB would rise from 3 tn to about 8 tn euros. The financiation of states by „their own" public bank could be limited at 50% GDP in order to avoid excessiv lending and debt creation. A measure to secure lending discipline could be the rule that states who's public debt exceeds 50% GDP have to elevate taxes on property in order to not increase further their debt. (Attac Austria is developing a more diffentiating proposal of a „debt brake".)
Together with this change in the mandate of the ECB there are four policies in which the bases for a stable euro can be laid:

- public interest-free loans from the ECB up to a maximum of 50% GDP;
- four taxes pack: a common market requires tax cooperation;
- productivity rule": all euro member states oblige themselves to increase wages according the gain in productivity – in order to maintain stable the competitiveness relations;
- moreover, all countries oblige themselves to adjust their trade balances in order to prevent structural imbalances.

To prevent tax evasion, the clearing of international capital movements has to become a task of the public bank system. Transactions to fiscal heavens could be charged with a painful tax or be supressed. At present, the clearing of international capital movements is highly concentrated in a

1 http://www.bcg.com/documents/file87307.pdf

couple of private banks – they could easily be put under public oversight or become part of the European system of Central Banks.

6. Regulation of financial markets – a new financial system

Finally, financial markets must be regulated strictly starting with the dismanteling of banks that are „too big to fail". The book continues with a partly paradoxic proposal: all banks should have to decide if they switch to non-profit orientation and still enjoy the support of the state; or if they continue with for-profit orientation, but are released into the free market. The latter would mean:

- the savings are not secured by public security systems
- the bank lose accsess to the (public) ECB
- the state does not effect any business with these banks
- they must be small enough to fail at any moment

This – also didactic – request aims at raising awareness that there is no such thing as a „free market" according to the ideology at the moment. In a really free market, a bank would have a hard stake. Nevertheless, the long-term goal is that banking becomes a public service organized as a non-profit business either in private cooperatives or in public, but democratically controlled, banks. Both types could be organized as commons.

The book continues with a list of mostly common reivindications of Attac, amongst others:

- closure of the shadow banking system
- closure of tax heavens
- closure of derivatives
- end of all capital income
- global tax cooperation
- limitation of inequality in income and property to rescue democracy.

7. Alternatives to the euro

As the preconditions for a stable common currency are numerous and complex, we should consider alternatives to the euro.

1. *Back to national currencies?* Possible and not necessarily harmful (see Sweden, Denmark, or Switzerland), but carries the danger of competition of currencies.
2. *Two blocks of a Northern euro and a Southern monetary union.* Would divide the EU so deeply that even the political union could break apart. No good idea.

3. *Back to a European currency system.* Might be better than the euro because it provides a combination of stability (target exchange rates) and flexibility, but ir requires the same preconditions as the euro to function. As long as speculative attacks are allowed, it could fail again. If it fails, national currencies could devaluate.
4. *Global tax cooperation according to John Maynard Keynes.* A Bancor or „Globo“ would maybe the best solution: It integrates China and the US and replaces the dollar hegemony. Double advantage of stability (fixed exchange rates between national currencies and the global trade currency) and flexibility (in case of diverging real economic indicators such as productivity and inflation, the currencies can devaluate or reavaluate quarterly or biannually). Furthermore, sanctions against trade imbalances would enhance all member countries to aim at equilibration of imports and exports.

8. Democratic reconstruction of the EU

In the last chapter, the book elaborates on the basis of the „Attac's 10 principles for a Democratic Treaty“ on a possible democratic reconstruction of the EU.[2]

1. A democratically elected convention/assembly writes – in close interaction with the people, following the example of Iceland – a Eurpean Constitution that comprises maximum 50 pages and the following elements: values, goals, fundamental rights, obligation to peace, institutions, subsidiarity. All souverein peoples vote on the same day on this „core“ treaty. Those who accept it, are part of the EU. Those who don't, are not. By this, we prevent that a state that does not respect the fundamental rights, becomes a member of the Union. As a consequence to this core treaty, a European sovereign would be created.
2. All other fields of policy have to be delegated one by one throuth referendums. The EU is no end in itself, otherwise we would have to build the United States of Europe. And there is no logic to build the latter, and not a Global State. Democracy can be secured in small units, and the principle of subsidiarity regulates, which matters are decided at which level. Therefore it should be a reasonable and democratic decision which policy fields become part of the Union and which not.
3. To separate powers cleaner, the Parliament becomes the principal legislator at the EU level. It gets the right to initiate laws and pass them without having to match with another body. The Coucil disappears; for the representation of the member states, a second chamber in the parliament could be established, but if the principle of subsidiarity works well, it is not absolutely necessary. What is absolutely necessary is that the last word has the sovereign

2 http://www.attac.org/en/campaign/another-europe-possible/attac%E2%80%99s-ten-principles-democratic-treaty

people. If the Parliament does something against the people's will, they can prevent this law or initiate and pass an own law at any time. They true sovereign has furthermore the right to initiate a change of the treaty and to decide all changes in the Treaty – following the example of Iceland.

4. If the people write the Constitution and have the power to correct the Parliament which is the principle legislator, the probability that the content of the treaties and of the legislative decisions are very different from that we know and suffer today. One of the contents to expect is more of economic democracy and the limitation of the right to property. The non-limitation of the right to property is equivalent to the abolition of equality, liberty and democracy.

Christian Felber is a book writer, lecturer at Vienna Univerity of Economics and Business, co-founder and one of the speakers of Attac Austria, initiator of the „Democratic Bank" (www.demokratische-bank.at) and the Comomon Welfare Economy/Gemeinwohl-Ökonomie/Economía del Bien Común/Economie citoyenne/Economia del bene comune (www.gemeinwohl-oekonomie.org) that is supported by about 600 companies in 15 countries.

The book „Retten wir den Euro" was published in February 2012: http://www.christian-felber.at/buecher.php