Europe: An Emergency Program to Resolve the Economic and Social Crisis

By Damien Millet and Eric Toussaint
Global Research, July 02, 2012
2 July 2012

Region: Europe
Theme: Global Economy, Poverty & Social Inequality

The European governments, in accordance with IMF criteria, have made the choice of imposing strict austerity measures. Slicing away public spending, lay-offs, pay freezes and salary cuts for civil servants, reduced access to vital public services and welfare, later retirement age, etc. Increased cost for public transport, water distribution, health services, education, etc. Heavier indirect and particularly unfair taxes like VAT. Massive privatization of companies in competitive sectors. The strictest austerity policies since 1945. The consequences of the crisis are multiplied by the so-called remedies which protect the interests of capital. Austerity seriously aggravates economic slowdown producing a snowball effect: weak growth, when there is any, automatically increases public debt. The meaning of 'triple A' becomes clear: wage Austerity, monetary Austerity and budgetary Austerity.

People are less and less willing to accept the injustice of these reforms and the serious social regression they incur. Relatively, it is the workers, the unemployed and the lowest income households who are called upon by the States to ensure the continued fattening of the creditors. Amongst these it is, as usual, women who bear the brunt of precarious, part-time and underpaid employment[2] as imposed on them by the present social and patriarchal system. The struggle for a different social logic is inseparable from the struggle for the absolute respect of women's rights.

Let's look at what this implies.

Reducing the public deficit is not in itself an objective. In certain circumstances, it may be used to stimulate economic activity and ease the conditions of the victims of the crisis. Once economic activity has picked up, public deficits must be reduced, not by reducing social expenditure, but by increasing tax revenues from the estates and incomes of the highest net value sector, cracking down on tax evasion, imposing higher taxes on capital gains and financial transactions. Deficit reduction also means non-payment of the part of the public debt found to be illegitimate, the compressing of military budgets and other spending that is socially unnecessary and dangerous for the lives of people and the environment. On the other hand it is fundamentally necessary to increase budgets for socially useful ventures and to relieve the effects of the economic depression.

Spending in favour of renewable energies, infrastructures for improved public transport, schools or public health facilities must be increased. Boosting the economy by stimulating public or private demand stimulates tax revenues. Furthermore, the crisis must offer an opportunity to break with the capitalist logic and create a radical change in society. This new logic, which still remains largely unexplored, must cast away productivism and different forms of oppression such as racism and patriarchy in favour of ecological considerations and the promotion of collective commons.

For this it is necessary to build a vast anti-crisis movement, at local level as well as on a European scale, combining creative energies and a balance of power favourable to radical solutions centred on social and climatic justice.

1.Stop unfair austerity plans which aggravate the crisis

Putting an end to antisocial austerity measures is an absolute priority. By public street demonstrations, strikes, refusal of unfair and unpopular taxes, governments must be forced to disobey the European authorities and repeal austerity plans.

2. Cancel the illegitimate public debt

Carrying out a public debt audit under citizens' control, coupled in certain cases with unilateral and sovereign suspension of repayment of public debt, would enable repudiation of the illegitimate part and greatly reduce the remainder.

There must be no question of accepting public debt renegotiations decided by creditors, primarily because of the severe conditions that go with them. The March 2012 Greek public debt plan was accompanied by the application of another dose of measures that trample on the economic and social rights of the people and the sovereignty of the Greek government[3]. According to a Troika study, despite a debt reduction accepted by the private creditors, Greek public debt will rise to 164% of GNP in 2013 ![4] This operation must be denounced in its present state in favour of an alternative. Unilateral debt repudiation by a debtor country is a very strong sovereign act.

Why must the indebted State radically reduce its public debt by cancelling what is deemed to be an illegitimate debt? First, for reasons linked to social justice, but also for economic reasons that everyone can understand and fight to achieve. To successfully emerge from the current crisis, we cannot simply create an economic stimulus package based on public demand and that of households. For if we were simply to be satisfied with such a stimulus package, combined with fiscal reform based on redistribution, the additional fiscal revenues would be to a large extent siphoned off by the repayment of the public debt. The higher contributions imposed on the richest households and major corporations would be greatly offset by the income they earn from government bonds, their being the main bond holders and beneficiaries of these bonds (which explains why they refuse to consider cancelling this debt). It is therefore necessary to cancel a very large proportion of the public debt. The scale of this cancellation will depend on the level of awareness among the victims of this debt system (the citizen debt audit could play a crucial role to this end), the way the economic and political crisis develops, and especially the real power relations that emerge in the street, in the public space, and in the workplace through present and future mobilizations. For certain countries such as Greece, Portugal, Ireland, Spain, and Hungary, cancelling the debt is an extremely hot topic. For Italy, France, and Belgium, it is starting to be one, and it will soon be a core issue in political debates throughout the rest of Europe.

For the countries already being blackmailed by speculators, the IMF, and other institutions such as the European Commission, it would be appropriate to call for a unilateral moratorium on the repayment of public debt. This proposal is gaining in popularity in the countries most seriously affected by the crisis. Such a unilateral moratorium must be combined with a citizens' audit of public borrowing, which will provide the public with the tangible proof and arguments needed to repudiate the part of the debt identified as illegitimate. As the CADTM has demonstrated in several publications, international law and domestic law provide a legal basis for engaging in such sovereign action unilaterally.[5]

The audit will also enable the various responsibilities to be determined in the indebtedness process, and to demand that those responsible both nationally and internationally be brought to justice. Whatever the case may be, it is legitimate for the private institutions and wealthy individuals who own these government bonds to bear the burden of the cancellation of this illegitimate sovereign debt, because they are to a large extent responsible for today's crisis, from which they have also profited. The fact that they must bear this burden is simply a fair and fitting step toward greater social justice. To that effect, it is also important to establish a list of owners of such government bonds in order to indemnify citizens holding bonds but having only low or medium incomes.

If the audit shows up offences linked to illegitimate debt, the perpetrators must been sentenced to pay reparations, and depending on the seriousness of their acts, these sentences should include prison sentences. Authorities who have taken out illegal loans must answer to the court.

As for the debt not found to be illegitimate by the audit, it would be appropriate to force creditors to act positively by reducing total debt stock and interest rates, as well as prolonging the payback period. Here again, it would be useful to adopt an 'affirmative action' policy in favour of those who own small quantities of government bonds and who should be paid back at the normal rate. In addition, an upper limit should be set on the proportion of the State budget allocated to pay off the debt according to a country's economic health, the capacity of a government to pay back, and essential, irreducible social expenditures. Measures should be aligned on what was done for Germany after World War II: the 1953 London Debt Agreement, which consisted in reducing the German debt by 62%, stipulated that the relationship between debt servicing and export revenues should not exceed 5%[6]. Such a ratio could be defined as follows: the amount of money allocated to paying back the debt must not exceed 5% of State revenues. In order to avoid a repeat of the crisis that began in 2007-2008, a legal framework must be adopted, which would ban the socialization of private debt, make it mandatory to organize a permanent audit of public debt policy with citizen participation, consider offences linked to illegitimate debt as being imprescriptible, nullify illegitimate debt, and adopt a golden rule according to which public expenditures that enable fundamental human rights to be guaranteed cannot be compromised and take priority over expenditures related to repayment of the debt. There is no lack of alternative routes.

3. For a fair redistribution of wealth

Direct taxes on the income of the wealthiest individuals and largest corporations have continued to drop since 1980. Hundreds of billions of euros in tax breaks have been handed out to the wealthiest, who have used them to speculate and accumulate yet more wealth.

In-depth fiscal reform aiming for social justice (reducing both the revenues and the patrimony of the wealthiest in order to increase those of the majority of the population) must be harmonized at European level in order to prevent fiscal dumping[7]. The goal is to increase public revenue, particularly via a progressive tax on the income of the wealthiest individuals (the marginal income tax rate can easily be increased to 90%[8]), as well as the tax on wealth as of a certain level, and corporate tax. This increase in revenue must go hand in hand with a rapid drop in the price of basic goods and services such as basic foodstuffs, water, electricity, heating, public transport, and educational equipment, particularly via a significant and targeted reduction of VAT on these vital goods and services. A fiscal policy should also be adopted in favour of environmental protection by creating a dissuasive tax for industries that pollute.

Several countries can combine their efforts to adopt a tax on financial transactions, particularly on foreign exchange markets, in order to increase government revenues, limit speculation, and promote exchange rate stability.

4. Wage war on tax havens

Tax evasion through tax havens is the cause of lost resources that could be used for development in northern as well as southern countries. The different G20 summits have refused, despite their declarations of intention, to face this problem. One simple measure would be to prohibit all persons or companies within a country's territory, to execute transactions with or through tax havens, punishable by a fine equal to the size of the transaction. Beyond that, these financial black holes favour illicit activities, corruption and white collar criminality. The industrial powers, which have accepted them for years, have all the necessary means to act.

Organized tax evasion deprives the community of considerable means and destroys jobs. Important public resources should be allotted to financial services so they may efficiently, and as a priority, track down and prosecute the fraud organized by big business and high net worth families. The results should be made public and the guilty heavily penalized.

5. Rein in the financial markets

Global-scale speculation represents several times the riches produced on our planet. Sophisticated packages make such speculation completely uncontrollable. The complexity of the system destructures the real economy, and discretion and opacity are the rule. This being the case, to tax faulting creditors they must first be identified. The dictatorship of the markets must be put to an end. Speculation on public debt bonds, currency exchange and staple commodities[9] must be prohibited along with short selling[10] and Credit Default Swaps. Over the counter second markets, which are real black holes escaping all regulation and surveillance, must be closed.

The credit rating agencies must also be strictly reformed and controlled, and prohibited from rating sovereign debt. Far from being an objective and scientific monitoring method they are structurally involved in neo-liberal globalization and have, on several occasions, been at the root of social disasters. The downgrading of a country's rating may raise the interest rates it must pay to successfully borrow on the financial markets – resulting in a deterioration of the economic situation of the country. The "follow my leader" behaviour of the speculators multiplies these difficulties, which will weigh still heavier on the population. The embedded submission of the rating agencies to the financial establishment makes them a major international actor. Their share of responsibility in the evolution of the crisis is not sufficiently highlighted by the media. The economic stability of the European countries has been put into their hands, without safety nets, without serious control by the authorities. For

this reason their potential for damage must be removed.
To prevent other politically destabilizing manoeuvres a strict control of capital movements must be restored.

6. Transfer the banks and insurance companies to a public sector under citizens' control

Through their own errors many banks are in a position of insolvency rather than simply having cash-flow problems. The central banks' policy of granting them unlimited credit without imposing a change in the rules aggravates the problem.

We must get back to fundamentals. Banks, by reason of their size and the potentially devastating effects their bad management can have on the economy, should be public services. Banking is too serious a business to be handled by private interests. Banks use public money guaranteed by the State and provide a basic fundamental service to society. For this reason they should become a public service.
States should reclaim their power of intervention and control of economic and financial activity. They also need instruments to make investments and to finance public spending that would require only a minimum of resources from the money markets. To achieve this it is necessary to expropriate the banks, without compensation, creating a public sector under citizens' control.
In some cases, expropriation of private banks could be costly if the State is put under the obligation of taking on the debts and toxic financial products they still hold. These costs must be recovered by the dispossession of the estates of the major shareholders. The banks have often been pushed towards insolvency by major shareholders who are private companies and who have holdings and make generous profits in other economic sectors. Their overall assets must be tapped to avoid, as much as possible, the nationalization of losses. The Irish example is emblematic ; the way Allied Irish Banks was nationalized at the cost of the Irish taxpayer is unacceptable.

We support an option that implies the elimination of the capitalist banking sector, as much in the savings and loans branches as in the merchant and investment branches. In this way there would remain just two kinds of banks: public banks with a public service status and moderate-sized cooperative banks.

Although its state of health is less publicized, the insurance sector is also at the heart of the current crisis. The big insurance companies have cut capers as risky as those of the private banks with whom they have many close ties. A large part of their assets are made up of treasury bonds and derivative instruments. Chasing a maximum of immediate profits, they have put the premiums paid by their prudential, private retirement scheme and life insurance holders dangerously at risk. The expropriation of these contracts would avoid their collapse and protect the savers and policy holders. This expropriation of insurance companies must go hand in hand with a consolidation of general pension schemes.

7. Socializing companies that have been privatized since 1980

A characteristic feature of the last thirty years has been the privatization of companies and public services. From banks to manufacturing industries, from the post office and telecommunication companies to energy and transport, governments sold off the economy wholesale, thus depriving themselves of the capacity to regulate. Those public goods, produced as they are by collective labour, must become public property again. New public companies will have to be created and public services will have to be adapted to the needs of the population, for instance, to meet the issue of climate change through the creation of a public service to insulate homes.

8. Radically reducing working hours so as to guarantee full employment and adopting an income policy to achieve social justice

Sharing wealth on a different basis is the best possible answer to the current crisis. The share in produced wealth available to workers has sharply decreased over the past decades, while creditors and shareholders have increased their profits and used the accumulated money to speculate. Increased wages not only lead to decent standards of living but also boost the financing of social security and retirement benefits.

With shorter working hours – without wage reduction but with more jobs – we can improve the workers' quality of life and provide employment to those who need it. Radical reduction of working hours also creates an opportunity to change the pace at which we live, to enrich our social relationships, and to relinquish a consumerist approach. More leisure time means an opportunity for all to actively participate in political life, to strengthen solidarity, to engage in volunteer work, and get involved in cultural activities.

The level of minimum wage, average wage and social benefits also has to be significantly raised. On the other hand a strict ceiling should be placed on CEOs' incomes, whether the company be private or public. Bonuses, stock options, executive retirement packages and other unwarranted benefits should also be forbidden. We must decide on a maximum income. We recommend a maximum discrepancy in income of 1 to 4 (as Plato recommended some 2,400 years ago) with all sources of income being taxed together.

9. Public borrowing that promotes improved standards of living, common goods and a break with the logic of environmental destruction

A State must be able to borrow so as to improve living standards, for instance through community work and investments in renewable sources of energy. Some of the financing can be supported by the current budget thanks to clear political choices, but loans can facilitate a more inclusive approach, for instance moving from a form of mobility that caters for individual cars to wide-scale development of public transport, shutting down nuclear plants and replacing them with renewable sources of energy, creating or reopening railway lines all over the country, starting with cities and suburbs, or building and renovating low energy and well equipped social housing and public buildings.

We must urgently define a transparent public borrowing policy. Our proposal is as follows: 1. the aim of the loan must be to improve standards of living and break with the current logic of environmental destruction; 2. the loan must be part of a redistributive policy that reduces inequalities. This is why we suggest that financial institutions, private corporations and rich households be legally compelled to buy government bonds at 0% interest rate and without any indexing for an amount that is proportional to what they own while other citizens can buy bonds on a voluntary basis and with a positive return higher than the rate of inflation. If annual inflation rises to 3%, the interest rate actually paid by the government for the corresponding year would be 6%. Such a measure of positive discrimination (comparable to those used to fight racial oppression in the US, the caste system in India, or gender inequalities) will contribute to greater tax fairness and a more equitable distribution of wealth.

10. Debating the Euro

The current debate on whether countries such as Greece ought to exit the euro zone is definitely necessary. Clearly the euro is a straightjacket for Greece, Portugal and Spain. If the issue figures less prominently in the present programme it is because social movements and left-wing parties are still divided by contradictory arguments. Our main concern is to bring people together on the vital issue of the debt and for the moment leave aside what divides us.

11. A different European Union built on solidarity

Several provisions in the treaties governing the EU, the euro zone and the ECB have to be repealed. For instance, we must cancel articles 63 and 125 of the Lisbon treaty which prohibit any restriction of movements of capital and any assistance to member States in a precarious position. We must also get out of the Stability and Growth Pact. The European Stability Mechanism has to be cancelled too. Moreover we have to replace the current treaties with new ones in the context of a genuinely democratic constituent process so as to draft a pact of solidarity among peoples that is mindful of both employment and the environment.

We have to completely overhaul the monetary policy as well as the status and functioning of the ECB. The political authorities' inability to bring it around to creating money is a heavy drawback. When it set the ECB above governments and thus above peoples the EU made a disastrous choice; it chose to subordinate human life to financial concerns instead of the reverse.

With several social movements denouncing rigid and inadequate statutes, the ECB had to change its established role at the height of the financial crisis. Unfortunately it agreed on doing this for the wrong reasons, not to ensure that the interests of people would be taken into account but to cover for creditors. This is proof enough that we need a new deal: the ECB and national central banks must be allowed to directly finance member States striving towards social and environmental goals that meet the fundamental needs of people.

Nowadays economic activities as diverse as the construction of a hospital or a purely speculative venture are financed along similar lines. The government should apply different rates: low rates for socially fair and environmentally sustainable investments, very high or indeed prohibitive rates for speculative operations, which in fact ought to be prohibited in some areas.

A Europe built on solidarity and cooperation should allow us to break with the ultimately debasing competitive model. Neo-liberal logic has brought us to the current crisis and exposed its failure. It has forced social indicators down: less social protection, less employment, less public services. The handful of people who have benefited from the crisis have done so by denying the rights of the majority. The culprits are in the winning seats, the victims have to pay! This logic, which underlies all founding EU documents, must be broken. Another Europe, based on cooperation among member States and solidarity among peoples must become our top priority. To achieve this, tax and fiscal policies must be coordinated and not uniformized, so as to yield an 'upward' trend (European economies are too diverse to be merged into one single mould). European-scale global policies including massive public investments to create public employment in key areas such as support services, renewable energy, fighting climate change or basic social sectors must be implemented. A different policy will require a process coordinated by the people, in order to draft a Constitution and thus build another Europe.

This other democratic Europe must strive to enforce such non-negotiable principles as tax and social justice, improved standards of living, disarmament and radical reduction of military expenditure, sustainable choices in sources of energy without the use of nuclear power, a ban on genetically modified plants. It must also put an end to its policy of besieged fortress towards immigration applicants and become a partner in fair trade with peoples of the South. The first step in this direction must be to unconditionally cancel Third World debt. Cancelling the debt is a common denominator in all the struggles we must urgently fight in both the North and the South.

Translated by Judith Harris, Mike Krolikowski, Charles La Via and Christine Pagnoulle

Damien Millet (mathematics professor, spokesperson for CADTM France www.cadtm.org) and Eric Toussaint (Ph.D, political science, president of CADTM Belgium, member of the Scientific board for ATTAC France).

Damien Millet and Eric Toussaint directed the collective work La Dette ou la Vie (Aden-CADTM, 2011), which received the Political Book Award at the Liège political book fair in 2011. See also: Damien Millet and Éric Toussaint, AAA, Audit, Annulation, Autre politique, Le Seuil, Paris, 2012. Most recent publication in English: Eric Toussaint, Glance in the Rear View Mirror. Neoliberal Ideology From its Origins to the Present, Haymarket Books, Chicago, 2012. *http://www.cadtm.org/Glance-in-the-Rear-View-Mirror*

Notes

[2] Christiane Marty, « Impact de la crise et de l'austérité sur les femmes : des raisons de s'indigner et se mobiliser », www.cadtm.org/Impact-de-la-crise-et-de-l
[3] See http://www.cadtm.org/The-CADTM-condemns-the
[4] See Reuters, http://www.reuters.com/article/2012/03/13/us-eurozone-greece-debt-idUSBRE82C0FM20120313
[5] http://www.cadtm.org/Suspending-public-debt-repayments
[6] Éric Toussaint, The World Bank, A Critical Primer, Pluto Press, London, 2007, Chapter 4.
[7] For instance, Ireland, which taxes corporate profits at a 12.5% rate. In France, the actual tax rate on CAC 40 corporations is only 8%.
[8] A 90% rate was imposed on the rich as of Franklin Roosevelt's presidency in the United States in the 1930s.
[9] Damien Millet and Éric Toussaint, La Crise, quelles crises ?, Aden-CADTM, 2010, chapter 6.
[10] Short selling: selling a value that you do not own in the hope of buying it before the end of the account at a lower price. The German authorities have prohibited this activity whereas the French among others are against prohibiting it.

Articles by: Damien Millet and
Eric Toussaint