Sado-monetarism rules ok?!

EU economic governance and its consequences

"Open your eyes:

the euro and Europe are on the edge of the precipice."

Jacques Delors, 18 August 2011

An analysis and reflection paper

by Klaus Dräger, in personal capacity

Cologne, 3 September 2011

The past decades witnessed several successful attempts by neo-liberalism to capture concepts and slogans from the left for its own policies, thereby stripping them off all their original content. One telling example for this is the notion of 'full employment': it became the emblematic theme of the EU's Lisbon Strategy (2000 – 2010), appealing to deep seated images of the 'Golden Age' of the 1960ies and 1970ies' with stable social security and regular full time employment. 'Full employment' in the context of the Lisbon Strategy however was about achieving a certain employment rate (referring to concepts such as the NAIRU – Non-Accelerating Inflation Rate of Unemployment) and was based on the growth of atypical and often precarious employment. So the Lisbon Strategy's concept was 'full employment' without any quality of employment, emptied of all the social content of the earlier notion promoted by the broader left from the 1930ies to the 1970ies.

Similarly, '*economic governance*' (or more strongly in French: *gouvernement économique*) was initially a concept propagated by forces on the left in Europe. Even its most moderate version – as promoted by then-time Commission President Jacques Delors in the 1980ies and 1990ies – was linked to the call for a 'social dimension' of the European Single Market. Delors proposed a consistent co-ordination of economic policies of EU member states to achieve stable growth, high quality employment, territorial and social cohesion in an upward direction to ensure social progress. Such calls for European 'economic government' or 'economic governance' thinned out at the end of the 1990ies – just to re-surface again astonishingly in the context of the financial and economic crisis of 2007/2009.

At first glance it seemed that French President Nicolas Sarkozy made strong claims in that direction. He demanded that as a consequence of the failure of liberalised financial markets, 'from now on no financial and economic activity should remain un-regulated', and that at least the euro-area would need a strict co-ordination of economic policies of its member states. French style '*gouvernement économique*' was strongly opposed by German Chancellor Angela Merkel, as it seemed to resemble too much the type of '*programmation économique*' pursued by French Gaullist and Socialist led governments alike from the 1950ies to 1983[1]. Such concepts were traditionally disliked by Germany's economic and political elites (whether conservative, liberal or even social democrat), as those elites always regarded German capital to be able to 'compete' in and conquer global markets on its own, while France's flirtation with 'planning' of some kind in their view was just proof of French capital being too weak to do so.

But finally from mid-2010 onwards, even Merkel's conservative-liberal coalition in Germany (and right wing governments in other parts of the European Union alike) seemed to accept the notion of 'economic governance' and made it the emblematic theme of the Lisbon Strategy's successor – Europe 2020 – and the newly introduced 'European Semester'. As I am going to demonstrate, this happened along the same trajectory of a 'transvaluation of all values' as with the notion of 'full employment' a decade earlier.

[1] In 1983, the Socialist government of Mitterand and Delors switched from a 'Keynesian' policy of boosting internal demand and nationalisations of banks (launched in 1981) to austerity policies and the 'strong Franc'. The infamous 'tournant de rigueur' seemed to be inevitable, as the social-liberal German government of Helmut Schmidt in Germany was not willing to support the earlier 'Keynesian' policies of Mitterand at the level of the European Community.

Part I

EU Economic Governance and its components

In order to steer EU policies for exit from fiscal stimulus towards 'fiscal consolidation' and renewed economic growth via 'structural reforms' and a re-invigorated European internal market over the next decade, the European Council from the end of 2009 onwards agreed step by step on a bundle of initiatives on economic governance. The EU economic governance package contains several components:

1. The 'Europe 2020 Strategy' (2010 – 2020) as the successor of the Lisbon Strategy, based on 5 'headline targets' and the 'Europe 2020 Integrated Guidelines' (integrating the 'Broad Economic Policy Guidelines' and the 'Employment Guidelines' - as stipulated by Articles 124 and 148 TFEU respectively - in a single document). Its aim is to motivate member states to pursue so called 'structural reforms' in line with the Integrated Guidelines.[2]

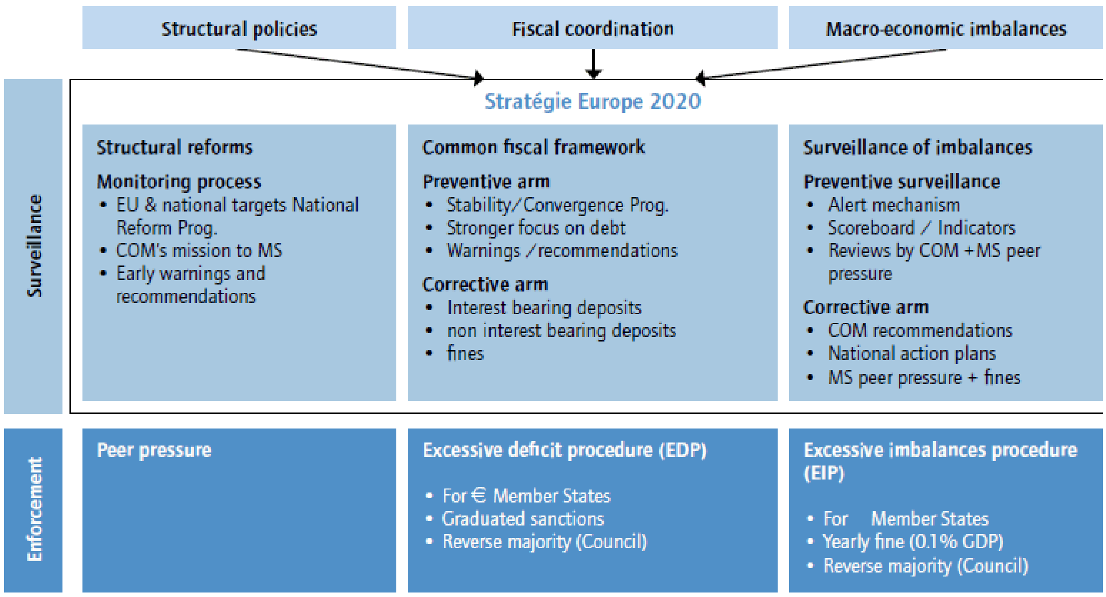
2. The Common Fiscal Policy Framework, addressed by the 'Excessive Deficit Procedure' (EDP) to ensure compliance with the Stability and Growth Pact and to be made operational through member states Stability and Convergence Programmes. Its aim is to ensure compliance with the budget deficit criteria (below 3 %) for most member states by 2013 and beyond, and also to reduce general government debt below 60 %.

3. Surveillance of member states' economic policies, focussing on the 'prevention and correction of macro-economic imbalances' and introducing a new 'Excessive Imbalances Procedure' (EIP).

4. The 'EuroPlus Pact' agreed by the March 2011 EU Summit, by which the 17 member states of the euro-area plus Denmark, Poland, Latvia, Lithuania, Bulgaria and Romania commit themselves to efforts on top of existing EU commitments and arrangements to strengthen 'competitiveness', accompanied with a timetable and surveillance framework for implementation.

[2] See EuroMemorandum 2010/2011, ‚Confronting the Crisis: Austerity or Solidarity', Box 3, 'The Europe 2020 Strategy – the Lisbon matrix re-loaded'

Figure 1: The components of EU ‚integrated economic governance'

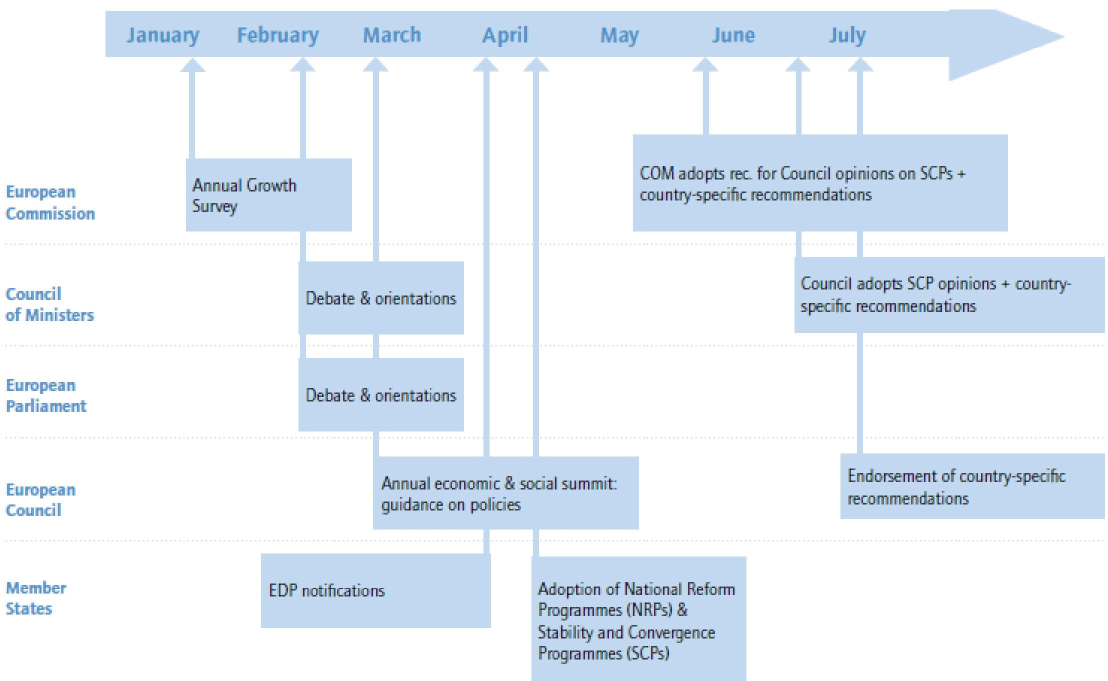


Source: European Commission 2010

Note: Commitments under the EuroPlus Pact will be added under the 'Structural Policies' and 'Fiscal coordination' pillars (the Stability and Convergence Programmes, in the latter case)

In order to coordinate EU economic governance, the Council launched the so-called 'European Semester' as an overarching procedure covering these four components to this end. The aim of the European Semester is to influence the fiscal, macro-economic and labour market policies of EU member states already before they have finalised their national budgets, which usually occurs in autumn each year. In the words of the European Commission, the European Semester is about 'injecting the EU dimension into national policy-making'.

Figure 2: European Semester - timing and sequence of surveillance



Source: European Commission 2010

In a speech delivered at the European University Institute in June 2010, Commission President Barroso called this a "*silent revolution in terms of economic governance by small steps*".

The European Semester starts each year with the European Commission's 'Annual Growth Survey', to be published in January (accompanied by the Joint Employment Report). Apart from analysis of the economic situation of the Union and an evaluation of government's performance in the implementation of EU commitments, the Annual Growth Survey contains proposals from the Commission on which fields of action or measures EU and member states' policies should focus in the current policy cycle and the next year. The March EU Summit then provides some general 'policy guidance' to member states on this. Member states in return submit their final National Reform Programmes (NRP) and their Stability and Convergence Programmes (SGP) in April. These will be assessed by the Commission and the Council, to be followed by general 'recommendations' from the Council and country-specific recommendations in June/July. In the second half of the year, member states are expected to implement the Council's recommendations – the so-called national semester. The following year this process will be repeated again and so on.

The National Reform Programmes shall cover member states commitments on implementing the Europe 2020 Strategy, on preventing or correcting macro-economic imbalances - and for those who signed in to it – also on implementing the Euro Plus Pact. Enforcement of commitments in these areas relies mainly on 'peer pressure' – that is 'naming and shaming' of those member states which are regarded as showing insufficient ambition in pursuing neo-liberal 'structural reforms' as demanded by the EU level 'early warnings' and 'recommendations'. On the reform of the Stability and Growth Pact and on macro-economic surveillance, tightened procedures are envisaged leading up to tougher sanctions and fines. The Council already reached agreement on a general approach concerning a package of six legislative proposals of the Commission in that regard.[3] Due to some differences with the majority of the European Parliament, the final adoption of this so-called 'six-pack' is expected for September 2011 as a first reading agreement.

The legislative package on economic governance in a nutshell

The *reform of the Stability and Growth Pact (SGP)* addresses it's so called 'preventive' and 'corrective' arms.

The purpose of the 'preventive arm' is that member states shall stay on track with efforts to ensure that budget deficits are reduced below 3 % of GDP in the timeframe agreed upon by the Council (usually by 2012/2013). To this end, member states have to adopt multi-annual consolidation plans in line with 'medium-term-objectives' (MTO's) set at EU level, detailing specific deficit, revenue and expenditure targets. They shall explicitly lay down their strategy envisaged to reach these targets and also a timeline for its implementation.

While the 'old' SGP demanded from member states an annual structural adjustment of up to 0.5 per cent of GDP, now in most cases an annual adjustment well above that rate is required. Member

[3] The package consists of:
- a draft regulation amending regulation 1466/97 on the surveillance of member states budgetary and economic policies;
- a draft regulation amending regulation 1467/97 on the EU's excessive deficit procedure;
- a draft regulation on the enforcement of budgetary surveillance in the euro area;
- a draft regulation on the prevention and correction of macroeconomic imbalances;
- a draft regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area;
- a draft directive on requirements for the member states' budgetary frameworks.

States facing very large structural deficits, very high or rapidly increasing levels of public debt shall be obliged to 'front-load' fiscal 'consolidation, that is to reduce deficits at larger proportions and at a much faster pace. Furthermore, if a member state should be lucky enough to increase government revenue (e.g. through an unexpected rise in tax receipts), these shall not be allocated to new expenditure but primarily to debt reduction. To this end, a new rule is introduced that annual expenditure growth should not exceed a reference medium-term rate of GDP growth. Sanctions may follow for member states with an expenditure growth exceeding the reference rate and not achieving their mid-term-objectives.

The purpose of the SGP's 'corrective arm' is to punish member states which fail to comply with EU level targets set for them on reducing deficits. Under the 'old' SGP, sanctions and fines were only applicable with regard to the budget deficit criterion (below 3 % of GDP). Now the general government debt criterion (below 60 % of GDP) is also taken into account. Member states whose overall public debt exceeds 60% of GDP are required to take steps to reduce this debt at a pre-defined pace of 5 % annually over a period of 3 years, even if their budget deficit is below 3% of GDP. If they fail to comply with a numerical benchmark based on those requirements, sanctions and fines may follow. For euro-area member states, new sanctions and fines will be introduced. Already at the stage when the Council has launched an excessive deficit procedure against such a member state, a non-interest bearing deposit of 0.2 % of GDP may be imposed on that country. If the Council's recommendation for correcting the deficit is not followed, a fine will be imposed. Further non-compliance would result in the sanction being stepped up.

The upshot on the reform of the Stability and Growth Pact is a further tightening of its stipulations, reinforcing its pro-cyclical character.

The *prevention and correction of macro-economic imbalances* within the European Union is mainly about how to tackle increasing current account deficits of some member states, most notably from southern and eastern Europe, and also – at least nominally – excessive current account surpluses of some other member states – most notably Germany, Austria and the Netherlands. The starting point of the new framework will be an alert mechanism for the early detection of imbalances, which will be assessed using a "scoreboard" of economic indicators (amongst them wages and unit labour costs). This shall be supplemented by country-specific qualitative expert analysis. 'Threshold levels' will be defined for considering whether the detected imbalance is to be regarded as 'excessive'. If a member state persistently 'underperforms', the excessive imbalance procedure will be launched. If the member state fails to comply with the recommendations of the Council to correct the imbalance, it may be subjected to a yearly fine of 0.1 % of its GDP (if a member of the euro-zone) or 'named and shamed' (if not).

The underlying rationale of this concept was neatly explained by the Commission earlier on: "*In particular, large price and cost adjustments will be needed in Member States which have accumulated large losses in competitiveness and large current account deficits in pre-crisis years. This calls for policy action to foster gains in labour productivity and enhance wage flexibility. (…) Policy-makers can affect wage setting processes via a number of ways, including the provision of information or wage rules, changes to wage-indexation rules and the signalling role played by public sector wages. In addition, reforms of labour markets should also contribute to make wage setting processes more efficient."*[4]

An 'excessive current account surplus' may also be regarded as constituting an 'excessive imbalance'. But the 'solutions' recommended to correct such imbalances are interesting: "*In Member States which accumulated large current account surpluses in pre-crisis years, there is a need to identify and tackle the sources of persistent weakness in some parts of private sector demand, including the*

[4] European Commission: Surveillance of Intra-Euro-Area Competitiveness and Imbalances, European Economy 1/2010

possible role of a lack of competition in the service sector, of the tax system and credit constraints."[5] So the problem is not with German 'wage dumping' (excessively curbing the growth of unit labour costs below or near zero for more than a decade). Instead, weak internal demand shall be tackled by more deregulation in the services sector and network industries, lower taxation and so on. All these orientations are repeated by the Commission's Communication on 'Concluding the first European Semester of economic policy coordination: Guidance for national policies in 2011 – 2012'.[6]

EU economic governance and democracy

Decision making in this process of EU economic governance - whether on launching EDPs or EIPs, sanctions and fines, or formulating policy recommendations at EU level and country-specific recommendations to member states - are exclusively within the Council's remit. The European Commission has a right of initiative - that is proposing to the Council to launch an EDP or EIP, proposing recommendations etc. – and a role in supervising its implementation.

The European Parliament has no role at all in decision making on EU economic governance, and neither in the implementation process.[7] It only has a right to deliver a non-binding opinion to the Council on the employment policy part of the Europe 2020 Integrated Guidelines, on which the Council is entirely free to decide whether or not to take something on board from Parliaments views. It may deliver a non-binding opinion on the Commission's Annual Growth Survey. On all the other components of economic governance - fiscal coordination, macro-economic imbalances, 'broad economic policy' part of the Europe 2020 Integrated Guidelines, Euro Plus Pact - Parliament does not even have the formal right to deliver an opinion. Thus EU economic governance remains mainly an intergovernmental process with a highly questionable democratic legitimacy.

The centre-right majority of the European Parliament first proposed a regular 'Economic Dialogue' on the European Semester with the Commission and the Council, in order to be better involved in the process and its implementation. However, the 'Economic Dialogue' would be based on mere information of the Parliament, providing it with no decision making powers in the process. Finally, Parliament just demanded that it's competent committee '*may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee'* to discuss matters linked to the European Semester – which is something that Parliament's committees can do anyhow if they choose to do so. [8]

[5] European Commission, op. Cit., footnote 3

[6] COM(2011) 400 final, Brussels 7.6.2011

[7] Parliament of course has co-decision rights on the legislative package, but when this is finished, that was it. On 23 June 2011 the EP adopted the texts of amendments to the six proposals of the Commission, but postponed the final vote on the legislative resolutions. Thus Parliament did not finalise its first reading of those dossiers, hoping to achieve a compromise with the Council which can be voted in September 2011.

[8] The matters referred to by Parliament are: "(a) information provided to it by the Council on the broad guidelines of economic policy pursuant to Article 121(2) TFEU; (b) general guidance to Member States issued by the Commission at the beginning of the annual cycle of surveillance; (c) any conclusions drawn by the European Council on orientations for economic policies in the context of the European Semester; (d) the results of multilateral surveillance carried out under this Regulation; (e) any conclusions drawn by the European Council on the orientations for and results of multilateral surveillance; (f) any review of the conduct of multilateral surveillance at the end of the European Semester; (g) Council recommendations addressed to Member States in accordance on Article 121(4) TFEU in the event of significant deviation as defined in Article 6(2) and Article 10(2) of this Regulation." (AMENDMENTS BY PARLIAMENT to the Commission proposal REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies; P7_TA-PROV(2011)0291)

The only directly elected institution of the European Union does not push for co-decision or veto powers of the Parliament on economic governance. Instead, this Parliament calls for increased powers of the European Commission and more 'automatic' procedures and sanctions in order to curb what it calls 'political horse trading' in the Council.

In its six pack legislative proposals on economic governance, the European Commission demanded that at the last stage of imposing sanctions to euro-area countries - both for excessive deficits and macroeconomic imbalances - the Council could block the sanction proposed by the Commission only by a qualified majority. This is the infamous 'reverse qualified majority voting', which is highly controversial.[9] The Council so far wants to stick to the qualified majority voting (QMV) procedure as laid down in the Treaties, following a respective proposal agreed by Sarkozy and Merkel at their meeting at Deauville in October 2010.

The European Parliament however calls for applying reverse QMV not only in the final stage of sanctions, but in earlier stages of an excessive deficit procedure, and also with regard to the excessive imbalances procedure. Proposals and recommendations of the Commission would 'automatically' be adopted, if the Council would not manage to reject it by a qualified majority within a period of 10 days. Even if more than half of all EU member states would disagree with a certain recommendation or sanction proposed by the Commission, it would be adopted and would have to be implemented nevertheless.

Isn't it ironic that such proposals come from the only directly elected EU institution, publicly regarded as standing for a strengthening of 'representative parliamentary democracy' at EU level?[10]

Usually Parliaments' centre-right poses as the standard-bearer of 'democracy' in opposition to e.g. 'Communist China', criticising that there all economic and other policy decisions are taken by a 'bureaucratic party elite dictatorship'. But when it comes to economic policy making within the EU, the same 'staunch advocates of democracy' promote a 'rules based system' and 'automaticity', aiming to reduce even the political discretion of such an opaque body - in terms of democratic accountability - as the European Council. The EP majority instead prefers to give the European Commission (an unelected body, not accountable to any democratic sovereign) even more powers than it had asked for. The major thing that Parliament asks for itself is to have a more prominent role in the process of 'naming and shaming' of those member state's governments that do not sufficiently comply with the tightened rules. They shall be invited to a sort of 'tribunal': "*The competent committee of the European Parliament may offer the opportunity to the Member State concerned by the Council recommendation in accordance with Article 6(2) and Article 10(2) to participate in an exchange of views.*"[11] It will be interesting to see on what Parliament and Council finally can agree on the 'six pack'. In any case, however, this will not be a milestone to enhance democracy in EU economic policy coordination.

The Euro Plus Pact and EU economic governance

The Euro Plus Pact adds up to and is deeply intertwined with the other components of EU economic governance. Its proclaimed aim is to "achieve a new quality of economic policy coordination, improve competitiveness, thereby leading to a higher degree of convergence. This Pact focuses primarily on

[9] Usually the Council would have to adopt the sanction by a qualified majority, and if there is a blocking minority, no sanction could be imposed.
[10] It should be noted that the groups of Social Democrats (S&D) and Greens in the European Parliament are less than clear on opposing and rejecting reverse QMV in the Council as proposed by the Commission.
[11] P7_TA-PROV(2011)0291

areas that fall under national competence and are key for increasing competitiveness and avoiding harmful imbalances."[12]

The pact is an intergovernmental agreement between the member states of the euro-area and those non-euro EU member states having joined it. Under the Pact, member states shall engage themselves with new and more ambitious commitments and actions than those already agreed at EU level, focussing on four objectives (competitiveness, employment, sustainability of public finances, financial stability). Each year more concrete common objectives shall be set by the Heads of State or Government at EU level, to be transposed into concrete annual commitments of each national government, to be included in the National Reform and Stability Programmes and to be subject to the regular surveillance framework. Implementation shall be monitored by the European Commission. Monitoring and implementation of the commitments in the framework of the Pact are based on 'peer reviews' and 'naming and shaming' if commitments were not fulfilled.[13]

The Pact builds largely on the earlier proposals of Angela Merkel and Nicolas Sarkozy for a 'Competitiveness Pact', partly reformulated. Member States shall institutionalise a 'debt brake' mechanism to "*ensure fiscal discipline at both national and sub-national levels*". Hence, in order to promote 'financial sustainability', more ambitious 'reforms' as regards pensions systems, health care and social benefits at large should be envisaged. 'Convergence' and the reduction of current account deficits shall be achieved along a German style 'cost cutting strategy' aiming at re-storing or improving price competitiveness. Unit Labour Costs (ULC's) shall be strictly monitored in order to ensure that wages evolve in line with productivity[14], and several measures undertaken to boost productivity to avoid an 'erosion of competitiveness'.

Below I just point out some key-words and political orientations contained in the Pact, which are equally addressed in all the documents on EU economic governance - be it the Europe 2020 Integrated Guidelines, the Commissions Annual Growth Survey (AGS), the legislative package or whatever:

- review wage setting arrangements, and, where necessary, the degree of centralisation in the bargaining process, and the indexation mechanisms (Commission AGS: strict wage moderation);
- wages settlements in the public sector must support the competitiveness efforts in the private sector, bearing in mind the important signalling effect of public sector wages; (also in the Europe 2020 Guidelines);
- promote a business friendly environment, further open up sheltered sectors of the economy to foster competition and effectiveness;
- labour market reforms to promote “flexicurity";
- aligning the effective retirement age with life expectancy;
- completion of the Single Market which is key to enhancing the competitiveness in the EU and the Euro area;
- measures to improve the business environment, particularly for SMEs, notably by removing red tape and improving the regulatory framework.

[12] European Council Conclusions 24/25 March 2011, Annex I, The Euro Plus Pact. Stronger Economic Policy Coordination for Competitiveness and Convergence

[13] "*Progress towards the common objectives above will be politically monitored by the Heads of State or Government on the basis of a series of indicators covering competitiveness, employment, fiscal sustainability and financial stability. Countries facing major challenges in any of these areas will be identified and will have to commit to addressing these challenges in a given timeframe.*"

[14] This means that wage increases should in no case be allowed to exceed productivity growth. Compensation for inflation and a redistribution of profits towards wages (thus increasing the wage share as part of gross national income and breaking the trend of the last decades of a decrease in the wage share) are completely ruled out of the picture.

With its focus on 'more ambitious' competitiveness and convergence, the Euro Plus Pact might be regarded as the 'spearhead' of mutually reinforcing components of EU economic governance.

In this context, the emphasis put on wages and wage setting deserves special attention. Since the Treaty of Maastricht, the EU ‘Broad Economic Policy Guidelines’ always pledged for a policy of wage moderation, however in a very general way. The Euro Plus Pact now delivers a more concrete and challenging message to working people and trade unions. As many EU Member States already imposed severe cuts or a freezing of public sector wages in the framework of austerity policies – either by government decree or by ‘concession bargaining’ with trade unions – everybody can imagine what is meant by the ‘signalling effect of public sector wages’. In many EU countries the public sector is still the most unionised part of the economy. In my view the Pact can only be interpreted as an attempt to break the remaining power of public sector unions, and from there on to further curb the power of trade unions in the private sector (which is already very weak in quite a number of member states).

For the first time the wage setting process and collective bargaining – although excluded from the scope of the EU Treaties - are explicitly addressed by the Pact with the aim to bring wage negotiations down to the level of the firm (e.g. by introducing review or exemption clauses in that regard to industry/services branch collective agreements, etc.), and thus breaking the power of trade unions to establish a “wage norm” at national or industry branch level. “Reviewing indexation mechanisms” means the weakening or total abolishment of existing legislation in some EU member states that e.g. provide for a more or less ‘automatic’ increase of wages or minimum wages compensating for inflation.

Of course the Pact claims that all this shall be done with due respect to ‘social dialogue’. But ‘social dialogue’ would be put on a much different footing if all these measures were implemented, revamping the structure and national models of ‘industrial relations’ in many member states that provided for a certain institutional power of trade unions in the context of the (still asymmetrical, maintaining the dominance of capital) ‘class compromise’ after the Second World War. All this is about curbing that institutional power of the trade unions – or maybe even opening the road to ‘union busting’ legislation in case trade unions do not want to comply with the envisaged new arrangements.

Needless to say that the same applies to what has remained of the (Keynesian) welfare state and social security after decades of dismantling ‘systemic reforms’, which shall be further accelerated and ‘deepened’ (pension and health care, labour law, unemployment and other social benefits etc.).

It will be interesting to see how the trade union movement in Europe will respond to these ‘challenges’.

Part II

Saving the euro?

Last but not least, the EU´s management of the 'euro crisis' and its efforts to safeguard the stability of the euro complete the picture on EU economic governance.

The prototype for the EU´s 'solutions' on balance of payments crises was already developed in 2008/2009. As the effects of the financial and economic crisis began to hit Eastern Europe, the European Council - on a proposal from the Commission - topped up the already existing EU facility for medium-term financial assistance for non-euro-area member states' balances of payments (BoP facility) from €12 billion to finally €60 billion. This facility and the International Monetary Fund (IMF) provided joint financial assistance to avoid a severe balance of payments crisis to Latvia, Hungary and Romania. These countries in return had to implement harsh austerity and 'structural adjustment' programmes dictated jointly by the EU and the IMF.

On the same model, the €110 billion 'rescue operation' for Greece as a member state of the euro-area was launched in May 2010. €80 billion were mobilised via bi-lateral credit from euro-area member states, €30 billion from the IMF. Greece was obliged to pay an interest rate of 3 % to the IMF, and of 5 % to the EU countries for the 'bailout' loans.

As financial markets' fears of possible contagion and default of other EU member states could not be calmed down by this, a new mechanism was created along the same lines, to be operational until 2013. It can mobilise €60 billion from the EU budget via the European Financial Stability Mechanism (EFSM)[15], €440 billion guaranteed by euro-area member states and to be paid out via the newly created European Financial Stability Facility (EFSF), and €250 billion from the IMF. The EFSF finances the credits by issuing bonds with an AAA rating and also holds a cash reserve. It is made operational through a special purpose vehicle set up under Luxemburg law with all participating euro-area member states as shareholders. The disbursement of funds from the EFSF would require unanimity among member states. It is expected to create a surplus, as its own borrowing costs are much lower than the interest rates it charges on the countries receiving assistance from it. Also, the European Central Bank agreed to buy up government bonds on the financial markets, even such ones with lower ratings.

What soon followed was the €85 billion bail-out for Ireland in November 2010 (€22.5 billion from IMF and the same amount from EFSM, €18 billion from EFSF), at an interest rate of about 5.8 %. Portugal was next in May 2011, with an emergency loan package of €78 billion shared equally by the EFSM, EFSF and IMF (€26 billion each).

Finally the European Council agreed to establish a permanent stability mechanism for the euro-area, the European Stability Mechanism (ESM). It shall become operational after June 2013, assuming the role of the EFSF and EFSM in providing financial assistance to euro-area member states in a balance of payment crisis. The ESM shall be activated only "*if indispensable to safeguard the stability of the euro-area as a whole*". The European Council shall act upon 'mutual agreement', that is a decision by unanimity of the member states participating in the vote (abstentions do not prevent the decision

[15] The EFSM is modelled on the earlier BoP facility for non-euro member states and controlled by the European Commission. It shall act as a rapid reaction stabilisation fund. The money is borrowed by the Commission on financial markets, using the EU budget as collateral. All 27 member states are liable for the EFSM if the €60 billion are disbursed and not paid back, because the EU budget cannot legally go into deficit. €60 billion represents about half of an annual EU budget.

from being adopted). Article 136 of the Treaty shall be changed in order to establish the ESM under primary EU law.

Financial assistance from the ESM shall be provided on the basis of "*strict policy conditionality*", under a macro-economic adjustment program and a rigorous analysis of public-debt sustainability. The ESM shall have an effective lending capacity of € 500 billion. This is to be backed by a total subscribed capital structure of € 700 billion - € 80 billion by paid-in capital from member states over five instalments, € 620 billion via guarantees or committed callable capital.

However, as austerity measures and 'structural reforms' dictated by EU and IMF prolonged recession in the countries receiving assistance, more and more commentators doubt whether those will be able to repay their debt. Financial markets did not lose their fears of possible sovereign default, bond spreads continued to increase (also as a result of speculative activities), thus making it ever harder for an increasing number of governments (Greece, Ireland, Portugal, Spain, ...) to re-finance themselves.

The second 'bailout for Greece'

For Greece, this became already obvious in May-June 2011, when after some political maneuvers the Papandreou government admitted that it would need another bailout package to avoid default. As a result of the draconian austerity and 'structural reforms' package imposed by the EU and the IMF and slavishly executed by its socialist government, Greek GDP had fallen by 8.5 % since early 2010. This made it impossible - apart from the refusal of the Papandreou government to target the wealthy - to raise tax revenue to service the debt sufficiently. The first reaction of EU and IMF was to impose another €28 billion austerity package – mainly based on grand style privatisation of public assets – in exchange for granting another tranche of €12 billion funding. When it became obvious that this could not avoid a default, the long and hotly debated option of a restructuring of Greek debt and a larger second €109 billion bailout package was brought on track by the European Council special summit in Brussels on 21 July 2011.[16] The IMF was called upon to continue to the financing of the new programme. It is a coercive, creditor-led debt restructuring, of course.

The main elements of the second bailout for Greece and for new future arrangements for EFSF and ESM are:

- extending the maturity of the loans from the first bailout package (2010) to Greece, and in particular for the second package to be disbursed by the EFSF from the current 7.5 years to a minimum of 15 and maximum of 30 years, with a grace period of 10 years (debt restructuring);
- the new EFSF loans to Greece shall be provided at lower lending rates (3.5 % instead of the 5 % of the first package, the same reduced EFSF lending rates shall apply to Ireland and Portugal) and, if necessary, resources for a recapitalisation of Greek banks;
- a voluntary involvement of the private (financial) sector in Greek debt-restructuring (bond exchanges and rollovers) of an estimated amount of €37 billion and a debt buy back programme of €12.6 for Greece;
- 'mobilising the EU Structural Funds and the EIB to re-launch the Greek economy';
- increasing the flexibility of EFSF and ESM lending 'linked to appropriate conditionality', allowing them to act on the basis of a precautionary programme, to finance the recapitalisation of financial institutions through loans to governments including in non-programme countries (e.g. to Italy, Spain etc. …), and to intervene in secondary markets (that

[16] Council of the European Union: Statement by the Heads of State and Government of the Euro-area and EU Institutions, Brussels, 21 July 2011

is to buy sovereign bonds etc.) if the ECB analyses that there are 'exceptional financial market circumstances' and 'risks to financial stability' and if the EFSM/ESM member states give the green light for such interventions by 'mutual agreement'.

The ECB hoped to get off the hook having to intervene in secondary markets to buy government bonds with a 'bad' rating – this naughty task shall be handed over to the EFSF/ESM in the future. So much on the function of the ECB as 'lender of the last resort'.[17] More importantly, the existing 'conditionality' for EU assistance – austerity and 'structural reforms' – will continue to be applied, with all the already known consequences of prolonging recession.[18] The statement of the Euro-group boasted that "*member states and the Commission will immediately mobilize all resources necessary in order to provide exceptional technical assistance to help Greece implement its reforms*" – that is, giving orders on how the draconian austerity measures dictated by the 'troika' of EU, ECB and IMF have to be put to practice quickly and thoroughly. Even the OECD - whose latest *Economic Survey of Greece 2011* was full of praise for the 'ambitious and impressive adjustment programme' of the PASOK government - just corrected its GDP growth estimate for Greece for 2011 downwards, from -2.9 % to -3.5 %. Others predict Greece's GDP growth to fall by 5 % in 2011.

Will the second bailout enable Greece to get its sovereign debt back on a sustainable path? There are quite a number of voices amongst economists raising severe doubts about such an optimistic scenario.

Extending the maturity of EU member states' loans to Greece will give the country more time for paying back its debts. Also, reducing the interest rate on these loans might alleviate this job. However, maintaining the current conditionality or further tightening it might implicate that the Greek economy collapses, and then even longer horizons for servicing debt might not help that much. The question is whether such a 'policy mix' can create the necessary conditions to reduce the debt-to-GDP ratio (estimated by the IMF to peak at 172 % of GDP in 2012) sufficiently and quickly enough to achieve debt levels that Greece can cope with.

This was at the core of the debate about a hair-cut for bond-holders, which gained momentum in the media as prospects for a default of Greece became more and more obvious. Writing off 50 – 60 % of the net present value of Greek government bonds held by the private sector was seen as both necessary and justified even by many conservative commentators. Greek bonds were already traded on financial markets with discounts of up to 50 % of their nominal values. In the run-up to the Council meeting of 21 July 2011, Commerzbank CEO Martin Blessing pledged for a 30 % haircut on Greek bonds.

However, the blueprint for the 'private sector involvement' in the second bailout for Greece (and obviously larger parts of the EU debt-restructuring plan) was delivered by the Institute of International Finance (IIF) – a private institution set up by large global players in banking and insurance, chaired by Deutsche Bank CEO Josef Ackermann.[19] The IIF proposal for private sector

[17] The EFSF and ESM, argues Belgian economist Paul De Grauwe, "will never have the necessary credibility to stop the forces of contagion, because neither can guarantee that the cash will always be available to pay out sovereign bond holders. Even if the resources of that institution were to be doubled or tripled relative to its present level of €440 billion, this would not be sufficient. Only a central bank that can create unlimited amounts of cash can provide such a guarantee." De Grauwe, Paul (2011): Only a more active ECB can solve the euro crisis; CEPS Policy Brief No. 250, August; http://www.ceps.be/book/only-more-active-ecb-can-solve-euro-crisis

[18] In this context, nobody talks about Greek pension funds exposure to a possible 'haircut', amounting to €25 billion. I wish to thank Prof. Maria Karamessini for pointing this out to the Euromemorandum Group.

[19] Several media reported that the IIF plan was presented in advance to the German Ministry of Finance and strongly influenced the German position for the Council meeting (see e.g.

involvement envisages a voluntary debt restructuring with a bond-exchange menu with four options: two of them involving an immediate haircut of 20 % on old bond values but higher interest rates on the new ones, and the other two no haircut on the old bonds but lower interest rates on the new ones.

The IIF claims that its proposal will result in a 21% reduction in the net present value of an estimated €135 billion of Greece's sovereign debt that matures between 2011 and 2020. Taking this claim at face value, this is not much of a 'haircut' for private bondholders - rather a gain, as they had to expect a default of Greece (and lose much more) and as they had to expect a 'market value' of their bonds reduced by 50 % when trading them. Equally, the estimated €37 billion contribution of the private sector to the bail out is 'peanuts' (to repeat Hilmar Kopper's infamous phrase, another former CEO of Deutsche Bank) compared to the €220 in public monies for the two 'rescue packages' only for Greece.

Having taken a closer look at the 'fine print' of the IIF proposal, economists Ricardo Cabral (University of Madeira) and Hugo Dixon (Reuters Breakingviews)[20] concluded that Greece's debt will rise and not fall as a result of the second EU 'rescue scheme'. According to the IIF, Greece would have to purchase 30-year-AAA zero coupon bonds as collateral for the bond exchange, recapitalise its banks and other measures, and all this with loans from the EFSF. All in all, Dixon estimates that Greece would end up with a debt-to-GDP ratio of 179 % in 2012. Cabral calculates that the private sector 'haircut' would just amount to 7 %.

In Cabral's perception, "*the EFSF loan interest rate reduction to 3.5% could alternatively be interpreted as a 'sweetener' (…) that is actually backed by EU's creditor nations' taxpayers*" which shall ensure "*that more of Greece's resources are available to pay interest on the new post-exchange instruments held by private sector investors.*" As most banks from creditor countries of the EU 'core' were able to reduce their exposure to Greek debt up to May 2011, the risk of a Greek default is shifted to the public loans and guarantees mobilised by taxpayer's monies.

'Mobilising the Structural Funds and the EIB to re-launch the Greek economy' – the so much trumpeted 'Marshall-Plan for Greece' – does not involve any 'fresh money' from the European Union. It simply refers to earlier announcements (21 June 2011) by the European Commission to disburse cohesion funds (and possibly EIB funding) earmarked for Greece more quickly. There is certainly a delay on the side of the Greek authorities to develop and implement projects under the current programming period of the EU Structural Funds (2007 – 2013, with a total volume of €20.4 billion for Greece – that is an amount of roughly €4 billion per year). This is also due to Greece's problems of providing the national co-financing. 'Frontloading' the remaining €8 - 12 billion for 2011 and 2012 – even if there should come additional monies from the EIB – can not be regarded as a sufficient investment to contribute to a 're-launch of the Greek economy', especially as the next austerity measures are to be launched in September 2011 by the Greek government in return for the first tranche of the new bailout package. The 'Marshall Plan for Greece' is nothing but a new spin by the EU authorities.

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http://www.wdr.de/tv/monitor/sendungen/2011/0616/Griechenland.php5), and also that IIF representatives were present at the fringes of the Council meeting to discuss about the 'private sector contribution'.

[20] Ricardo Cabral: Greece's 2nd bailout – debt restructuring without debt reduction?; vox-eu, 29 July 2011, http://www.voxeu.org/index.php?q=node/6818; Hugo Dixon: Greek rescue bizarrely increases its debts; Reuters, 25 July 2011; http://blogs.reuters.com/columns/2011/07/25/greek-rescue-bizarrely-increases-its-debts/

Financial market turbulence continued

Commenting on the results of the 21 July EU Summit, Commission President Barroso boasted that "*politics and the markets are coming together*" and that "*we have a credible package*".[21] Only two weeks after this event spreads for Italian and Spanish bonds rose close to the 7 per cent mark that triggered Portugal's move in May 2011 to accept the EU's bailout plan.

Table 1: 10 year government bond yields, European Union

Harmonised long-term interest rates for convergence assessment purposes (1)
(percentages per annum; period averages; secondary market yields of government bonds with maturities of close to ten years (2))

Countries	July 10	Aug. 10	Sep. 10	Oct. 10	Nov. 10	Dec. 10	Jan. 11	Feb. 11	Mar. 11	Apr. 11	May 11	June 11	July 11
Euro area													
Belgium	3.29	3.03	3.12	3.21	3.48	3.99	4.14	4.21	4.21	4.29	4.21	4.14	4.22
Germany	2.62	2.35	2.30	2.35	2.53	2.91	3.02	3.20	3.21	3.34	3.06	2.89	2.74
Ireland	5.32	5.30	6.14	6.42	8.22	8.45	8.75	9.10	9.67	9.79	10.64	11.43	12.45
Greece	10.34	10.70	11.34	9.57	11.52	12.01	11.73	11.40	12.44	13.86	15.94	16.69	16.15
Spain	4.43	4.04	4.09	4.04	4.69	5.38	5.38	5.26	5.25	5.33	5.32	5.48	5.83
France	2.99	2.68	2.68	2.72	3.00	3.34	3.44	3.60	3.61	3.69	3.49	3.43	3.40
Italy	4.03	3.80	3.86	3.80	4.18	4.60	4.73	4.74	4.88	4.84	4.76	4.82	5.46
Cyprus	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	5.78	6.25
Luxembourg (3)	2.98	2.65	2.67	2.73	2.94	3.32	3.30	3.45	3.47	3.58	3.29	3.15	3.03
Malta	4.13	4.01	3.90	3.90	4.12	4.42	4.51	4.60	4.68	4.73	4.63	4.63	4.59
Netherlands	2.85	2.56	2.52	2.58	2.79	3.16	3.23	3.41	3.42	3.65	3.40	3.28	3.17
Austria	3.07	2.77	2.80	2.82	3.01	3.43	3.54	3.68	3.68	3.76	3.53	3.43	3.35
Portugal	5.49	5.31	6.08	6.05	6.91	6.53	6.95	7.34	7.80	9.19	9.63	10.87	12.15
Slovenia	3.87	3.67	3.64	3.56	3.77	4.11	4.29	4.26	4.30	4.53	4.43	4.58	4.89
Slovakia	3.93	3.73	3.59	3.67	3.80	4.06	4.16	4.24	4.32	4.33	4.33	4.39	4.55
Finland	2.85	2.62	2.58	2.63	2.82	3.19	3.27	3.41	3.45	3.57	3.32	3.29	3.16
Non-euro area													
Bulgaria	6.05	5.99	5.90	5.82	5.74	5.76	5.56	5.48	5.38	5.33	5.39	5.39	5.36
Czech Republic	3.97	3.56	3.34	3.43	3.59	3.89	3.98	4.05	4.05	4.05	3.89	3.77	3.79
Denmark	2.72	2.45	2.40	2.46	2.65	3.01	3.05	3.23	3.29	3.42	3.13	2.96	3.02
Latvia	10.00	10.00	9.97	9.24	8.99	7.55	5.38	6.17	6.49	6.47	6.36	5.87	5.67
Lithuania	5.15	5.15	5.15	5.15	5.15	5.15	5.15	5.15	5.15	5.12	5.05	5.05	5.05
Hungary	7.39	7.07	7.04	6.87	7.38	7.92	7.70	7.39	7.29	7.05	7.11	7.22	7.35
Poland	5.84	5.62	5.49	5.53	5.82	5.98	6.26	6.26	6.27	6.14	6.06	5.88	5.81
Romania	7.18	7.15	7.14	7.02	7.04	7.09	6.66	7.03	7.31	7.30	7.26	7.09	7.30
Sweden	2.70	2.45	2.53	2.64	2.86	3.21	3.28	3.41	3.35	3.30	3.01	2.89	2.75
United Kingdom	2.97	2.68	2.84	2.80	3.03	3.34	3.82	4.00	3.78	3.78	3.49	3.09	2.88

[21] http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/11/534&format=HTML&aged=0&language=EN&guiLanguage=en

(1) As Estonia has a very limited government debt, there are currently no suitable long-term government bonds available on the financial market.
(2) For Cyprus, primary market yields are reported. The same applies to Bulgaria and Romania up to December 2005, Slovenia up to October 2003 and Lithuania up to October 2007.
(3) A harmonised long-term interest rate is presented starting mid-May 2010. Before, the Luxembourg Government did not have outstanding long-term debt securities with a residual maturity of close to ten years. Therefore, the yield on long-term bond(s) issued by a private credit institution with a residual maturity close to 10 years is presented for the period up to mid-May 2010 and is thus not fully harmonised for that period.
Source: ECB, European Commission, last updated 10/08/2011

In a letter to the heads of state or government of the euro-area Barroso wrote on 3 August 2011: "*The 21st of July bold decisions on the Greek package and the increased flexibility of the EFSF (precautionary use, recapitalisation of banks and intervention in secondary bond markets), are not having their intended effect on the markets. Markets highlight, among other reasons, the global economic uncertainties due to both economic growth and the protracted decision on budgetary adjustments in the US but, first and foremost, the undisciplined communication and the complexity and incompleteness of the 21st July package. Whatever the factors behind the lack of success, it is clear that we are no longer managing a crisis just in the euro-area periphery*."[22] Already in January 2011, Barroso pushed for an immediate increase in funds of the EU's bailout facilities.

As the ratification of the July 2011 Summit decisions will only start in September 2011, it was again up to the ECB to act in the meantime, buying bonds of euro-area member states, most notably Italy and Spain, between 4 and 10 August 2011 on secondary markets for €22 billion. Against the background of a slowdown of economic growth in the US and the euro-area – and also a cooling off of 'emerging economies' such as Brazil and India – turmoil and turbulence returned to global financial markets, with global losses of assets in stock exchanges of around $25 trillion within just two weeks in August 2011.

The outcome of the Merkel-Sarkozy summit on 16 August 2011 disappointed financial markets, as those had expected a move towards joint Eurobonds as a next step to avoid possible defaults of Italy or Spain (and the possible losses for bondholders implicated by such a scenario). Such a perspective was however rejected by the Franco-German tandem. It proposed regular meetings of the Heads of State and Government of the euro area on economic governance, with the current President of the Council, van Rompuy, acting as chairman of that formation. Euro area member states should incorporate a 'balanced budget fiscal rule' into their national legislation by 2012. Merkel and Sarkozy claimed support for a Financial Transaction Tax and a better co-ordination of tax policies in the European Union. Otherwise, the Merkel-Sarkozy proposals mostly insisted on a thorough and speedy implementation of the July EU summit's conclusions, the Euro Plus Pact etc. Their major new proposal consisted of making cohesion and structural fund payments more conditional on receiving member states compliance to Council recommendations in the framework of EU economic governance, including suspending payments in case of non-compliance.[23]

[22] http://ec.europa.eu/commission_2010-2014/president/news/speeches-statements/pdf/20110804letter_en.pdf

[23] "*Macro-economic conditionality of the Cohesion fund should be extended to the structural funds. They should be targeted at improving competitiveness and reduction of imbalances in the Member States receiving recommendations in the excessive imbalance procedure. In programme countries, the European Commission should automatically check to ensure that structural and cohesion funds provide the optimum support for the macroeconomic adjustment programme and be involved in the selection and implementation of projects. Within the European Commission, the Commissioner for Economic and Financial Affairs, should play a decisive role in this process. Funds not used by programme countries could be combined in a fund for growth and competitiveness administrated on the European level by the Commission. In the future, payments from structural and cohesion funds should be suspended in euro area countries not complying with recommendations under the excessive deficit procedure. These changes should be implemented in the new structural and cohesion*

The ECB's intervention on bond markets had the short-term effect of easing the situation for Italy and Spain somewhat, with risk premiums not increasing further. But financial markets are far from being 'reassured'. The European Banking Authority's stress tests of 90 major European banks in July found the vast majority of them in a good state of health. However, according to stress tests' results, the banks held a total of €326bn in Italian government debt, €287bn of Spanish public debt, and €215bn of French debt. Against this background, European banks again have begun to distrust each other, to cut down their exposure to bonds from 'risky' EU countries, with the result that funding costs for EU banks began to rise, interbank lending slowing down and everybody depositing money overnight with the ECB rather than with other banks.

Claims by the IMF's Christine Lagarde that EU banks are undercapitalised by at least €200 billion, a letter by EBA's chief Andrea Enria raising similar concerns only a few weeks after the supposedly encouraging 'stress tests' and calling on the European Council to allow the EFSF to recapitalise troubled European banks directly, and the Federal Reserve Bank of New York, which oversees the U.S. operations of many large European banks, investigating whether EU banks have reliable access to the funds needed to operate on a day-to-day basis in the U.S. - all this raises fears that a new 'Lehman Brothers moment' might be in the making, this time emerging from the euro-area troubles. Who said that the global financial crisis is over?

However, even if funds for the EFSF/EFSM and the ESM were substantially increased, additional re-capitalization for EU banks included – who could provide the necessary monies and guarantees for such an operation? With Spain and Italy as two big euro-area member states under attack from financial markets – and even France coming increasingly under suspicion of not being able to manage its debts, its banks too largely exposed to Spain, Italy, Belgium etc. – it is questionable how long these three big euro-area countries can manage to fulfill their funding obligations for the EFSF/ESM even under the current arrangements. Germany alone will not have the capacity to bailout nearly all the rest of the euro-zone.

More and more observers believe that a default of Greece - and possibly Ireland and Portugal - could become likely to happen even before 2013. So far, all the EU's attempts to restore the confidence of financial markets and to mitigate the 'euro-crisis' by ever bigger 'rescue funds' have ended in a ‘boulevard of broken dreams’.

Europe's economies drifting apart

Against the background of those EU policies (but having roots already in the construction of the Single Market and European Monetary Union)[24], the economies of the European Union are drifting further apart.

Countries of the southern periphery such as Greece and Portugal stay in recession. Growth prospects are low for Spain and Italy. Also, those 'northern' economies whose growth depended on speculative bubbles before the financial and economic crisis, such as Ireland and the UK, stay around zero growth rates with prospects of a double dip recession when already adopted austerity measures will begin to hit later on in 2011.

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funds regulations to be proposed for the next multiannual financial framework."
http://www.elysee.fr/president/root/bank_objects/lettre_english_final_version.pdf

[24] See e.g. Catherine Mathieu and Henri Sterdyniak: How to deal with economic divergences in EMU?; OFCE Working Paper No. 2007-14, May 2007; Jean-Paul Fitoussi et al.: La zone euro – une enfance difficile; Lettre de OFCE 304, 22.12.2008; C. Lapavitsas et. al: Eurozone Crisis - Beggar thyself and thy neighbour, RMF occasional report, March 2010

Denmark already slipped back to recession in the last quarter of 2010 and the first quarter of 2011. In August 2011, Swedish, Dutch, Austrian, and French manufacturing is close to contraction and slowing down quickly. GDP growth in the second quarter of 2011 in France was zero, for the euro area it was just 0.2 %.

Except perhaps for Poland, prospects for the economies of Eastern European EU member states look bleak.[25] With growth in the euro-area decelerating, their major export markets are contracting.

Germany's 'miracle recovery' in 2010 was mostly dependent on a rapid expansion of its manufacturing exports to China, India, Brazil, Russia and other industrialising economies (including to to the 'emerging economies' of Eastern Europe, and the rich countries of the Middle East). As long as those economies were growing after the 'Great Recession' 2007 - 2009, there was a silver lining on the horizon for German capital to become more and more independent from developments in the 'old' European economies. But most recent news that Germany's GDP grew only by 0.1 % in the second quarter of 2011 (with further deceleration expected) dampen the high rising expectations proclaimed by Chancellor Angela Merkel in 2010, that "*the German economy will come out of the crisis stronger than ever before*".

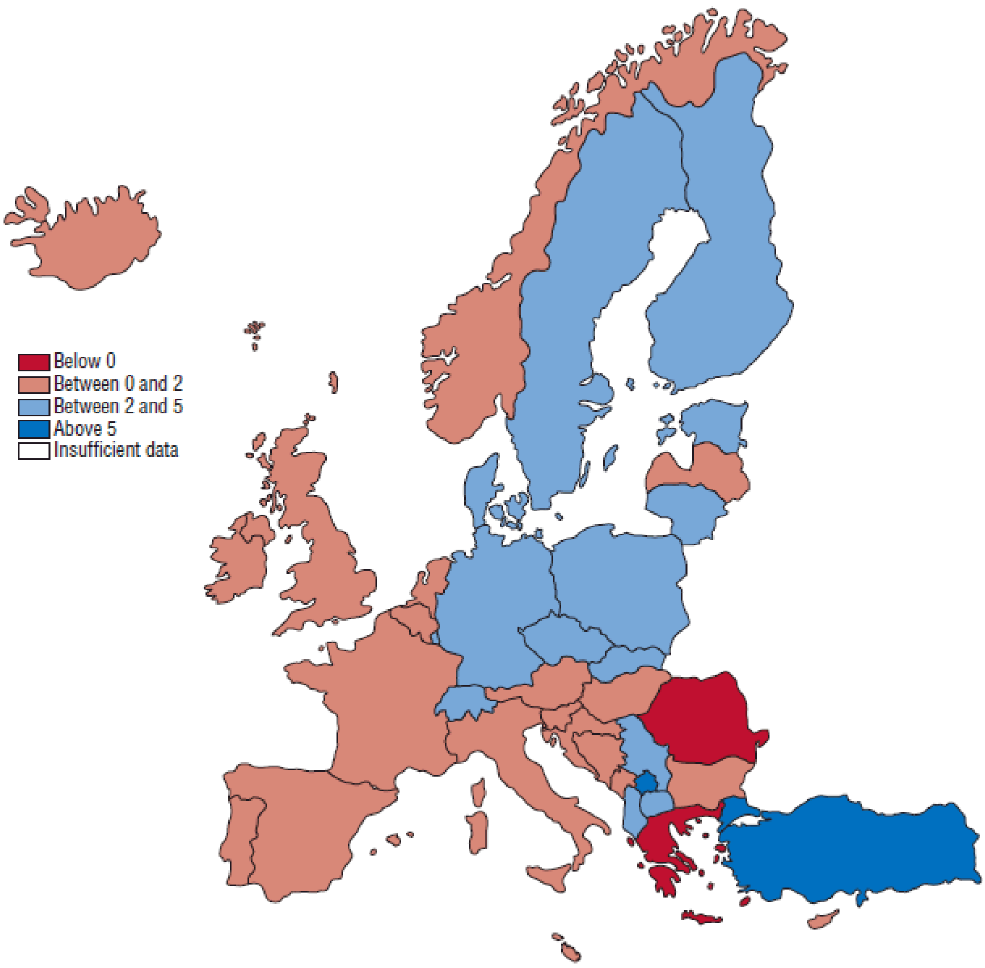
Figure 3 below presents the IMF's growth projections for Europe 2010.[26] Although it was based on the IMF's usual 'optimism', the pattern of GDP growth in Europe sketched out in this graph is quite clear: Stagnation or continuing recession in the EU's southern periphery, very modest growth near to stagnation in the bulk of the EU's so called 'core' (including France), expansion only in the export-surplus countries (Germany, Austria, Scandinavia) and the more robust Eastern European economies. This was already not a reassuring picture of a 'European Union growing together'.

[25] As a recent analysis from Roubini Global Economics (5 August 2011) put it: "The PMI data in Hungary and the Czech Republic underscore our view that weakening foreign demand will bring down export growth rates in the coming quarters from the high levels early this year. This easing export dynamic will make it more difficult to maintain growth rates, as fiscal consolidation saps domestic demand in the Czech Republic and Hungarian and Polish borrowers struggle with ballooning debt payments (…)".

[26] IMF World Economic Outlook, October 2010, Figure 2.6

Figure 3: Europe's economies drifting apart

Figure 2.6. Europe: Average Projected Real GDP Growth during 2010–11
(Percent)



Source: IMF staff estimates.

Just recently, "Dr. Doom" Nouriel Roubini warned of a 'rising risk of double-dip recession in advanced economies', and the data coming in seem to underline his point, at least as regards slowdown and stagnation.[27]

Being divided into a smaller 'core' with still relatively low-cost finance rates and perhaps some prospects for modest future growth on the one hand, and the remaining majority of EU countries facing exorbitant interest rates and continued economic depression on the other hand - what will this mean for the future of European integration?

Similar questions could be asked with regard to the global level: with the US economy decelerating, emerging economies (India, Brazil, Russia etc.) cooling off or slowing down, Japan still in crisis, the European Union (as a whole) stagnating with few exemptions – can China (and Southeast Asia linked to its economic space) alone serve as the world economy's 'consumer of the last resort' to keep the global capitalist economy moving on? And this under conditions where on both sides of the Atlantic –

[27] See e.g. Eurostat flash estimate of 16 August 2011; http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-16082011-AP/EN/2-16082011-AP-EN.PDF It should also be noted that the official statistics on US GDP growth 2009/2010 and also those of Germany for the same period had to be considerably corrected downwards.

in the US and in Europe – economic policy gets ever more fixated on austerity, making a 'double-dip' more likely?

How can global macro-economic imbalances be resolved if all the 'major global players' – the US, Germany, China, Brazil etc. – favour a strategy of increasing their exports and world market shares at the expense of the respective others? Although it might be too early to tell, this situation in my view provides some analogies to the economic constellations before the First and Second World Wars – a global 'hegemonic power' in decline (the UK from the First to the Second World War, the US now), an emerging 'multi-polar world', but based on economic - and maybe soon to become more obvious - geo-strategic competition.

Part III

Some reflections

In these times of continuing crisis - financial, economic, sovereign debt, environmental, social - the European Union shows its real face. This is not about the 'ever closer union', 'solidarity between peoples', 'promotion of democracy' and so on which always had a certain appeal also to 'European federalists' on the left. This is about the EU becoming an ever more 'Hayekian' project.

1. The EU´s drift towards authoritarianism – the Hayekian European Union re-invigorated

This is what the theorist of neo-liberalism, Friedrich von Hayek, wrote in his famous book ***The Road to Serfdom***: "*a power which can restrain the different nations (….) a set of rules which defines what a state may do, and an authority capable of enforcing these rules. The powers which such an authority would need are mainly of a negative kind: it must above all be able to say "no" to all sorts of restrictive measures.*" In the words of Peter Gowan[28]: "*For Hayek, Europe's problems derived from the rise of popular sovereignty and democratic control over economics. His brilliant insight was to grasp that under international treaty law, the ordinary parliamentary laws and policies of individual states can be trumped. So a treaty about domestic issues can block democratic policy-making - hence the EU treaty-mongering since the mid-1980s. The Hayekian EU should thus be a negative force, blocking the exercise of democratic will on economics at a national level.*"

The EU Treaties already contain a lot of stipulations of that negative kind: no, you must refrain from any measure that interferes with the free movement of capital, goods and services; no, your budget deficit must not exceed 3 % of national GDP, and so on. EU economic governance as supported by the Commission, the Council and the majority of the European Parliament is strengthening this anti-democratic edge of the Hayekian EU.

At national level, government is expected to be controlled and held accountable by democratically elected parliaments. At EU level, it is representatives of national governments assembled in the European Council (with assistance from the Commission) telling national parliaments what they are allowed to do on fiscal policy matters, what they should correct in order to be in line with EU level objectives adopted by that very Council, which kind of labour market or pension reforms they should deliver etc. . EU economic governance is standing the principle of government being accountable to parliament and parliaments' role as legislator on its head.

With the reformed Stability and Growth Pact and the macro-economic imbalances procedure, even a a centre-right or centre-left government which would only want to modestly stimulate the economy by public expenditure (e.g. along the lines as advocated by the new IMF managing director Christine Lagarde)[29] and to envisage a modestly longer horizon for fiscal consolidation would have to refrain from such attempts. The current setting for EU economic governance insists that the reduction of budget deficits and public debt must be 'front-loaded', the 60 % criterion on public debt shall be armed with new possibilities for sanctions etc. A social-liberal policy - though perhaps having a strong mandate from voters - would be very difficult to pursue, a left-Keynesian or socialist economic policy at national level made impossible from the start.

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[28] Peter Gowan: The State of the Union - the Global Context; Paper for the Euromemo Annual Workshop, 2005

[29] Christine Lagarde (2011): Don't let fiscal brakes stall global recovery; Financial Times, 16 August 2011, http://www.imf.org/external/np/vc/2011/081611.htm

Countries subject to joint EU-IMF-ECB rescue operations are already losing any meaningful sovereignty over economic and fiscal policies. It is here where the curbing of (national) parliamentary democracy by the EU's actions is the most visible.

For the outgoing President of the European Central Bank, Jean-Claude Trichet, this is still not sufficient. In his speech when receiving the Charlemagne Prize[30] at Aachen on 2 June 2011 he spelled out his blueprint for taking EU economic governance a step further. *"As a first stage*" he said, "*it is justified to provide financial assistance in the context of a strong adjustment program. It is appropriate to give countries an opportunity to put the situation right themselves and to restore stability. (...) But if a country is still not delivering, I think all would agree that the second stage has to be different.*"

Further 'reform' would implicate this: "*In the new concept, it would be not only possible, but in some cases compulsory, in a second stage for the European authorities – namely the Council on the basis of a proposal by the Commission, in liaison with the ECB – to take themselves decisions applicable in the economy concerned. (...) One way this could be imagined is for European authorities to have the right to veto some national economic policy decisions. The remit could include in particular major fiscal spending items and elements essential for the country's competitiveness.*"

Trichy's blueprint also seems to inspire the flirtation of German Minister of Finance Wolfgang Schäuble with the idea of introducing 'Eurobonds'. At the time of writing, the official position of Germany's government is still against this. But this could change under pressure from European financial markets strongmen, who increasingly regard Eurobonds as the last instrument available to the EU to contain the 'euro-crisis' and to protect bondholders assets.

Of course, Germany would have to accept a modest increase in risk premiums to be paid in comparison to German 'bunds' presently. Following that logic, Germany also would have to accept that there is a system in place for a common liability of 17 member states for the euro-zone countries' debts. In return, however, Schäuble – just like Jean-Claude Juncker, the President of the Euro-Group and one of the earliest 'conservative-liberal' advocates of a common Eurobond [31] – insists on 'strict conditionality' and further argues that then national sovereignty on fiscal policy matters must be ceded to the EU level, the latter becoming a 'fiscal union'. As debt (Eurobonds) would be issued jointly - so the logic of this reasoning - individual member states should not get any leverage for free-riding on its benefits while failing to reduce national government debt to 'sustainable' levels. This is much along the line of Trichet's pledge for an 'EU ministry of finance'.

However, would a 'fiscal union' of this sort - or even a 'Political Union' - implicate at least the rule of representative parliamentary democracy over fiscal and economic policy at European level? Not in Trichet's vision - and even the most recent proselyte to the idea of Eurobonds, the Chairman of

[30] This is a prize supposedly honouring engagement for 'a voluntary union of the European peoples without constraint, (...) in the services of Western European understanding and work for the community, and in the services of humanity and world peace'.

[31] For more information, see http://www.andreas-wehr.eu/feindliche-uebernahmen.html , available in German only. Of course, there are very interesting proposals from Keynesian economists on 'Eurobonds' that place such instruments at the heart of an European recovery and investment strategy for (economic, social and environmental) sustainable development - see for example 'The Modest Proposal' by Stuart Holland and Yanis Varoufakis (http://www.levyinstitute.org/pubs/pn_11_03.pdf) or the proposal by Stuart Holland and a group of 'elder statesmen' (Guiliano D'Amato, Guy Verhofstadt, Mario Soares, Michel Rocard and others) *'A plan to save the euro and curb speculators*', published by the Financial Times on 3 July 2011. However, quite a number of Keynesian supporters of 'Eurobonds' seem to regard Juncker's proposal as 'a first step in that direction' – in my view this is beside the point. There is a huge gulf between the economic strategies and political aims that these different proposals on 'Eurobonds' implicate.

German SPD Sigmar Gabriel, calls for 'strict EU control of national budgets' in that case, but doesn't mention at all the problem of how to provide for democratic legitimacy of such EU control.

What are Trichet's proposals if not a pledge for an EU-led *coup d'état,* to be executed by not directly elected bodies – 'the Council on a proposal by the Commission in liaison with the ECB' - in the interest of finance capital?

2. 'Soft law' - Reinforcing the dominance of financial markets

The enforcement mechanisms of the Europe 2020 Strategy and the Euro Plus Pact are based on "naming and shaming" those member states which are regarded as showing insufficient ambition in implementing neo-liberal 'reforms' demanded by the EU level. This does not involve sanctions and fines or judicial procedures. This is 'soft law', but it might nevertheless prove to be effective.

Already, the interests of finance capital gain stronger influence on economic policy making also within the current so called 'soft-law' mechanisms of EU economic governance. Financial market analysts welcomed the European Semester and EU economic governance, because it creates more 'transparency' for financial investors on what member states governments are planning (budget, fiscal policy, structural reforms) before final decisions are taken. The channel to influence decisions is via 'market discipline': if financial markets and rating agencies perceive the quality of a countries' sovereign debt too poor, its fiscal policy or labour market reforms as too lax etc., they will react with downgraded ratings or speculative attacks aiming at provoking funding crises.

By skilfully playing this game of 'labelling' national budgets and economic policies, the EU authorities successfully put 'market discipline' on their side in order to push through austerity, further liberalisation and privatisation. We have witnessed this already in the cases of Greece, Ireland, Portugal, whose governments first attempted to settle their sovereign debt problems on their own. But when their ratings were going down and the risk premiums to re-finance debt went through the roof, they finally sucked up to the Commission's and Council' orchestrated campaign that they must submit themselves to an EU-ECB-IMF led rescue operation. The same is true for the launching of the series of austerity packages of Spain in 2010/2011 and the packages of the Italian government in 2011.

EU economic governance thus strengthens the power of financial markets - instead of breaking or at least curbing it. No substantial regulation of financial markets has taken place since the financial crisis, despite all the official rhetoric about the need to correct and prevent 'irrational exuberance', irresponsible behaviour, misleading advice from rating agencies etc. so much trumpeted in 2008/2009.

3. A 'German Europe' in the making?

For German capital, its traditional export-led growth strategy seemed to make some good sense for emerging re- strengthened from global recession. Still, roughly 60 % of Germany's exports go to countries of the European Union. However, German exports to the 'old' EU-15 lost some importance: in 1995 they stood at 64.1 % and declined to 48 % in 2010. The most dynamic German export growth 1999 – 2010 was with the BRIC states, the Middle East, the CIS (including Russia) and the economies of the Eastern European EU member states.

Table 2: Nominal annual average growth rates of German commodity exports 1999 – 2010 by region, in %

Euro-area 15[32]	EU-3 (UK, SE, DK)	New EU member states	USA	Japan	CIS (including Russia)	Latin America	Middle East	Southeast Asia (excluding Japan, China)	China	Others
4.9	3.6	8.6	3.0	2.8	10.8	5.3	8.8	7.2	19.9	6.0

Source: Deutsche Bundesbank, 2011

The hope was to expand this dynamic further. Furthermore, the huge wave of privatisations forced upon Greece, Portugal etc. might provide new opportunities for investment and for strengthening the supremacy of German capital in Europe, further re-organising the chains of value creation with cheaper labour on the EU periphery and so on. The EU would increasingly become a 'hinterland' for German capital's drive to conquer market shares on a global scale, driven not so much by exports to the European ‘core’ and the US any more, but to ‘emerging economies’ for whose industrialisation strategies Germany is so wonderfully specialised. This is the project of a 'German Europe'.

Anything that could disturb that project - for example French calls on Germany to end its policy of wage deflation, aggressive export orientation etc. - needed to be kept in check. Hence the so far successful insistence that EU economic governance be shaped according to German policy makers wishes. Against minor concessions by Merkel to Sarkozy’s ideas on ‘economic governance’ the French government dropped its earlier criticism of Germany’s ‘beggar thy neighbour’ policies. Sarkozy finally agreed on German proposals for the ‘Competitiveness Pact’, the Euro Plus Pact and also the latest ones of 16 August 2011 on moving faster in the implementation of the debt brake etc..

The reasons for this are easy to understand: France's conservative government feels that it needs Germany's backing to help bail out the French banks highly engaged with bad loans and bonds in Spain, Greece, Ireland, Portugal etc., if necessary. Those who are supposed to pay the money are calling the shots.

So far, there is no government in the European Union daring to challenge German dominance of the Union’s economic policy orientations. Older debates from the 1990ies - Schäuble's and Lamers' conception of a core-Europe, Delors vision of a 'European avantgarde', proposals for a two- or multi-speed Europe etc. - are coming up again, calling for a leadership role of the euro area, and of course with Germany at the helm. With darker clouds on the horizon for Germany’s export-led growth model and its sustainability, hypothetically there could emerge some political space for a rebellion in the Council against all this. However, in a medium-term perspective, with nearly all 27 EU member states being governed by the conservative-liberal right (or forces much worse to the right) and supporting the austerity drive on their own motivations, a policy change at European or national levels does not seem very likely.

4 .The emergence of a European ‘transfer union’ – at the benefit of global and European finance capital

Conservatives and Liberals in Germany always hailed the 'no-bailout clause' of the EU Treaty and warned off any attempt to create a European 'transfer union'. The very idea that the richer EU

[32] Excluding Estonia, Slovakia and Slovenia.

countries should have an obligation to provide financial assistance to the poorer ones to support their economic and social development was and is anathema to them.

But with the EFSF/EFSM and later on the ESM, ironically the 'transfer union' becomes a reality. However, its beneficiaries are the banks and financial sectors of the 'core' EU countries (France, Germany, Benelux, Austria, Sweden), whose bondholders would take a severe hit if Latvia, Romania, Greece, Ireland, Portugal, Spain etc. could not pay back their loans. Therefore EU governments took action so that banks' bondholders must be protected at all costs, preferring to impose losses on working people instead – even if this stretches the 'core' EU countries' solvency to breaking point. Hence, austerity and 'structural reforms' must be generalised across the European Union from that point of view.

Harald Hau (Associate Professor of Finance, INSEAD and CEPR research affiliate) questioned the consequences of such a 'transfer union' - quite rightly in my view – in a column for vox-eu. Commenting on the second bailout package for Greece, he pointed out: "(…) *a €200 billion subsidy to sovereign creditors is a gigantic wealth transfer from the taxpayer to essentially the richest 5% of the world. In the US, the 5% richest households control roughly 70% of all financial wealth, and this percentage is not much different in the rest of the world. Ultimate ownership of bank capital and sovereign debt is so concentrated among high-wealth individuals that we should characterise the bailout subsidy as an "impôt pour la fortune" ("a tax for wealth") – a wealth tax supporting the rich.*" He rhetorically asked: Why are the French not at the barricades over the structure of the Greek bailout? And answered: "*Self-censorship by the mainstream French media might play a role, which – mostly left-leaning – does not want to provide ammunition to euro-sceptics like Marine le Pen before next year's presidential elections. But even in France it will not remain unnoticed that almost all of the public funds go to creditors and hardly benefit the ordinary Greek citizen.*"[33] One might add that the same holds true for EU-countries such as Latvia, Romania, Ireland and Portugal subdued to the EU-ECB-IMF troika dictates, and what is being executed there will be the most likely pattern for possible other such cases to come.

5. Finance as a form of warfare

Already on 11 January 2011, then-time ETUC General Secretary John Monks strongly criticised the implementation of the 'rescue packages' for Greece and Ireland in a letter to Commissioner Olli Rehn[34]: "*Diktats are being issued which are designed to lower living standards. Thus proposals are coming from the Commission which are designed to cut minimum wages and reduce wage 'rigidities', cut pension entitlements, make labour markets more flexible, and in Ireland's case provide for wages to reflect 'market conditions' (The words in quotation marks are quotes from correspondence from Mr Szekely of DG Economic and Financial Affairs).*"

He then concluded: "*It is now clear that this attack is a prime case of Commission-promoted downward pressure on Europe's social conditions. The proposals on economic governance are likely to generalise these pressures in the euro-zone and beyond, and not just apply to countries in difficulties on the world's bond markets. In these circumstances, I (…) warn that the ETUC will find it impossible to support action by the EU along these lines, or proposals on economic governance, and any new treaty which contains them, which resemble in some aspects the reparation (punishment) provisions of the Treaty of Versailles, and reduce member states to quasi colonial status.*"

[33] Hau (2011): Europe's €200 billion reverse wealth tax explained, vox-eu, 27 July 2011; http://www.voxeu.org/index.php?q=node/6804

[34] http://www.etuc.org/IMG/pdf/110111_Olli_Rehn_3_.pdf

The parallels of the EU´s conditionality for bailout operations with the provisions of the Treaty of Versailles are indeed striking. Having left the 1919 Versailles Treaty conference (establishing arrangements for peace after the First World War) in protest, John Maynard Keynes published his sharp criticism of the Treaty a year later in his book 'The Economic Consequences of the Peace'.[35] Keynes central argument was that this Treaty obliged Germany to pay such an amount of reparations which it definitely could not shoulder, thus also undermining economic recovery in Europe after the devastations of the First World War. Only if Germany would be left with some scope for economic prosperity, both peace and economic recovery could be secured – to the benefit of all signatories of the Treaty.

Keynes pointed out populist campaigning (by politicians and the media alike, not only in Great Britain) as one of the sources leading to the Versailles Treaty disaster. "*Don't let the Hun off*" was their joint rallying cry, and "*Make Germany pay*". He cited Sir Eric Geddes as a typical proponent of such sentiment: "*We will get out of her all you can squeeze out of a lemon and a bit more.*"

Just replace the term 'war reparations' by 'debt repayment' and you will enter the current situation and political climate of the 'euro crisis'. In the same spirit as Sir Eric Geddes 92 years earlier, in October 2010 the German tabloid BILD launched its xenophobic and jingoistic campaign against Greece: "*Just sell your islands … and the Acropolis as well",* as one of its infamous headlines trumpeted.

Stereotypes about 'irresponsible behaviour' and a quasi-genetic inclination to '*la dolce vita*' of the populations of the European Mediterranean instead of a serious commitment to 'hard work' are historically deep seated in northern and continental European countries. I restrict myself to re-calling the debates in the run up to the European Monetary Union: should the 'European core' of 'hard currency' countries allow the supposedly lax olive-oiled 'Club Med' countries – Greece, Portugal, Spain, Italy etc. – to join the euro-project from the start?

All what had been argued in the 1990ies in favour of those countries exclusion from the euro-zone – the euro should become as 'hard as the Deutsch-Mark', and the inclusion of 'soft currency' member states would simply undermine and destroy such a project – is being repeated today by the same 'economic experts' whose views were very prominently placed in the main-stream media at that time. It is not only Hans-Werner Sinn of the German Ifo-Institute, but plenty other such 'experts' as well, who pledged for expelling 'failed states' such as Greece from the euro-area – of course in those countries' 'own best interest', as they would gain the benefit of 'competitive devaluation' when introducing a new national currency.

Such media campaigns address the worries of 'ordinary taxpayers' of being squeezed in the name of 'European solidarity' without the perspective of any tangible improvement for themselves or for the 'beneficiary countries' on the horizon. In most of the northern and continental EU member states an increasing part of public opinion turned very critical against providing ever more EU assistance and 'guarantees' for the PIIGS countries. '*Make the debt sinner states of the Mediterranean pay back – or stop loan programmes for them if they can't*' is a quite popular slogan in those richer EU countries. And this is also one of the reasons why Germany's insistence on 'strict conditionality' for any bailout assistance could gather so much support among EU governments so far.

This is how former Wall Street economist Michael Hudson summarised the underlying logic of recent developments in Europe: "*Finance is a form of warfare. Like military conquest, its aim is to gain control of land, public infrastructure, and to impose tribute. This involves dictating laws to its subjects, and concentrating social as well as economic planning in centralized hands. This is what now is being done by financial means, without the cost to the aggressor of fielding an army. But the*

[35] See the following link for Keynes' book: http://www.gutenberg.org/files/15776/15776-h/15776-h.htm

economies under attack may be devastated as deeply by financial stringency as by military attack when it comes to demographic shrinkage, shortened life spans, emigration and capital flight. (...) This financial dynamic is what threatens to break up Europe today. But the financial class has gained sufficient power to turn the ideological tables and insist that what threatens European unity is national populations acting to resist the cosmopolitan claims of finance capital to impose austerity on labour. Debts that already have become unpayable are to be taken onto the public balance sheet – without a military struggle, needless to say. (...) One almost can say that the ideal is to reduce parliaments to local puppet regimes serving the cosmopolitan financial class by using debt leverage to carve up what is left of the public domain that used to be called 'the commons'. "[36]

Finance is a form of warfare – not only against *democratic popular sovereignty*[37]*,* but first and foremost also a *class war* against employees and all people depending on social benefits (from pensioners to students etc.). In (neo)Marxist terms, two strands of this class war can be highlighted: '*accumulation by disposession*' (David Harvey) – that is, reducing or expropriating the rights and entitlements guaranteed in former times by the welfare state such as pensions and other social benefits, but also privatising public assets etc. – and moves to extract more *absolute surplus value* (curbing wages, reducing the scope of collective bargaining, more labour market flexibility etc.) from labour.

6. The 'political business cycle' revisited

More and more economists warn that austerity policy will not work. They remind of Keynes 'paradox of thrift': cutting back public spending, curbing wages etc. will weaken internal demand and mass purchasing power, unemployment will become persistent or even rise (also as an effect of cutting public service employment), tax receipts thus will diminish, creating new holes in public budgets, against which new rounds of austerity measures will be launched without avail. Fiscal consolidation can not be achieved along that route, the economy will stagnate or fall back into recession.

The question often posed is: are the European Commission, Merkel, Sarkozy etc. only too stupid or too much blinded by neo-liberal ideology that they do not recognize this? Why are the business leaders of the so called 'real economy' so supportive of that austerity drive in Europe and the US, as the only result they can expect from this is a breakdown of mass demand for their products and services? The constraints imposed on their business opportunities by safeguarding the claims of a (global) financial rentier class on current and future wealth at all costs should be detrimental also to their interests. Why should they bother about the rentiers?

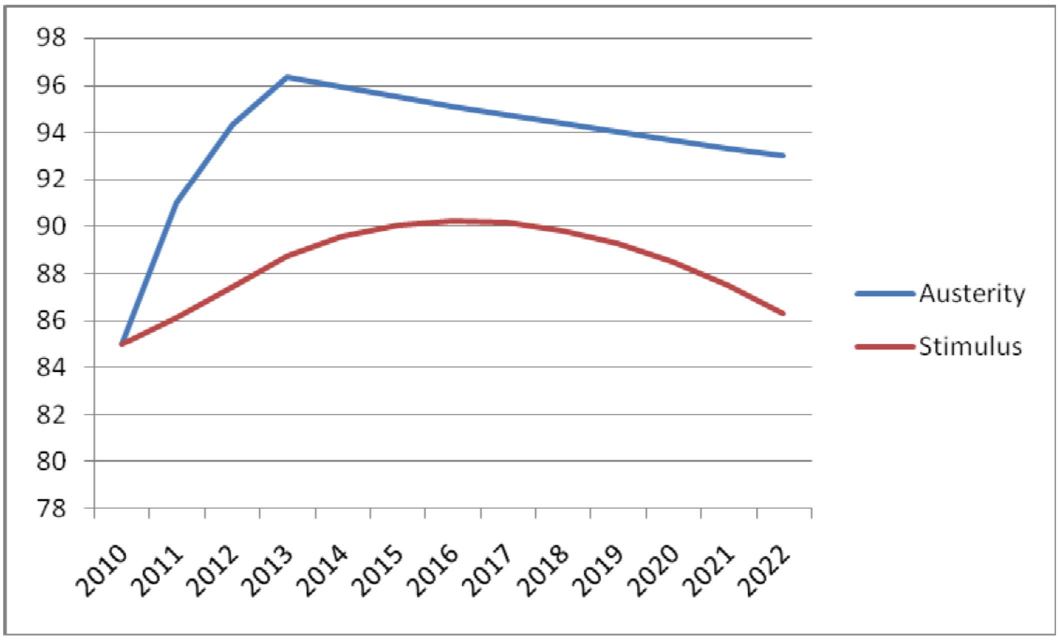
This was the rationale spelled out for example by the European Trade Union Confederation's (ETUC) alternative economic policy proposals from 2010 onwards: it called for an European Public Investment Programme mobilising 1 % of EU-27 GDP annually over a period of 5 years at least, the

[36] Michael Hudson: Europe's new road to serfdom, Counterpunch, 3-5 June 2011; http://www.counterpunch.org/hudson06032011.html

[37] Such popular democratic sovereignty is traditionally constricted to national and regional levels, as it emerged from popular struggles against a concept of 'freedom and liberty' based on privileged rule by narrow liberal-aristocratic elites in the framework of establishing 'nation states', following 'bourgeouis revolutions' and 'proletarian resistance' to them from the 17th to the 20th century. Establishing universal suffrage for men and women, electoral systems based on more or less proportional representation in several European countries etc. was often fully accomplished only after Word War II, under constant pressure from labour, women's and other social movements. At European level, one can hardly speak of any tangible establishment of 'popular democratic sovereignty'. Despite of direct elections to the European Parliament since 1979, and an enlargement of its co-decision powers ever since – neither a 'European demos' emerged out of this, nor a European federalism or co-federation essentially based on 'representative parliamentary democracy' which is comparable to the standards achieved at national levels.

introduction of a common Eurobond, a European Financial Transaction Tax, a levy on banks balance sheets and other such measures, in order to generate 'new sources of finance' to support a recovery strategy for 'greening the economy', job creation, improving skills and competencies of employees, higher wages etc. in line with the long-term goal of a transition towards (environmental, social and economic) sustainable development.[38] In the ETUC's view, this was also to be understood as an 'entry strategy for full-employment' in Europe.

Figure : Public debt as % of GDP under 'austerity' and 'stimulus'



"The two opposing strategies of 'austerity' versus 'stimulus' can be illustrated by using a baseline scenario in which both medium term growth as well as inflation would return to a rate of 2% annually (with growth at 1,6% in 2011). The effects on public debt and job dynamics of a scenario in which brutal ex ante deficit cuts of 6% of GDP to bring the actual ex post deficit back to less than 3% of GDP are then compared with a scenario in which a major European investment stimulus restores economic activity while allowing at the same time deficits at national level to fall. We assume longer term growth potential is reduced to 1, 75% in the 'austerity' scenario, whereas it would increase to 2,25% in the 'stimulus' scenario." Source: ETUC Economic Discussion Note 2010/13

This takes us back to the notion of full employment promoted by the broader 'left' from the 1930ies onwards, as mentioned in the beginning of this paper. Let's recall how Polish economist Michal Kalecki sketched out its economic rationale in 1943:

"A solid majority of economists is now of the opinion that, even in a capitalist system, full employment may be secured by a government spending programme, provided there is in existence an adequate plan to employ all existing labour power, and provided adequate supplies of necessary foreign raw-materials may be obtained in exchange for exports.

If the government undertakes public investment (e.g. builds schools, hospitals, and highways) or subsidizes mass consumption (by family allowances, reduction of indirect taxation, or subsidies to keep down the prices of necessities), and if, moreover, this expenditure is financed by borrowing and not by taxation (which could affect adversely private investment and consumption), the effective demand for goods and services may be increased up to a point where full employment is achieved. Such government expenditure increases employment, be it noted, not only directly but indirectly as well, since the higher incomes caused by it result in a secondary increase in demand for consumer and investment goods. (…)

[38] See, for example, the ETUC Resolution on the Economic Crisis: New Sources of Finance, adopted by the ETUC Executive Committee on 9 – 10 March 2010; http://www.etuc.org/a/7052

Clearly, higher output and employment benefit not only workers but entrepreneurs as well, because the latter's profits rise. And the policy of full employment outlined above does not encroach upon profits because it does not involve any additional taxation. The entrepreneurs in the slump are longing for a boom; why do they not gladly accept the synthetic boom which the government is able to offer them? "[39]

Kalecki's description of the politics of full employment launched by Roosevelt's New Deal in the 1930ies echoes Keynes' famous argument: "*Look after the unemployment and the budget will look after itself."*[40]

Amongst a number of other points[41], Kalecki however highlighted why a perspective of '*permanent full employment*' - even within the context of preserving capitalism – is not so 'gladly accepted' by the business elites as one could expect if only 'objective macro-economic arguments' were to be applied in political decision making:

"*Indeed, under a regime of permanent full employment, the 'sack' would cease to play its role as a 'disciplinary measure'. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension. It is true that profits would be higher under a regime of full employment than they are on the average under laissez-faire, and even the rise in wage rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices, and thus adversely affects only the rentier interests. But 'discipline in the factories' and 'political stability' are more appreciated than profits by business leaders. Their class instinct tells them that lasting full employment is unsound from their point of view, and that unemployment is an integral part of the 'normal' capitalist system.*"

And further on Kalecki continued:

"In the slump, either under the pressure of the masses, or even without it, public investment financed by borrowing will be undertaken to prevent large-scale unemployment. But if attempts are made to apply this method in order to maintain the high level of employment reached in the subsequent boom, strong opposition by business leaders is likely to be encountered. (…) Moreover, the price increase in the upswing is to the disadvantage of small and big rentiers, and makes them 'boom-tired.'

In this situation a powerful alliance is likely to be formed between big business and rentier interests, and they would probably find more than one economist to declare that the situation was manifestly unsound. The pressure of all these forces, and in particular of big business - as a rule influential in government departments - would most probably induce the government to return to the orthodox policy of cutting down the budget deficit. A slump would follow in which government spending policy would again come into its own.

This pattern of a political business cycle is not entirely conjectural; something very similar happened in the USA in 1937-8. The breakdown of the boom in the second half of 1937 was actually due to the drastic reduction of the budget deficit. On the other hand, in the acute slump that followed the government promptly reverted to a spending policy. The regime of the political business cycle would be an artificial restoration of the position as it existed in nineteenth-century capitalism. Full

[39] Michal Kalecki (1943): Political Aspects of Full Employment; http://gesd.free.fr/kalecki43.pdf
Kalecki also explains why a public sector led investment strategy does not necessarily lead to rising state indebtedness or higher inflation, as conservatives claim it would. It is worth to read his piece in full for grasping the complexity of the full employment strategy of that period.
[40] John Maynard Keynes, Collected Works XXI, 1933
[41] Again, Kalecki worth reading in full, op. cit.

employment would be reached only at the top of the boom, but slumps would be relatively mild and short-lived".

The 'political business cycle' following the 'Great Recession' (2007 - 2009) has some similarities, but also some strong differences with the one referred to by Kalecki - the 'Great Depression' (1929 - 1940). The pressure of big business and rentier interests - 'influential in government departments' - was influencing policy making in both.

As a reaction to the 'Great Recession', big business and big finance urged policy makers to bail out the financial sector and provide 'economic stimulus' programmes 'financed by borrowing' to prevent a total collapse of the global economy. Economic stimulus programmes were set up in competition to each other and varied widely in scope and orientation (6 % of US GDP 2008 - 2010 in the US, about 1.3 % of EU GDP in the European Union, national packages unevenly spread from mobilising 3.5 % of GDP as in Germany to next to nothing in other member states).

The first stage of the crisis 2007 - 2009 could largely be contained to a 'Great Recession' and a deterioration to a 'Great Depression' prevented, because governments were at least avoiding the mistakes of a deflationary policy as e.g. pursued by the Hoover administration in the US or the Brüning government in Germany from 1929 to the early 1930ies. These are the similarities to Kalecki's 'political business cycle': public investment was also motivated by preventing large-scale unemployment. "*We are all Keynesians now*" claimed even the liberal magazine 'The Economist'.

But to a much greater extent public monies were mobilised to bailout and stabilise the financial sector as a major driver of the 'finance led' accumulation regime established by the 'neo-liberal revolution' since the 1980ies. Bailing out lenders while keeping the debt overhead in place - in my view this is quite a travesty of 'Keynesianism'.

So let's take a look at the differences of the 'political business cycle' established by the New Deal and that after the 'Great Recession'.

a) *The lack of a mass movement challenging the power of capital*

Roosevelt's New Deal developed in a historic period of massive class struggle. This holds not only for the situation in the US, when the unemployed and poor and also small farmers marched in the hundred thousands, the newly formed CIO organised factory occupations and sit-in strikes and successfully launched a massive organising drive etc. - but also in the international context (sharp class confrontations as the background to the rise of fascism in Germany, the Spanish Civil War, the French Peoples Front government and its downfall etc.). US business and political elites really feared that the situation could get out of control as the intensity of popular struggles increased. The National Labor Relations Act, for example, was passed to defuse militant working class action and to channel it towards more regulated procedures.

No mass direct action of such dimension and ferocity evolved in the US or in Europe in the first stage of the crisis 2007 - 2009. For sure, there was public outrage about 'greedy managers' and the economic disasters that the financial sector's 'irrational exuberance' and 'incompetent rating agencies' had created. Initially this nourished fears in elite circles that a 'time of upheaval' could be in the making.[42] Indeed, in parts of Europe some 'social unrest' could be observed in 2008/2009 - e.g. boss-napping practices by angry workers in France, some bigger trade union rallies calling for action to protect jobs, some social movement activities and demonstrations 'We don't pay for your crisis'. But all this remained far short of generating a climate of 'social upheaval' challenging the power of big business and finance as happened in the Great Depression.

[42] See for example the remarkable piece by Martin Wolf: Seeds of its own destruction; Financial Times, 8 March 2009

‘Obamania’ and constant talk of a ‘Green New Deal’ inspired hopes about the coming of a new era of re-regulation and democratic state interventionism. While sharply criticising certain aspects of the bail out of the financial sector and the too tiny scope and/or insufficient ‘greening’ of real economy stimulus packages, quite a number of trade unions and NGO’s nevertheless gave Obama, the G20 and the EU the benefit of the doubt. They hoped that governments would finally deliver at least some stricter regulation of financial markets and some entry strategy towards a Green/Social New Deal. Dialogue, lobbying or neo-corporatist arrangements to achieve improvements within ongoing stimulus policies, not confrontation to push through ‘regime change’, was the option followed by many trade unions, NGO´s and the centre-left political forces.

b) *Elite support for 'full employment', splits in the power elite, and realignments between big business and rentiers*

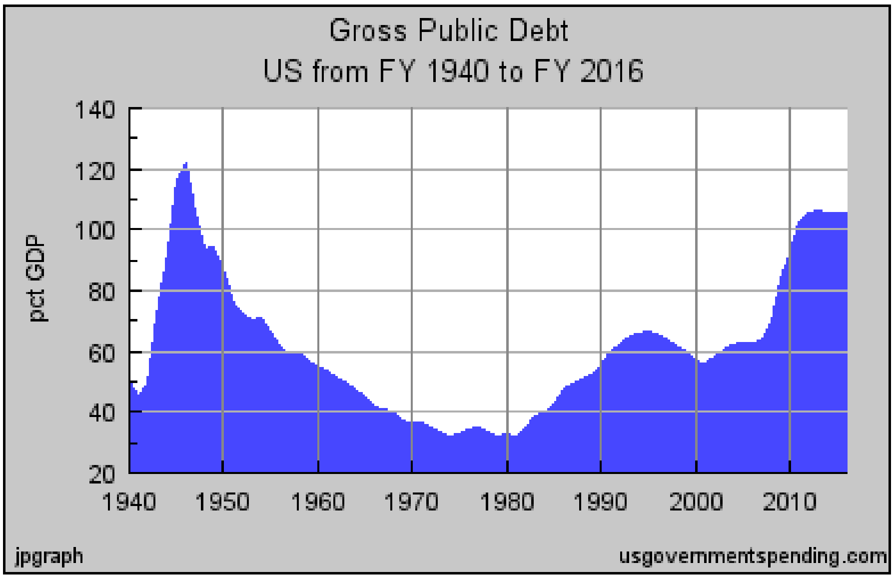
The New Deal, on the other hand, created the National Industrial Recovery Act not only to overcome obstacles to industrial expansion, but also to unify the sharply divided ranks of big business. Important parts of the business elites supported the 'New Deal coalition', grudgingly accepting legislation on trade union recognition and collective bargaining, and also 'public investment by borrowing' in times of economic slump to alleviate unemployment.

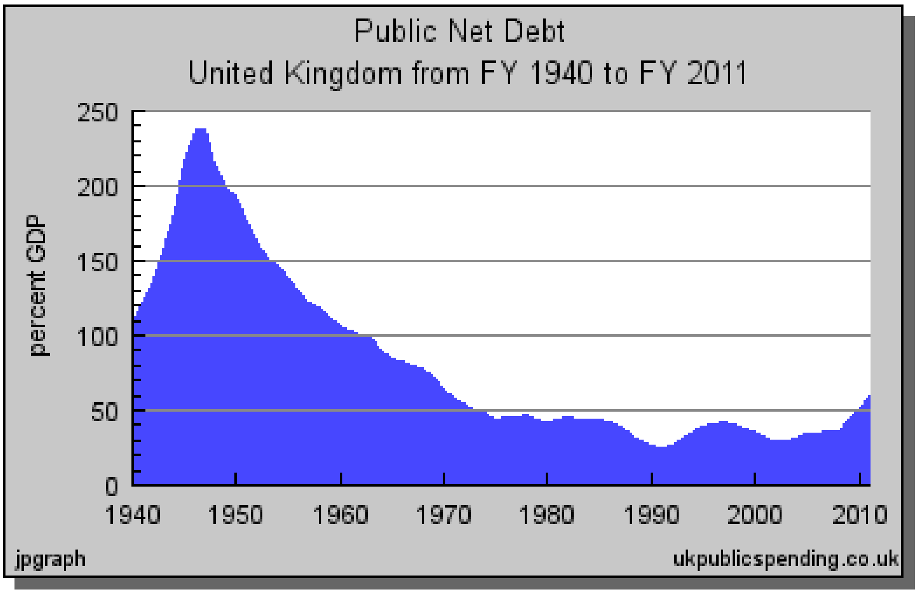
Roosevelt did not hesitate to implement 'financial repression' against rentier interests. Maximum interest rates for bank deposits were already introduced in 1933, making government bonds an interesting asset despite their lower interest rates. The possession of bullion was prohibited, gold had to be sold to the Federal Reserve at a fixed price. Later on, capital controls were introduced, and financial institutions were obliged to buy and hold treasury bonds.

Such 'financial repression' kept interest rates low[43], the politics of 'full employment' and higher inflation rates during the post-war boom all contributed to bringing government deficits down from their peak in 1947 of roughly 120 % of GDP to below 40 % in the 1970ies. Countries such as the UK (public net debt in 1947 of 238 % of GDP) applied similar policies including financial repression, its debt fell to around 50 % of GDP in 1973. Though, 'financial repression' did not develop to the extent as Keynes' formula of a gradual 'euthanasia of the rentier', needing 'no revolution', had presaged.[44]

[43] Between 1945 and 1980 real interest rates were even negative in half of all those years, because inflation exceeded the interest rate.

[44] "Now, though this state of affairs would be quite compatible with some measure of individualism, yet it would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital. Interest today rewards no genuine sacrifice, any more than does the rent of land. The owner of capital can obtain interest because capital is scarce, just as the owner of land can obtain rent because land is scarce. But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital. An intrinsic reason for such scarcity, in the sense of a genuine sacrifice which could only be called forth by the offer of a reward in the shape of interest, would not exist, in the long run, except in the event of the individual propensity to consume proving to be of such a character that net saving in conditions of full employment comes to an end before capital has become sufficiently abundant. But even so, it will still be possible for communal saving through the agency of the State to be maintained at a level which will allow the growth of capital up to the point where it ceases to be scarce. I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work. And with the disappearance of its rentier aspect much else in it besides will suffer a sea-change. It will be, moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the rentier, of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain, and will need no revolution." John Maynard Keynes: General Theory of Employment, Interest and Money, Chapter 24, Concluding Notes, 1936.





All this provided the social fabric of the class compromise that more or less continued well into the beginning of the 1970ies. The 'political business cycle' as prophetically analysed by Kalecki in 1943 is one of the foundations of what the Regulation School later called the 'Fordist regime of accumulation'.

However, with economic growth beginning to slow down from the mid-1970ies and inflation remaining at 'boom levels' (stagflation), big business and rentier interests forged renewed alliances, organising a backlash on labour and expanding the playing field for global financialisation. The workers movement (and the political left) that was at the height of its militancy and institutional influence in the late 1960ies and 1970ies suffered heavy defeat. Big business and finance could restore profit mass again from the 1980ies onwards, but failed to break the 'long downturn' of the advanced capitalist economies after the end of the 'long upswing' 1947 - 1973. Robert Brenner's "The Economics of Global Turbulence"[45] and "The Great Financial Crisis" by Fred Magdoff and John

[45] Verso, 2006;

Bellamy Foster[46] are only two of a number of books providing critical research on the deeper problems connected to the stagnation of the so called “real economy".

The 'neo-liberal revolution' in the 'long downturn' - or what Ben Bernanke preferred to call 'The Great Moderation' - did not totally abandon the 'political business cycle'. It increasingly replaced 'public investment funded by borrowing' by *'borrowing and deficit-spending of corporations and private households*', creating asset price bubbles supported by relaxed monetary policies from the Fed and many other central banks. Thus such bubbles were driving and nurturing the booms, and booms sustaining the bubbles until they went bust.

However, this so called 'asset-price Keynesianism' finally made things even worse in comparison to the 'stagflation' of the 1970ies:

"*The fundamental source of today’s crisis is the steadily declining vitality of the advanced capitalist economies over three decades, business-cycle by business-cycle, right into the present. The long term weakening of capital accumulation and of aggregate demand has been rooted in a profound system-wide decline and failure to recover of the rate of return on capital, resulting largely—though not only--from a persistent tendency to over-capacity, i.e. oversupply, in global manufacturing industries. From the start of the long downturn in 1973, economic authorities staved off the kind of crises that had historically plagued the capitalist system by resort to ever greater borrowing, public and private, subsidizing demand. But they secured a modicum of stability only at the cost of deepening stagnation, as the ever greater build-up of debt and the failure to disperse overcapacity left the economy ever less responsive to stimulus.*"[47]

[46] Monthly Review Press, 2009

[47] Robert P. Brenner: What is Good for Goldman Sachs is Good for America. The Origins of the Present Crisis. 10 February 2009; http://escholarship.org/uc/item/0sg0782h

DECLINING ECONOMIC DYNAMISM, 1960-2007
(average annual per cent change)

GDP	60-69	69-79	79-90	90-00	2000-07
US	4.2	3.2	3.2	3.3	2.3
Japan	10.1	4.4	3.9	1.3	1.4
Germany	4.4	2.8	2.3	2.1	1.2
Euro 12	5.3	3.2	2.4	2.2	1.9
G7	5.1	3.6	3	3.1	
			2.9	2.5	2
Private Real Non-Residential Capital Stock (plant and equipment)					
US	3.9	3.7	3.0	2.9	1.8
Japan	12.5*	9.4	6.1	2.9	1.1**
Germany	6.7	5.2	3.3	2.4	1.2
Industrial	5.0	4.2	3.1	3.3	2.1
Total Economy Labor Productivity (GDP/worker)					
US	2.3	1.2	1.3	1.7	1.7
Japan	8.6	3.7	3	1.1	1.8
Germany	4.2	2.5	1.3	2.5	1.5
Euro 12	5.1	2.9	1.8	1.9	0.9
G7	4.8 (60-73)	2.8 (73-79)	2.6	1.9	1
Total Economy Real Compensation (per employee)					
US	2.7	1	0.8	1.9	0.6
Japan	7.5	3.9	1.7	0.8	0.1
Germany	5.7	3	0.8	2.3	0.2
Euro 12	5.8	3.2	0.6	1.1	0.4
Real GDP Per Capita	60-69	69-79	79-90	90-00	2000-07
US		2.2	2.1	1.9	1.4
Japan		4.1	3.2	1.4	1.5
Germany		2.9	1.9	1.5	1.2
Euro 15		2.8	2.0	1.9	1.6
Private Total Real Compensation (employment times compensation per employee)					
US	4.4	3.5	2.5	3.2	1.3
Japan	6.9	6.4	2.9	1.8	0.7
Germany	2.5	-0.4	1.6	1.7	-0.3
Private Employment	60-69	69-79	79-90	90-00	2000-07
US	1.8	2.1	1.9	1.3	0.9
Japan	1.4	0.8	0.9	0.2	-0.3
Germany	0.2	0.3	1	0.4	0.2
EU-12	0.2	0.4	0.7	0.7	1.1
Real Personal Consumption Expenditure					
US	4.4	3.2	3.5	3.5	2.9
Japan	9	4.7	3.7	1.6	1.4
Germany	5.1	3.4	2.1	2.2	0.3
EU-12	5.6	3.7	2.3	2.1	1.6

Source: Brenner 2009

In contrast to developments after the Great Depression in the US, the 'finance-led accumulation regime' however had changed social power relations in such a way that the renewed 'powerful alliance between big business and rentier interests' stood firm instead of breaking up, in the US and in Europe.[48]

With a short-term rapid collapse of the banking system prevented by public bailout operations, political and economic elites soon lost their earlier doubts about the viability of neo-liberalism. Already in the second half of 2009 the European Commission saw light at the end of the tunnel: economic recovery would come at a faster pace than expected only months ago, it claimed. In October 2009 the EU Economic and Financial Affairs Council proclaimed an exit-strategy from fiscal stimulus and set targets for member states to comply with the Maastricht budget deficit criteria and the Stability and Growth Pact by 2012/2013.

[48] For some thought-provoking analysis, I recommend Peter Gowan: Crisis in the Heartland, New Left Review (NLR) 55, January-February 2009; Leo Panitch and Martijn Konings: Myths of Neoliberal Deregulation, NLR 57, May-June 2009; and Susan Watkins: Shifting Sands, NLR 61, January-February 2010; www.newleftreview.org

From then onwards, EU elites were back on their traditional track: fiscal austerity shall provide for a return towards 'sound public finance', structural reforms (cuts in social security, further de-regulation of labour markets, further liberalisation of markets for goods and services, large scale privatisation of public assets etc.) shall reinvigorate economic growth in the European Union. Business and rentier interests lobbied successfully for implementing their major demands of the last 10 years, now enshrined in the Euro Plus Pact and EU economic governance at large.[49]

A revival of a 'New Deal Policy' paralleling the spirit and breadth of Roosevelt's reforms from 1933 onwards did not materialise, neither in the US, nor in Europe. With the US-deal on the debt-ceiling, the strategic alliance of both Republicans and Democrats with the interests of Wall Street and Obama as their 'triangulator' has become obvious.[50] In the US and Europe - though with different degrees of determination - political and economic elites are united around a 'sado-monetarist' project to mitigate the effects of the 'Great Recession'.[51] Also the centre-left in Europe has nothing else to offer than a timid 'modification of austerity policies' and ongoing defence of liberalisation and globalisation as 'benign forces' contributing to prosperity for all 'in principle'.

7. Perspectives

From 2010 onwards, there emerged some substantial mass mobilisation in Europe - most notably general strikes and mass protests in Greece, Portugal, Spain, Italy and mass action against Sarkozy's pension reform in France. Despite the efforts of ETUC General Secretary John Monks to broaden such protest against austerity policy - several European demonstrations in Brussels and Budapest were organised, linked with trade union mobilisation at national level in a concept of 'European days of action' - trade union activities in the Nordic and 'core' EU countries were mostly of a 'symbolic' nature, lacking continuity and long-term strategy.[52]

Thus the trade union (and social movement) response to the austerity drive remained fragmented, with 'upheaval' restricted to the southern periphery of the EU under attack from financial markets and EU pressure to deepen national austerity programmes. It is also in those countries where the new movement of the 'indignados' developed some strength - most notably the M-15 in Spain. However, as social democracy in those countries is ready to sacrifice the future of their party and voters to serve the claims of the financial markets[53], even massive protests so far did not inflict any tangible policy change.

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[49] Corporate Europe Observatory (CEO): Corporate EUtopia, January 2011; http://www.attac.org/sites/default/files/Corporate_EUtopia.pdf, and CEO: BusinessEurope celebrates social onslaught in Europe, 23 March 2011

[50] "The U.S. Government has spent $13 trillion in financial bailouts since Lehman Bros. failed in September 2008. But Mr. Obama warns that thirty years from now, the Social Security fund may run a $1 trillion deficit. It is to ward it off that he urges dismantling the plans for such payments now. (...) The banks and Wall Street firms have taken the money and run. There is not enough to pay for Social Security, Medicare or other social spending that the Blue Dog Democrats and Republicans now plan to cut. (..) The plan will be to "paper over" the current crisis by delegating the plans to a "Deficit Reduction Commission #2," appointed from Congressional members. Finally, we have "Change we can believe in." http://michael-hudson.com/2011/07/debt-ceiling-for-progressive-repealing/

[51] Combining monetary policy tools such as 'quantitative easing' with fiscal austerity and 'structural reforms'.

[52] The German trade union confederation DGB mobilised some 100 000 people in decentralised protest action in November 2010 against the austerity programme of the conservative-liberal coalition (€80 billion over the next couple of years) - however, without any follow up since then.

[53] See e.g. the agreement of the major Portuguese political parties (PS, PSD, CDS) to implement the measures demanded by the EU-IMF-ECB troika, resulting in the PS loosing governmental power in the June 2011

As already mentioned, in the Nordic and most of the 'core' EU countries, another variant of 'We do not pay for your crisis' is challenging the centre-right and centre-left consensus on austerity: Marine Le Pen's FN in France, Heinz-Christian Strache's FPÖ in Austria, Geert Wilders' PVV in the Netherlands, Timo Soini's True Finns, to name but a few of the right-wing populist (euro-sceptic or anti-EU) forces making inroads not only amongst former conservative or liberal voters feeling betrayed, but with a strong emphasis on social issues especially amongst working class voters. This is their message: Ensure security and social protection only for 'our own hard working people', but not for certain migrants taking away our jobs or 'undeserving' lazybones of all kinds who do not want to work; no 'hard earned taxpayer's money' for bailing out lacklustre mediterranean populations, nor for serving the appetites of the plutocrats of international finance; stifle globalisation and the EU as its main promoter in Europe - and all that mixed up with heavy doses of Islamophobia.

The economic drifting apart of the European Union mentioned earlier on is thus also mirrored by the geographical pattern of which forces are leading the opposition to the EU elite consensus: the left opposition (trade unions, indignados, 'left of the left' parties) in the southern EU periphery, the right-wing populists in the North and core EU. To draw on Bertolt Brecht's distinction: The left opposition follows the logic of *'Alle oder keiner'* (all or nobody), seeking to push for an egalitarian, socially inclusive solution - the right-wing populist opposition follows the logic of *'Für alle reicht es nicht'* (there is not enough for everybody).

The combination of continued bail out of the financial sector with austerity against the great mass of people is becoming more and more unpopular, to say the least. However, the same scepticism if not outright hostility holds for proposals to engage again with public deficit financed stimulus packages, which would need to be 3 - 5 times higher than those in 2009/2010, only to restore the 'growth path' before the 'Great Recession'.

The most urgent issue for the not too far future is 'Who is to take the hit?' - financial 'investors' or working people? *'Scaling back debt to reflect the actual ability to pay*' (Michael Hudson) is central to this.

This is the rationale behind the arguments on the left for a 'hair cut', 'debtor-led restructuring of public debt' and 'public auditing of debt' - the latter also aiming to prevent that pensioners, small savers etc. are ploughed under when it comes to a debt write-down. This would, of course, trigger a banking crisis, with the renewed need for recapitalisation. However, such recapitalisation might be cheaper than servicing debt at present value or by subsidizing debt by ever more debt - especially if banks are socialised and put under public democratic control, the financial sector reduced in scope to provide low-interest credit to 'real economy' investment, the shadow bank system (hedge funds, private equity, derivates) destroyed and the financial casino closed down. Debt-restructuring of this sort is intrinsically linked to a crackdown on the power of financial markets on all fronts. Without such a crackdown, no positive outcomes in the interest of working people at large will be possible.

The second issue is what to do about the '*long term weakening of capital accumulation and of aggregate demand'.* To try to revive capital accumulation and aggregate demand along the lines of the 'Fordist class compromise' in order to re-establish annual GDP growth of 4 - 7 per cent in mature developed economies is not a reasonable option for the left in my view - unless we say 'fuck the environment and the planet'. According to an 'ecological-social scenario' for Germany up to 2020[54], a combination of measures achieving ambitious environmental targets (on climate change, resource efficiency, energy saving, fast phasing out of nuclear power, a change to ecologically sustainable consumption patterns and life-styles) and social targets (a drastic reduction of unemployment and poverty etc.) by 2020 would result in average annual GDP growth of 1.9 per cent. Measured by the

Portuguese elections; or the PSOE-PP 'Pact for Spain' (installing a debt brake in the Spanish constitution), which will most likely lead to PSOE loosing in the national election scheduled for November 2011.

[54] Hans-Böckler-Stiftung (2000): Arbeit und Ökologie. Wege in eine nachhaltige Zukunft

standards of 'growth-and-jobs Keynesians', this is sluggish growth, of course. However, in my view, focusing on reviving capital accumulation and high economic growth might not be worth the effort if positive results - full employment, a more egalitarian distribution of income, environmental sustainability etc. - could be achieved by other means.

Revisiting the debates and concepts of the 1960ies to the 1980ies on 'anti-capitalist structural reforms', 'eco-socialism', 'public ownership', 'steering of investment' (Investitionslenkung), 'economic democracy' etc. - for all their merits and weaknesses - might be fruitful for current debates. Interesting re-combinations of (post)Keynesian/Kaleckian macro-economics with such approaches might emerge. Wasn't it also Keynes (The Long-term problems of full employment, 1943) who predicted mature capitalist economies to stagnate and pledged for collective working time reduction, 'the socialisation of the investment function' and 'Keyensian devolution' amongst other things?[55] Deficit-financed public investment would still have some role to play - enabled again after debt-restructuring - but also tax policies reverting the redistribution of income and wealth from the bottom to the top, and taking a closer look at the inner-life of major macroeconomic aggregates (demand, supply, expenditure - supporting socially and environmentally sustainable development or not?).

This is a wide field to explore (and certainly also a research agenda), but in my view a feasible counter-strategy of the left against both sado-monetarism and capitalist stagnation must be based on an anti-capitalist approach.[56]

Whatever different views heterodox economists, trade union and social movement activists etc. may have on alternative economic policies and strategies to be promoted and on how 'European integration perspectives' may fit in with those or not: creating a 'coalition of resistance to austerity', mutually supporting action at national, regional and local levels, making common interests and shared key goals visible in a spirit of mutual solidarity - all this is a bare necessity in the current situation. As long as mass direct action against 'sado-monetarism' remains fragmented in Europe - stronger in the European south, leaden passivity in most of the richer EU core - EU elites will continue to have their way and opposition to that will shift even stronger to the right-wing populists in the North and EU core. It is essentially social power relations that matter - if these can not be challenged and broken up by mutually supportive progressive movements, say goodbye to the welfare state, trade union rights and everything progressive achieved after the Second World War in Europe.

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[55] See e.g. Norbert Reuter: „Antizyklische Fiskalpolitik“ und „deficit spending“ als Kern des Keynesianismus? Eine „schier unausrottbare Fehlinterpretation“; Wirtschaft und Gesellschaft, Nr. 3, 2004; and Karl Georg Zinn: John Maynard Keynes and the limits of growth; 1 September 2009, http://nyc.indymedia.org/en/2009/09/107158.html

[56] For some key points on which solutions to promote now, see e.g. for a start Michel Husson: Euro - en sortir ou pas? ContreTemps, 19 aout 2011; http://hussonet.free.fr/socregfw.pdf, and Eric Toussaint: The debt in the North - some alternative paths, 19 February 2011; http://www.cadtm.org/The-debt-in-the-North-some