New economic policies, end of austerity and ecological transition

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Introduction

The work that I'm going to present is rather a compilation with updated data on the crisis, which proposes solutions common to different groups of economists that I follow as I agree with their ideas.

These groups are now well known, as "Sbilanciamoci" in Italy, and "les économistes atterrés" from France, all promoting "progressist" views. Proving how harmful austerity policies are, they claim more or less the same things:

- stopping with austerity policies first but cutting the wasteful and useless public spending.
- reducing inequalities through a more equal tax, choosing to redistribute the tax burden from poor to rich and from labour and business income to assets and to rents.
- fighting against tax evasion and tax havens.
- regulating the financial and banking sector
- promoting policies for a growth engaged in the ecological and energy transition, which should be seen both as a need, considering the climate change, the increasingly limited availability of fossil fuels and the dangers of excessive dependence on Russian gas, and as an opportunity of change.

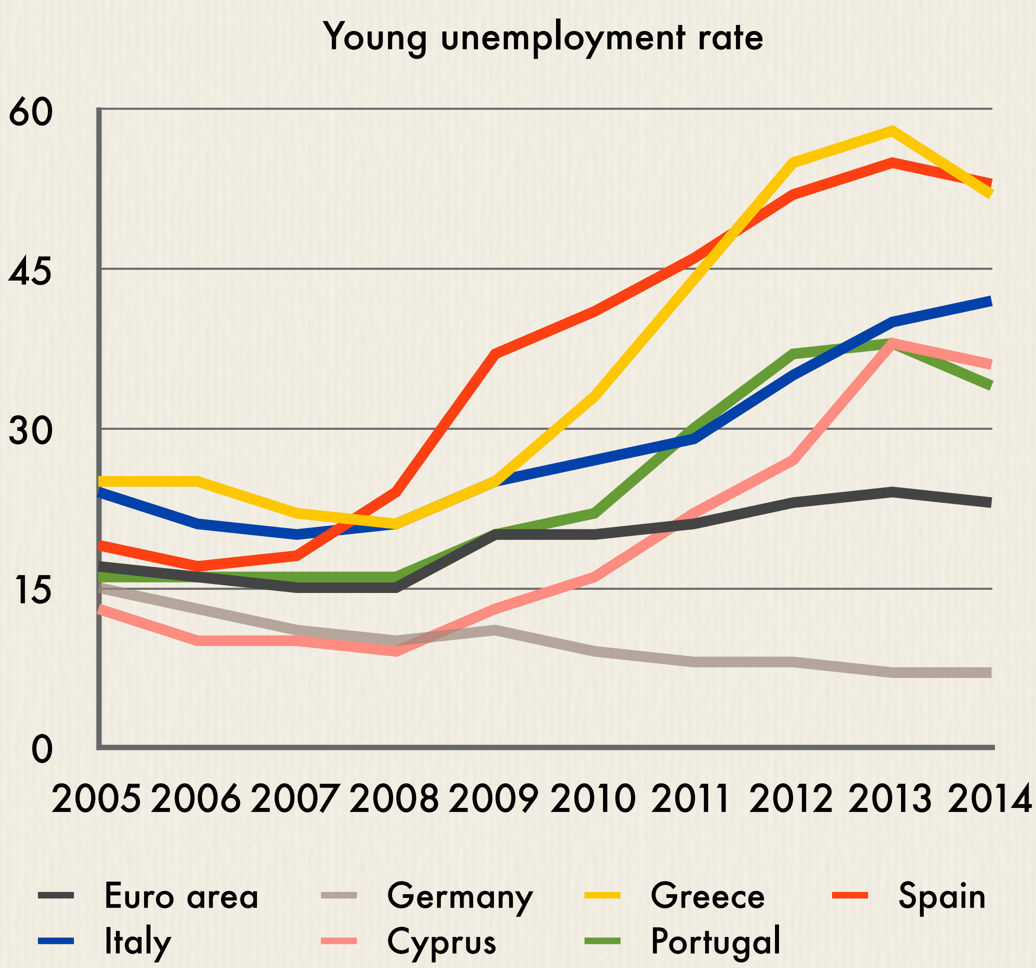
Article 3 of the Treaty of Lisbon

The Union… shall work for the sustainable development of Europe based on balanced economic growth *and price stability, a highly competitive social market economy,* ***aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment****. It shall promote scientific and technological advance.*

It shall combat social exclusion and discrimination, and shall promote social justice and protection….solidarity between generations *and protection of the rights of the child.*

It shall promote economic, social and territorial cohesion, and solidarity among Member States…"

Italy and Southern Europe after 6 years of austerity policies.



A recent report of the European Parliament (Comm. Social Affairs of 13/03/2014), unusually explicit, claims that austerity policies have caused a "social tsunami" in the continent. A new report of 2015 was alarmingly titled "The impact of the crisis on fundamental rights across members states of EU" (Policy Department C: Citizens' Rights and Constitutional Affairs, PE 510.019).

The unemployment rate in Europe is at record levels: 9.6% (11.1% euro zone), among the highest rates in the years after the signature of the Maastricht Treaty in 1992. But talking about a European average is misleading: Spain and Greece have unemployment rates of 22.5% and 25.6% respectively. Rates are slightly lower compared to 2014, however, they do not consider an important fact: emigration. In 2004, 55,000 people emigrated from Spain, in 2013 532,000 people:10 times more! The same year, Greece has 117,000 emigrants. These figures are probably lower than reality as many young people migrate without recording their exiting the country. Spain and Greece are among the few countries, which despite receiving many immigrants have **a** trend of population in decline!

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Germany has an unemployment rate (4.7%) rather at historic lows. The figure of Italy: 12.7% (about 3 million people), the highest rate since 1977.

The tragedy of the younger generation and the stolen future.

The average rate of youth unemployment in the euro zone and the EU-28 is already very high (22.5% and 20.7% respectively), but in some countries it has reached peaks not seen since the Second World War : 49.2% in Spain, 53.2% in Greece (from 30% in 2010!), 44.2% in Italy (but in the southern regions has rates close to 60%, among the highest in Europe!) compared to a "mere" 7.6% in Germany! **A social disaster!**

Even those who have a job, however, are not doing very well: since 2007 real wages have declined or remained stagnant in all the countries of the periphery.

Taking wages in 2007 as the 100 basis for calculation, in 2013 they were down to 94.3 in Italy. However wages in Greece fared much worse and fell to 75.8.

The first consequences, as we have seen, is the abandonment of these lands by young people. A new period of migration for Southern Europe is opening. But there's something else to start to be worried about.

In the regions of southern Italy and southern Europe, the weak welfare was often replaced by family ties. There are many families and young people who survive thanks to the help of retirees. Grandparents helping grandchildren. The first generation helping the third one.

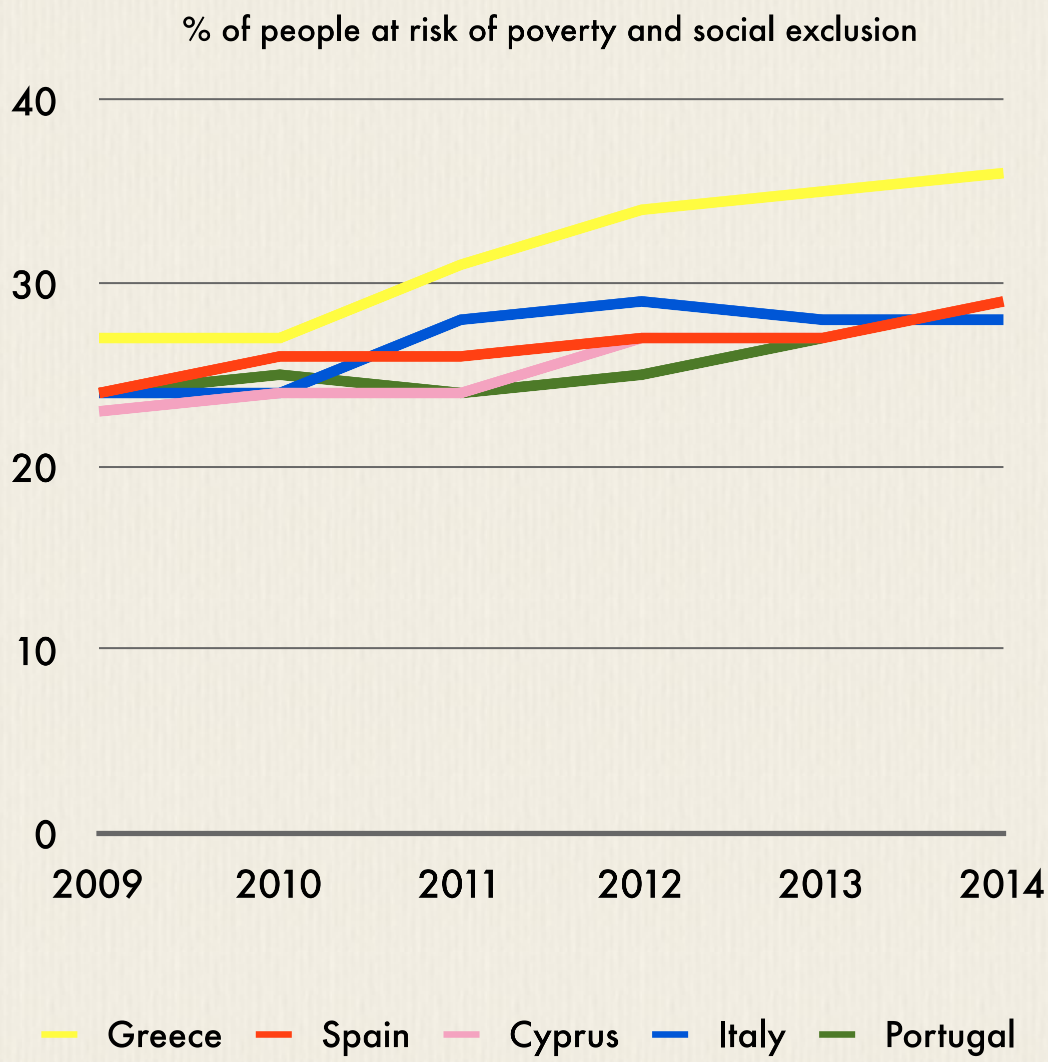
But soon, physiologically this aid will fail. Pension systems in southern Europe, have long passed to be "contributory" systems, based on the paid contributions.

This implies that current generations, already in great difficulties for lack of work, or because of low paid and occasional jobs, will soon find themselves without any help and in the future will have paid minimum contributions that cannot guarantee them a decent pension, or cannot ensure it at all.

The situation in Southern Europe is collapsing. The flow of desperate immigrants will only exacerbate the situation by triggering a fight among the poor. A huge time-bomb which the European political leadership should start worrying about.

Widespread Poverty

Proof of this, is the regrettable increase of the rates of poverty and social exclusion on the continent: a drama that according to the European Commission now concerns 24% of the EU population. In 2008 they were "only" 116 million, in 2013, 123 million. Nearly 10% of Europeans now live in conditions of severe material deprivation (in Greece 36%, closely followed by Italy with 28.1%, more than one Italian out of 4!).



Rather than "wealth destruction", we witness more its transfer from some sections of society to others (as well as from labor to capital). Social inequalities have increased dramatically since the crisis: today 10% of Italian households own just under half (47%) of the total wealth. The situation foreshadows a real social emergency. As László Andor, former Commissioner for social policy and employment recently said: "The policies of austerity and internal devaluation (...) reduced literally millions of people to poverty." According to a report of the British Medical Journal, the number of suicides in Greece from 2008 to 2011 increased by 35.7% and infant mortality by 43%.

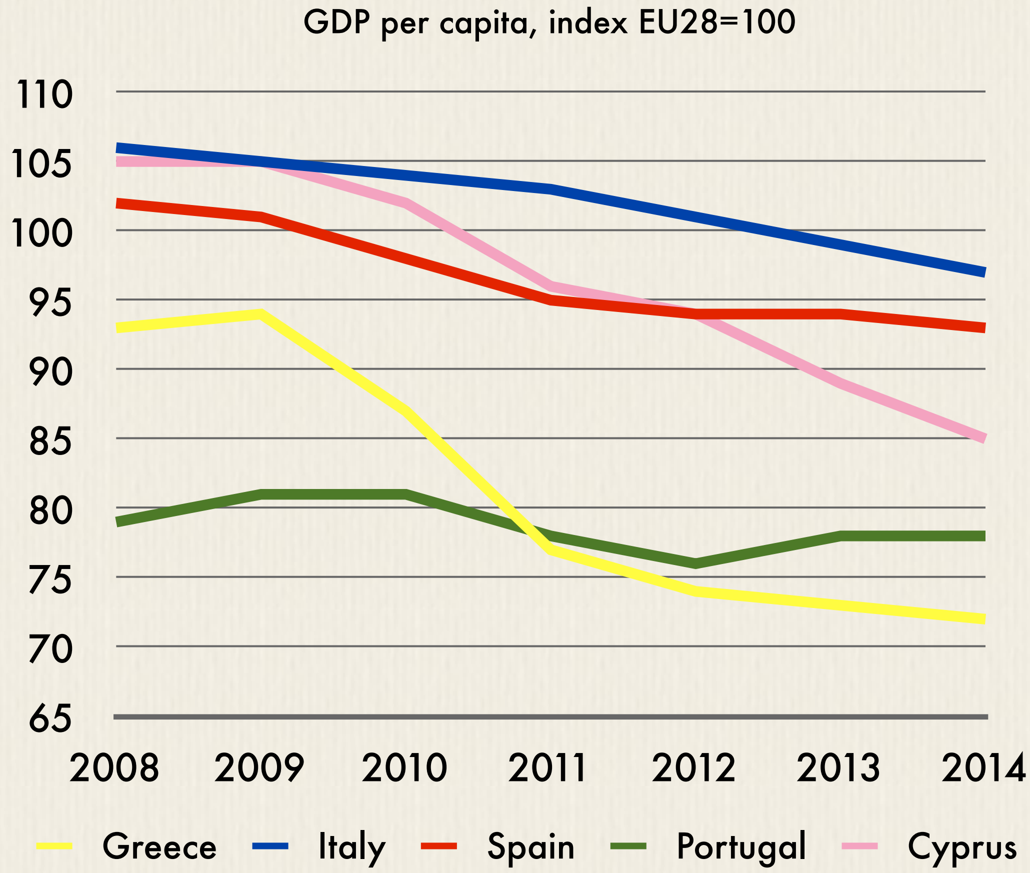
There are now many studies that suggest that these policies - which in many countries resulted in drastic cuts to public health expenses - are responsible for a significant number of otherwise avoidable deaths, also contributing to the return of epidemics that were thought to be destroyed (such as' Aids in Greece).

The repeated mantra, however, was that "***this was the price to pay to "cure" the European economies; a "painful but necessary medicine.***" So, let's see how the European economy is getting on after six years of austerity.

GDP: There is a widespread recession across Europe

Even here we cannot speak of a real average. Italy has been in recession for six years. GDP is at the level of 2000, we have gone back 15 years! The situation is well expressed by the graph of per capita wealth in the Mediterranean countries.

Italy, had a wealth per capita above the EU average. Over the years there has been a steady decline. Having 100 the per capita EU28 average, the index value went down from 112 in 2003 to 97 in 2014. So today, it's under the EU average.



The impoverishment is clear throughout all the Mediterranean area. Other obvious signals come from industrial production data.

The industrial production index is one of the most followed by operators and economic and financial analysts. In Italy this index till 2015, lost 25% compared to 2008. According to the latest Eurostat data, there is a widespread recession, and it seems that the "locomotive of Europe", Germany, is stopping. The index in Italy, France and Germany, in June 2015 and compared to the previous month, recorded declines (contrary to expectations) of 1.1%, 0.2% and 1.4%. In the same period, the rate of growth of GDP is 0 in France and just above it in Italy and Germany

The SMEs

In Italy since 2009 bankruptcies raised by 72.7%. If in 2009, operating companies were about 1,466,000 on 31 December 2014, the amount dropped to about 1,371,500 units. Out of the total of companies that ceased operations, 94,400 were small artisanal companies: **an extermination**! The economic frame of the country, a model of small and medium-sized enterprises that other countries envied for years, is destroyed.

Among the main reasons the first one is generic: The economic model that we pursue rewards the large corporations and the centralization of capital. The second one is the tightening of credit by banks and the third is the contraction in demand.

The banking system speculating

Seven years after the failure of Lehman Brothers, the financial and bank crisis of the European Union it is not yet solved.

According to CGIA (Chamber of Commerce and Artisans) Mestre, despite liquidity injections by the ECB, the bank loans decreased. With the latest Targeted Longer-Term Refinancing

Operations of the ECB, Italian banks received 94 billion EUR, but the business lending has decreased by 13.2 billion euro. In the same period the government bonds in the portfolios of Italian banks rose by 40 billion. But, in the intention of the ECB, the exact opposite had to happen. The remaining few loans are granted only to large businesses.

The growth of "non performing loans" (NPL's) is not only a symptom but also cause of the decline in lending, and more generally of the current crisis.

In Italy before the crisis these did not exceed 42 billion, but now they reach the amount of 192 billion while the total amount (NPL, impaired or restructured loans) is over 315 billion euro.

Politicians start from the assumption that public finance is the problem and that the private should be the solution. They "forget" how the crisis was caused by a private hypertrophic and unregulated financial system. 75.000 billion is the amount of the gross world product in 2013, 993.000 billion, the amount of global financial assets at the end of last year. In ten years, the gross world product has doubled while the volume of financial assets has tripled.

Of those 993,000 billion dollars only 283,000 are primary finance, ie stocks, bonds and bank assets; all the rest, 710 000 billion dollars, are derivatives traded outside regulated markets, of which just a small portion is related to transactions. The majority are bets: on interest rates, currencies, prices of resources, the trend of stock index, the failure of states or big enterprises. Within those 710 thousand billion lurk, according to estimates by the Bank for International Settlements, maximum risks amounting to about 19 trillion, a figure greater than the GDP of the United States.

Finance has become a competitor of the real economy in attracting capitals, a powerful element of distortion and instability of the processes and policies. A new proof is the new Asian market crash of August 2015, the largest since 2008. But in recent years the financial lobbies have managed to get across the totally wrong concept that the debt crisis was actually a public debt crisis. While the ECB has stabilized the banks with more than 1,000 billion euro of unconditional three-year loans, it continues to be prohibited lending to governments.

We need to think about banks and markets serving the general interest: tools for the economy and society as a whole.

In the need for binding rules and stricter controls.

The financial sector should be radically reduced and brought back to being an instrument at the service of the real economy. After the crisis of 1929, one of the most important measures introduced in the United States - by the Glass-Steagall Act - was the separation between commercial banks and investment banks. This measure has contributed to the relative stability of the banking system, until it was dismantled in the 90's. As trading is actually financed with funds addressed to low-risk activities and low yield (bank deposits), the speculative trading enjoys an implicit aid. If trading was actually spun off from the commercial activity and would ask for funds on the markets, it would be forced to remunerate them at a much higher rate.

In Europe today, deteriorated loans, whichever term is used to describe them, reached in December 2014, 17.1% of total credits, while the non-performing in the strict sense are about 10%, the highest value since 15 years.

All this is a result of a more profound disease: the reduction in consumption by households. With a decrease in demand, (driven by austerity policies), companies react by reducing staff and cutting wages and prices. Europe is falling into the trap of deflation. The reduction in consumption is reflected in the lower prices, and industrial production, as seen before.

To describe the risks faced by Europe, the example that is often brought up is that one of Japan, which is fighting the deflation since fifteen years. But the comparison is misleading. The truth is that the eurozone has more risks. Japan can devalue its currency trying to increase its exports; while the eurozone countries don't have other means than the "internal devaluation” of wages. Based on the compression of demand, it can only aggravate the deflationary spiral, and increase inequality.

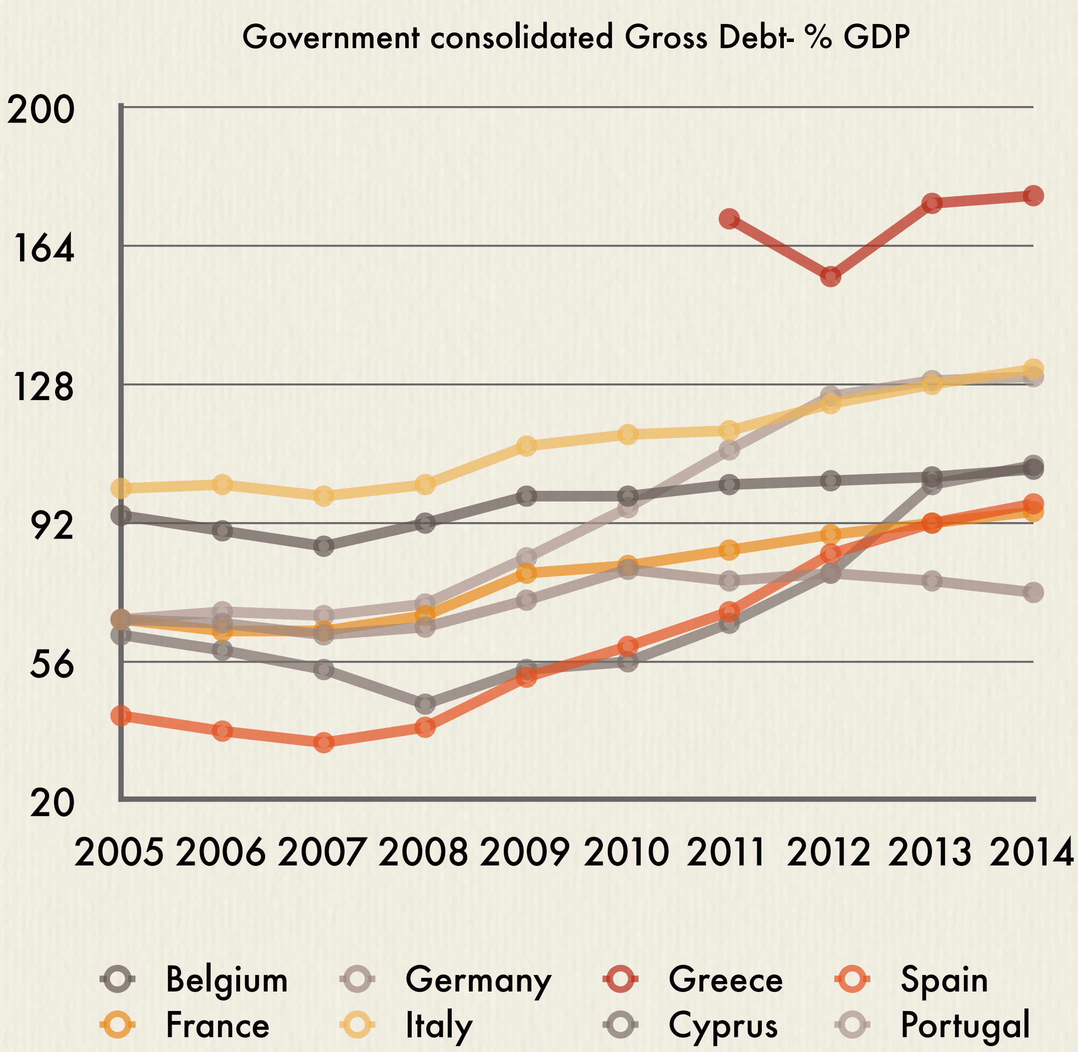
The wrong model

All this highlights how wrong is the idea that the "**German model**" - based on the compression of wages and domestic demand in order to boost exports - could represent a model for all the eurozone and for Europe as a whole, since it is clear that it can only work if there is someone that could pull the exports by boosting the domestic demand. And is also a model "designed" for industrialized economies, while Europe is made up of countries with very different economic structures.

The wrong recipes of Europe

The result of austerity policies has been a collapse in aggregate demand across the currency area and, consequently, the volume of intra-European exchanges, even at the expense of Germany, which has succeeded in recent years to reorient itself with considerable success to the markets outside Europe.

The slowdown in Chinese economy, which last quarter grew by "only" 7% (the lowest level in the last 24 years), will bring consequences in Europe and in Germany, as well as the declining data on German industrial production are already showing. The biggest problems are in the South. According to the European institutions, in the past, these countries have been living beyond their means, in particular with regards to public spending. Today there is no alternative to the austerity plans: cutting the public spending, balancing the budgets and reducing debt and deficits. Enterprises must become more competitive. Furthermore, in order to reduce spending and debt and to expand the economy, governments need to accelerate privatizations. **But is it really the fault of public spending?** Italy had always a high debt. The debt / GDP ratio was 120% in the mid-90s and since then has declined steadily, reaching 105% in 2008. Suddenly,



the trend was reversed in 2008, with a ratio that starts to rise again. Today is at 133%!

Such a trend is not only in Italy, but in all Western countries and has nothing to do with a supposed "excessive welfare".

The reason is in the crisis of private finance, not in the public: the explosion of the subprime bubble and the resulting recession, while governments must borrow to save the banks, themselves responsible for the crisis.

According to recent studies of the IMF, in most cases, by cutting public spending, GDP falls faster than the debt. So the relationship continues to get worse.

The austerity plans are not only devastating from a social perspective, but are also harmful from the macroeconomic point of view.

From Italy to Spain through to battered Greece, not only unemployment has increased rapidly, not only intolerable levels of poverty and inequality are achieved, but even the main goal, namely the adjustment of the public finances, is failing, and the ratio of debt on GDP continues to worsen.

The wrong economic vision.

The German model, can work only if driven by exports, but most of the trade in the European Union flows among the European countries themselves, which means that if someone exports, others need to import. And that is what is happening: someone wins, others lose the game.

This means that the idea of the European Union is replaced by the idea of a European Competition. A competition that is actually a race to the bottom: who is better dismantling the rights of workers, reducing levels of environmental protection to produce at a lower cost, becoming a tax haven in order to attract capital, wins.

To make money, States must sell off their assets lands and enterprises under public control: the triumph of privatization.

A “race to the bottom” in social, environmental, fiscal, monetary fields.

In other words, the entire weight of a crisis caused by the collapse of the gigantic private financial casino is dumped on the weaker social classes and the environment.

The scenario described so far confirms what Joseph Stiglitz wrote, namely that "***austerity has been a total and absolute disaster***".

The limits of the growth and the ecological transition.

Actually what is in question is the whole economic model to which we should aspire. The concept of growth must be reconsidered. Today we are dominated by a metaphysical doctrine of the eternal economic growth, without any attention paid to the lack of physical resources and to the pollution. But never-ending growing in a world that has finite resources, is simply impossible. The growth has physical limits. Resources are limited, and the regenerative capacity of the ecosystem, the integrity of the atmosphere and the size of the global population pose other limits. It took 10,000 years to reach 1 billion people, then with the industrial age and the cheap oil, in 200 years we have gone from 1 billion to 7 billion people in 2011. By 2050 we will be 9 billion individuals.

It is no longer needed to determine how much, but how the economy has to grow and ensure certain socio-economic and environmental balance. We need to consider the environmental and social costs of the economic growth as well as what the environmental destruction and the climate change mean today and reflect about how long the system will stand. Thanks to debates that no longer reach just the "insiders", the concept of transition policy is now spreading. This means that we need to appeal to a set of policies to achieve the structural change leading to a sustainable development.

The Transition is the passage, which will take place anyway, from an economy based on fossil fuels and on the paradigm of production and consumption to an economy based on renewable energies and sustainable consumption.

This will imply investing in technologies aimed at sustainable goals, renewable energy, adaptation to environmental change and improvement of the eco-system, such as forestry.

We need both investments that improve the efficiency of the used resources and minimize waste and investments to replace conventional technologies with clean ones. We must renovate buildings with emissions and energy-saving measures, invest in green infrastructure for public transport, intelligent electrical systems.

The ecological transition should be supported also in the developing countries, where not only it's important to invest in renewable energy and low-carbon infrastructure, but also in the protection of forests and eco-systems to enable an economic growth respectful of the environment. The green economy will be pushed from below and will differ depending on the local conditions.

But no strategy will work if they do not have at its centre the work and workers.

A great new deal that will have enormous costs, but certainly less than what was spent on bailing out banks.

The ecological transition can return a political content to the European project.

A NEW DIRECTION

We should aim at a social and fiscal Europe. A Europe of rights that can balance the Europe of capitals and finance We should ask for long-term investment plans creating jobs in key sectors for the future: the ecological reconversion of the economy, sustainable mobility, energy efficiency, research and training. We should go for the creation of a union and cooperation between states.

I share below the main guidelines proposed each year by the European Economists for an Alternative Economic Policy in Europe (EuroMemo) and part of Les Economistes atterrés.

Stop austerity:

- The restrictive fiscal policies of the European Union, must be abandoned. Fiscal rules need to be changed and the goal of a "structural balance" for public budgets must be replaced by a coordinated economic strategy.

- The debt problem should be solved through a joint responsibility of the eurozone and by restructuring the debt through a debt audit in order to determine which debts are legitimate and which ones should be cancelled.

- The European social model must be defended and extended through redistribution , social protection and welfare policies, based on solidarity between European countries.

More equal tax system and fight against tax evasion:

- Responding to both the growing outrage of citizens and the difficulties of States, European governments should give more emphasis to fight the tax evasion and "unfair tax competition".

- Rather than an exasperated competition between countries to attract businesses and capital, it is necessary harmonizing direct taxes based on their progression at European level, and a much greater commitment against tax havens.

Regulating the financial and banking sector:

- The ECB must provide liquidity and become the lender of last resort. This would allow member countries to have liquidity at low interest rates for government bonds. Moreover, the ECB should be subjected to an effective democratic control. In the Eurozone is then necessary reducing the serious imbalances in the balance of payments forcing to an adjustment also countries in commercial surplus.

- Eurobonds should be introduced not just to refinance the public debt of the Member states, but also to finance the ecological conversion of the European economy.

- To limit the speculative finance we need a tax on financial transactions, a clear separation between commercial banks and investment banks, and more control over capital movements.

• A bank or credit Institute that has commercial activities, and so not only being a "service" or "social" activity, should be more taxed.

• To reduce the dependence of enterprises on the financial markets, a public credit policy should be developed (preferential rates for priority activities in the social and environmental field).

• To reduce the influence of the rating agencies, their activity should be regulated, requiring that the evaluation marks result from transparent economic calculations

Promote policies for a growth aimed at the energy and ecological transition:

• A strong stimulus to the demand is needed to overcome the current stagnation. A public investment program for the ecological transition, funded at European level is essential.

• A new industrial policy in Europe, geared towards the ecological transformation of our social and economic model, with a drastic reduction in consumption of non-renewable energy is required.

CONCLUSION

The economic recovery of the New Deal in the '30s in America, and the policies of public intervention in the economy and in the welfare state in Europe, have ensured decades of prosperity and growth within a framework of social justice. The strength of European social democracy was precisely this.

The abandonment of the Keynesian policies and the deregulation of finance have played a decisive role in causing the present crisis. The 80s and 90s were years in the name of "laissez-faire" and privatization. Not surprisingly, the 2000s and the new decade were opened by dramatic problems of inequality, up to the recession.

We must therefore reverse the trend, returning to give to the public a significant role in the economy not only as governor, but also as an engine of the "fair growth". The "Public", the "State", are nothing but the Citizens. What we need to do is giving voice to the citizens, putting at the centre of the discussion the European citizen and his needs and well-being.

The crisis involves structural changes in ideas, institutions, civil society. In a globalized and connected world, Gramsci's words about the change remain valid. *“The Change is possible when ideas penetrate and are spread in the "civil society", in all civic institutions (education, culture, religion, law, media, etc.) of which it is composed”.* In a word, **there is need to "lobbying the change".**

My work does not add anything new to the alternative economic policies proposed so far, just tried to give a comprehensive overview and perhaps has the merit to show that the ideas are actually reaching even the “non-insiders”, as happened to me, and are continuing on their way, being spread in the civil society.