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Crisis, Recovery and a New Economic Way

What went wrong

The financial, economic and social crisis which has engulfed Europe and the world since 2008 started because of the reckless behaviour of inadequately regulated banks and financial institutions and because of the accumulation of imbalances at the global level.

The failure of casino capitalism

Regulation failed to identify and control the profusion of new and complex financial instruments which financial markets have developed in recent years. This, together with unprecedented availability of financing at the global level, was a key incentive for the financial markets to shift massively from their original purpose - providing liquidity to the productive economy - towards high-yield, high-risk, short-term and non-productive operations. This led to huge private indebtedness and asset-price bubbles, whose bursting rapidly contaminated the real economy, generating the worst economic crisis in several generations.

Public intervention staves off a new Depression

In response to the crisis, the public sector had to pump enormous quantities of public money into rescuing banks and other financial institutions and launching stimulus packages to boost demand and restore confidence.

The aftermath of the crisis has brought high public debt, uncertain growth prospects and a huge rise in unemployment and social inequality. Ironically, these fiscal and growth problems have caused some Member States to be targeted by the same financial markets which caused the problems in the first place, driving public borrowing costs to record highs.

Taking Europe down the wrong path

As Europe's crisis has deepened, so has the political divide between Right and Left. The European Commission and Council, dominated by Conservatives and Liberals, have sought to repackage the spectacular failure of the financial sector as a problem of public spending. They are proposing a "reform" of European economic governance which would:

- shift the costs of the bank-created crisis on to the shoulders of wage-earners, taxpayers and public services
- undermine Europe's prospects of economic recovery
- put key economic policy decisions beyond the reach of democratic choice.

What the Right wants - make citizens pay for the bankers' crisis

The European Commission therefore presented legislation late in 2010 to strengthen EU and EMU economic governance. However, the proposals focussed almost exclusively on strengthening fiscal discipline in Member States and failed to tackle the underlying problems - including chronic trade imbalances and diverging productivity trends among Member States, malfunctioning financial markets, growing income inequality and excessive private sector indebtedness.

Instead, the Commission and Council's legislative package entrenched draconian and economically unsound rules on the control of public spending and public debt. On top of that, the Commission produced an Annual Growth Survey, intended as a framework for national economic policies, which Jacques Delors called “the most reactionary document ever produced by the Commission”.

These right-wing remedies seek, in the name of recovery, to undermine social protection and collective bargaining. They would drive Europe countries in the direction of a smaller state and a greater reliance on supposedly self-correcting market forces; and they are based on the mistaken idea that harsh fiscal austerity combined with cuts in wages will bring back competitiveness to Europe.

This ignores the risk of deflation, lack of demand, and a lost decade of growth and employment. And it ignores the evidence that low wages and growing inequality played a large part in provoking the economic collapse of 2008.

The progressive alternative - a policy for growth, jobs and fairness

None of this is necessary. The S&D Group has a fully articulated, comprehensive, progressive alternative to the Council and Commission proposals.

Fiscal consolidation is essential, but it must be progressive and fair. It must undermine neither the welfare state nor the public investment that Europe needs to foster growth. The progressive alternative for which the S&D Group is fighting includes the following:

- Reform Europe's macro-economic rulebook, the "Stability and Growth Pact", by including binding targets for public investment to boost growth and employment; and by creating a space for budgetary policy to counter the ups and downs of the economic cycle.

- Make fair taxation play its part in restoring sound budgets, so fiscal consolidation is compatible with defence of public services and financing a European strategic public investment programme.

- Bring in a Financial Transactions Tax, so that the financial sector bears its share of the costs of the crisis. Even at a low rate this could raise massive public revenues and serve as a powerful weapon against short-termism, speculation and greed in the financial markets.

- Target tax increases on the highest incomes, and reverse the dramatic shift in the tax burden from companies to individual wage-earners. Bring in a European common consolidated corporate tax base, as a first step towards curbing tax competition.

- Launch a massive crackdown on tax evasion and avoidance, including undeclared work, imaginative accounting and tax havens, based on greater coordination and exchange of tax information.

- Use Eurobonds to protect the Eurozone against financial market speculation and cut the costs of financing public debt for every member state.

- Create a European Stability Agency to be responsible for management of European debt and to ensure a coordinated response to problems of currency stability, including crisis resolution.

- Use the revenues from these reforms to fund coordinated smart investment programmes to foster growth and employment and build a world-class, low emissions knowledge economy. Priority investments in human capital, transport systems, energy use and energy security, green technologies and scientific and operational expertise.

- Complete the reform of financial regulation and supervision to combat speculation, ensure transparency, accountability and systemic stability, abolish perverse incentives and put the financial system at the service of Europe's businesses and citizens. All financial players and all financial instruments must be subject to European law.

- Finally, Europe must press more forcefully at global level for a reform of global economic governance to put right the global imbalances which contributed to the 2008 financial sector crash.

The ideas are there. We reject the right's way out of the crisis, through slashing the social standards which previous generations of Europeans fought for over the last century.

What kind of Europe?

The Right want us to believe that the social ideals we defend, which brought about the most prosperous, peaceful period in the history of Europe, are now the cause of Europe's problems.

The truth is that it is their model of financial capitalism, weakening of the state, squeezing of lower and middle income groups, undermining of Europe's industrial base, weakening of social institutions and pandering to the super-rich, which has failed. The right-dominated European Commission and Council are trying to prop up this failed system, through economic governance measures which make ordinary Europeans pay the price for years of misgovernment and financial excess. In the process they would remake Europe as a project of the Right.

This is a battle which the S&D Group will fight with every resource at our disposal. We stand for a Europe of the citizen. The Right now stands for austerity for the citizen and business as usual for the banks.

For the S&D Group's detailed plans, see our paper **A FAIR WAY OUT OF THE CRISIS**.