Our Plan for a European Spring | DiEM25

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Thomas Piketty recently criticised DiEM25's New Deal for Europe for relying on new debt, rather than new taxes, to fund green investment. James K. Galbraith and Stuart Holland (my long time collaborators on the New Deal for Europe and the earlier Modest Proposal on which it was founded) have now replied to Piketty's critique (see here and here). For convenience the reader can find in one place (i.e below): (1) The gist of our Green New Deal's proposal, (2) Piketty's critique, (3) Jamie Galbraith's response and (4) Stuart Holland's response.

Our Green New Deal for Europe

The principle is simple: In the absence of reflation and reorientation towards sustainable growth by private enterprises that is due to self-fulfilling expectations of low aggregate demand, Europe needs a public investment-led drive toward 'crowding-in' idle savings and wealth. However, this must be done in a way that does not involve greater taxation of the exhausted working and middle classes or higher deficits of governments with little fiscal space. DiEM25 proposes, for this purpose, a investment-led recovery, or New Deal, program to the tune of 5% of European GDP annually to be financed via public bonds issued by Europe's public investment banks (e.g. the new investment vehicle foreshadowed in countries like Britain, the European Investment Bank and the European Investment Fund in the European Union, etc.). To ensure that these bonds do not lose their value as their supply increases sharply, the central banks (in whose jurisdiction the investments will be made) announce their readiness to purchase them if their yields rise above a certain level. In summary, DiEM25 is proposing a re-calibrated real-green investment version of Quantitative Easing that utilises the central ban

Piketty's critique: Democratising Europe by taxation or debt?

Thomas Piketty wrote in Social Europe on 11th February 2019: On December 10th 2018 we launched a *Manifesto for the Democratisation of Europe*, along with 120 European politicians and academics. Since it was launched, the manifesto has accrued over 110,000 signatures and it is still open for more. It includes a project for a treaty and a budget enabling the countries which so wish to set up a European Assembly and a genuine policy for fiscal, social and environmental justice in Europe—all available multilingually on the website.

In the *Guardian*, on December 13th, Yanis Varoufakis presented his 'Green New Deal' as an alternative to the manifesto, which he considers to be irrelevant. Concerned to ensure the quality of debate before the coming European elections, we set out some answers to his criticisms and clarify the differences between his plan and our proposals.

The Varoufakis plan builds on the European Investment Bank (EIB) which is responsible for issuing bonds to the value of €500 billion per annum, including these securities in the programme of purchase of securities by the European Central Bank (ECB). 'They will sell like hot cakes,' he says with the communicative enthusiasm which the former minister of finance in the Tsipras government in Greece is known to display for his own solutions.

What purpose would the funds thus raised serve—the ecological reconversion of the European economy, whence the slogan 'New Green Deal? We have no intention to criticise this aim. The reconversion of our system of growth towards a sustainable economic regime is an absolute necessity today. It should be implemented at European level and indeed plays a central role in our own proposal.

What is the difference?

The main criticism by Varoufakis seems to be the following: why do you want to create yet more new taxes when one can create money? Our budget is indeed financed by taxation, whereas his plan is financed by public debt. In his proposals, private firms involved in the ecological transition borrow money from the ECB, after having been selected by the EIB. In fact, part of this arrangement already exists in the form of the Juncker plan. What Varoufakis adds is the purchase of securities by the ECB rather than by private investors.

In the first instance, our proposals are based on taxes because a major part of the expenditure which we propose is public expenditure: financing research in new technologies by universities and sharing the cost of migration among member countries are beyond the sphere of private firms. This is one of the fundamental differences between our proposals: we propose to give Europe the means to provide public goods to its citizens—including the campaign against global warming, but not uniquely.

Secondly, the new shared taxes we propose are aimed at reducing inequality within countries. There are rich Greeks who do not pay sufficient taxes and poor Germans who pay too much; our aim is to ensure greater participation by the richest, wherever they are, to the greater benefit of the poorer, whatever their country.

Varoufakis criticises us however for limiting transfers among countries associated with the new additional budget to 0.1 per cent of gross domestic product. We introduced this parameter to avoid the delusion of the 'transfer union' being once again aired as an excuse for doing nothing. If there is a consensus to increase the threshold to 0.5 per cent of GDP or more, and if Varoufakis knows a way of forcing the various countries to accept it, then we would be happy to support such a modification. But one can already achieve a lot by establishing more fiscal justice and

reducing inequality within countries.

Technocracy to the aid of the climate?

Another major difference between our proposals is that we set ourselves the imperative of a legitimate, democratic framework. Not so with Varoufakis. By radically shifting the decision-making centre of European economic policy towards the central bankers of the ECB, Varoufakis does not seem to be as concerned as he previously was by the fact that high-ranking civil servants will take decisions behind closed doors which affect millions of European citizens. The Varoufakis plan hands the reins of European policy to an uncontrolled technocracy, as if he had not drawn all the consequences from the Greek crisis!

In contrast, our manifesto takes into consideration the lessons of the present day. It does not build on the hypothetical ecological awareness of central bankers. Our intention is to anchor the reorientation of European policies in a new, stable, institutional and democratic architecture; this will enable the intervention of actors who to date have been marginalised in arrangements not clearly defined, so as to change the balance of power at the centre of Europe.

The policies carried out at European level by ministers of finance lack legitimacy, among other things. To be legitimate, these European policies, which now intervene at the core of the social pacts of states, should be initiated and controlled by an assembly comprising European parliamentarians and, above all, nationally elected members, who, in the last resort, remain the guarantors of these pacts within our democracies.

To act as if everything could be settled by the issuance of a debt and to deem as negligible the question of fiscal justice and the democratic legitimacy of decisions concerning political economy, while restricting oneself to the eurozone, do not seem very convincing to us. That being said, we fully agree that our project would gain from being extended in many directions, in particular in matters of currency and debt.

The treaty we propose does indeed provide for the possibility of a sharing of debts above 60 per cent of GDP and would enable better democratic supervision of the ECB, thanks to the approval and examination of its senior staff by the European Assembly. But these parts of the treaty would gain from being aired and Varoufakis is right to stress the potential importance of the EIB and ECB in any credible strategy of ecological transition.

Financing the ecological transition

The *Manifesto for the Democratisation of Europe* enables states who so wish to sign a treaty creating a new European Assembly—20 per cent European elected members and 80 per cent nationally elected—which would raise new taxes such as on the profits of major firms or the wealth of the richest European citizens. This would ensure that those who have gained from the construction of Europe participate in the financing of European public goods, for example the ecological transition and the reception and integration of migrants. And provided that the states brought together

represent at least 70 per cent of EU population, the European Assembly would take up the task to democratically control and direct the economic policies carried out by the ministers of finance of the states which made it up.

On these issues, it is very difficult to predict the transnational majorities which might emerge in the assembly. There is nothing for example to indicate whether the social fractions of the major European Christian-democrat parties would, or would not, side with left-wing parties to guarantee more social justice in our European societies—currently under threat everywhere from populist forces.

In conclusion, while they have the great merit of existing, the criticisms and proposals of Yanis Varoufakis do not seem to us to be in keeping with the issues at stake. Europe cannot ignore the questions of genuine democratic legitimacy and fiscal justice.

James Galbraith's response: Financing the Green New Deal in Europe

James Galbraith replied to Piketty in Social Europe on 28th February 2019: Thomas Piketty and several colleagues have taken a shot at the European New Deal (END) of the Democracy in Europe Movement (DiEM25). Writing for DiEM25 last December, Yanis Varoufakis had noted how the taxes and spending Piketty advocates would now be implemented by each EU member individually with practically no Europe-wide component, a retreat from a previous agenda. So part of the difference between the two camps is over whether European green investment should be a continental project or merely each country doing what it chooses, more or less on its own.

But now Piketty calls attention to another big difference. The END of DiEM25 proposes to fund half a trillion euro of energy transformation and conservation with bonds—in other words, a policy of fiscal expansion backstopped by the European Central Bank. Piketty's team proposes a series of tax measures, on corporate profits, a new progressive income-tax rate and an annual tax on wealth over one million euro—as well as a regressive carbon-emissions tax.

Overall, the Piketty proposal aims to redistribute 2 per cent of European gross domestic product (within countries, not between them) and to invest another 2 per cent in the Green New Deal, a number which comes to nearly €400 billion—close in principle to the DiEM25 proposal. In practice it would fall far short, since the taxes could not be imposed without national consent, and it would not only be tax havens such as Ireland and Luxembourg which would hold back. No conservative government in thrall to the wealthy would participate. Nor would any government that feared an insurrection such as that of the *gilets jaunes*.

The DiEM25 plan avoids this problem by promising to launch a green-investment programme *without* new taxes. But can one do this? Piketty and his colleagues say no. They want new taxes, 'because a major part of the expenditure we propose is public expenditure'. They thus argue that one can't have a Green New Deal without first putting up the taxes to 'pay for it'.

Borrowing makes sense

But there is no requirement that *any* expenditure, whether public or private, be funded in advance by revenues. Expenditures in the nature of investments should, generally, not be funded in advance. If your house has a mortgage, you borrowed to pay for it. If you start a new business, you usually borrow the capital to get started. If a big corporation decides to build a new factory, it too borrows, from a bank or by issuing a bond. Borrowing makes sense when real resources are available and the benefits come over time. In making decisions to invest, governments have an extra advantage: they can write a cheque without having borrowed 'in advance'. When the cheque is cashed, the recipient can (and often does) simply switch the proceeds for a bond; thus the 'borrowing' occurs after, not before, the project is launched.

Both sides agree that major investments are absolutely necessary to fight climate change and sustain high living standards. The question is: which approach would succeed? Piketty's proposals would impose immediate hardship, through the carbon tax, in order to bring in funds in advance of the investments. By creating hardship, Piketty's proposals would destroy the political basis for dealing with climate change at all—just as Emmanuel Macron's diesel tax has already largely done in France. And, given non-compliance and tax evasion, it would probably fail to bring in the revenue anyway. To that extent, by placing taxes before spending, Piketty and his colleagues are promoting a fantasy.

For DiEM25, in contrast, progress would be evident at once and results would start coming in. The required resources would come by mobilising people who are currently unemployed (6.8 percent!) or underemployed (many more!) all across Europe. DiEM25's proposal would reorganise existing economic activity, provide needed work and generate revenues over time to service the debts taken out at the beginning. Full employment, including a job guarantee, is integral to the European New Deal, both as economics and as the necessary politics of making it work.

A path charted

The DiEM25 proposal follows the path charted by the New Deal of Franklin Delano Roosevelt from 1933 to 1936. Using the technical expertise of the European Investment Bank, it would identify and plan out the large and small undertakings required to achieve the green-investment objectives. Using the credit of Europe, it would fund those projects for the long term at low interest rates. Using the power of the European Central Bank, it would *ensure* that the bonds were placed on favourable terms.

Stuart Holland's response: Where the Piketty plan is mistaken

Stuart Holland replied to Piketty in Social Europe on 28th February 2019: In December Thomas Piketty and several others launched a *Manifesto for the Democratisation of Europe*, supported by 120 European politicians and academics, including proposals for a new European Union treaty, a new assembly and new European taxation. Since it was launched, the manifesto has gained over 110,000 signatures. In an article in

the *Guardian*, Yanis Varoufakis countered this with the proposal from DiEM25, with which he is prominently associated, for a bond-funded Green New Deal. Piketty has responded in turn but both misunderstands and misrepresents the proposal.

A Green New Deal has been advanced not only by DiEM25 but also by the European Greens, which have made it the basis of their two last campaigns for the European Parliament. Its rationale is based on successive versions of *A Modest Proposal for Resolving the Eurozone Crisis* by Varoufakis and myself, in 2010, 2011 and 2012, and another with James Galbraith in 2013.

Piketty recognises that the Green New Deal proposition includes European Investment Bank (EIB) bonds, and that these could support 'an ecological reconstruction of Europe'. But he claims that part of this is already in the Juncker plan for a European Fund for Strategic Investments, which is wrong.

The Juncker plan has entailed only €5 billion of EIB funds—rather than the €300 billion which Juncker made the first of ten commitments to the European Parliament, at the time of his adoption as commission president, or the €500 billion in the DiEM25 proposal, to which Varoufakis referred in the *Guardian*. It has also recently been strongly criticised by the EU Court of Auditors, for recycling existing funds rather than creating new resources.

While Piketty refers to EIB bonds in the DiEM25 New Deal proposal, he takes no account of the argument integral to it for bonds issued by the European Investment Fund (EIF). On my recommendation, the then commission president, Jacques Delors, embodied this in the commission White Paper on Growth, Competitiveness and Employment of December 1993 and persuaded the European Council to endorse it in 1994.

Eurobonds

The aim was to complement EIB micro-level project bonds with a macro-role for eurobonds to recycle surpluses in under-invested global pension and sovereign-wealth funds. Emmanuel Macron grasped this in 2014, as French economy minister, proposing to increase the subscribed capital of the EIF so that it could recycle a share of such surpluses to generate €200 billion or more of counterpart funds for EIB investments. At the time, he was opposed by the German finance minister, Wolfgang Schäuble, but Schäuble is no longer in office.

Piketty also neglects the fact that the *Modest Proposal* and its derivative case for a Green New Deal include more than funding environmental safeguards and green technology. Thanks to Antonio Guterres, when heading the government of Portugal, the Amsterdam Special Action Programme, endorsed by the European Council in 1997, persuaded the EIB to commit to this but also to fund investments in health, education, urban regeneration and venture capital for small and medium-sized firms to sustain innovative start-ups. These enabled it to quadruple its investment finance to more than double that of the World Bank in the following decade.

This fell to only some €60 billion after the 2008 financial crisis. Yet now, if quadrupled again—not least with EIF co-financing—it could reach some €240 billion, with investment multipliers of 2.5 to 3 double or more than fiscal multipliers, aided also by the EIF having become since 2000 part of the EIB Group.

Serviced by revenues

Unlike the Piketty proposals, none of this depends on a new treaty, a new assembly or new federal taxation—nor on national guarantees of eurobonds for a Green New Deal. For, although Piketty does not cite this, EIB bonds do not count on the national debt of EU member states any more than US Treasury bonds count on the debt of member states of the American union such as California or Delaware. Further, EIB Group bond finance does not depend on fiscal federalism, since it is serviced by revenues from the projects which it funds.

A real gain from EIB bond funding for public investment not counting on national debt is that this releases a major share of annual national taxation for current expenditures—such as raising minimum wages or increasing pensions, or both, without thereby increasing national debt or deficits. This has been integral to the successive versions of the *Modest Proposal* rationale for a European New Deal.

In claiming to highlight differences between his own proposals and those for a Green New Deal, Piketty claims that his are based on taxes because a major part of the public expenditure he proposes would finance research in new technologies by universities. This fails to appreciate that the key issue is not pure research but, as Mazzucato has evidenced, achieving synergies with entrepreneurship, which was already integral to the rationale for the EIF to issue venture capital.

Another difference claimed by Piketty between his proposals and those for a Green New Deal is 'to provide public goods to citizens'. Yet, thanks to Guterres, since 1997 the EIB has been doing this in funding investment in health, education, urban regeneration and the environment, without this adding to national debt. Moreover, the Lisbon Agenda of 2000, also cited in the *Modest Proposal,* was concerned not only with public goods but also public rights, endorsing the principle of the right to a work-life balance which most EU member states thereafter adopted in national legislation —even if this would have been better as a European citizenship right, as originally proposed by Guterres to the European Council.

A further wrong claim by Piketty is that Varoufakis'aim is 'radically shifting the decision-making centre of European economic policy towards the central bankers of the ECB'. This is a distortion of the point, referred to by Varoufakis in his *Guardian* article, and also in the *Modest Proposal,* that the European Central Bank could buy EIB bonds on the secondary market to support their credibility—but this is secondary to the main case we have made since 2010 for both EIB and EIF bonds (not the ECB) to fund a New Deal.

Real difference

While Piketty is concerned to highlight differences between his proposals and those for a Green New Deal, the real difference between them is that his—however well-

intentioned—are a wish list for a new treaty, a new institution and taxation of wealth and income. A Green New Deal needs neither treaty revisions nor new institutions and would generate both income and direct and indirect taxation from a recovery of employment.

It is grounded in the precedent of the success of the bond-funded, Roosevelt New Deal which, from 1933 to 1941, reduced unemployment from over a fifth to less than a tenth, with an average annual fiscal deficit of only 3 per cent. Thereby, Americans recovered faith in their institutions, which—whether in the outcome of the 'Brexit' referendum in the UK or the *gilets jaunes* protests in France—is transparently not the case now in the EU.