

Can Europe survive?

Ten Commandments for Europe's Next Ten Years

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Introduction

Europe as a central topic of political economy recently has attracted an enormous amount of attention. Partially this can be explained by the discovery of EU-member states' creditworthiness as a playing ground for large scale global financial attacks. As possibilities to position large funds at places with high expected profit rates diminished all across the globe¹ the drive towards betting on increasing fluctuations in the value of political collaterals - of nation states – necessarily increased. Moreover the particular constellation of certain EU members, namely of those countries being vulnerable due to deficiencies in the real economy while also being part of the Eurozone, made them an even more attractive target for the self-amplifying attacks of global finance capital. In retrospect, as far as the on-going crisis already allows the use of such a term, the challenge posed by finance capital to European policy can be interpreted as the sudden need either to constitute Europe as a full-fledged political and economic entity, or to admit a rapid break-up into several smaller territories. In the latter case general economic decline accompanied by a wider political diversity – in extreme cases tending to the far right - can be expected. These two routes are not independent of each other. A great leap forward of a European political entity would imply a much stronger local policy stance restricting separatist (mostly right-wing) forces. On the other hand a break-up of the European Union necessarily will quickly let EU institutions vanish; a range of national adversaries will try to cope with the deteriorating economic conditions.

In a sense the old proposal of a Europe of two speeds can be interpreted as an attempt to steer in between these two alternatives, though an attempt based on misconceived

¹ Several elements contributed to this process, to name just a few essential ones: China's political decision to keep its exchange rate constant blocked OECD exports; Latin America increasingly decoupled its development from excessive profits realized by OECD's transnationals; Africa stagnated with high profit rates being possible only in trade in with weapons and drugs; and last but not least the exorbitant deterioration of income distributions in OECD countries towards an extremely small group of super-rich families made the prospect of a future high profit rate based on an expected rise in mass consumption very unlikely. Since none of these elements can be expected to be eliminated in the short-run, large financial bubbles are bound to re-occur in the coming decade.

theoretical assumptions. It is not the inherent inability of Mediterranean EU members to adjust to a natural growth path exemplified by their northern partners, which threatens European unification. Europe is not per se too diverse to qualify as an 'optimal economic area', the little brother of the similarly misconceived theory of 'optimal currency areas'. Quite the contrary is the case: It was Europe's diversity, which after the disaster of WW2 enabled the incredible upswing by the evolution of trade and division of labour within Europe that lead to Europe's revival. Even in the current crisis the odds are that Europe's diversity turns out to be an advantage rather than an obstacle to be surmounted².

This argument leads directly to the pivotal question motivating this paper: Why should Europe survive?

The quick answer is that the average living standard in Europe, which would be attainable if income distributions were less distorted, is certainly higher than the one that can be expected if the EU breaks up. This is the core issue of the project of one continental European welfare state. It is evident that this shortcut, this jump to the result of rather complicated processes across several fields of political economy is not entirely satisfactory. A more elaborated answer would need a more detailed description, a model, of an evolution that leads to the desired goal. As mentioned above such a program for an active economic policy includes measures, which hinder local decision-makers to take the wrong route. As it is an extremely complicated research project to develop such a program of a blueprint for a future Europe, while at the moment the time to take important steps towards it is very short. Proposals have necessarily to be rather preliminary and not completely supported by quantitative analysis. They have to take on the form of commandments.

The small set of commandments proposed below are formulated to support a consistent short-run policy with one eye on enough flexibility of measures in the mid-run and the other eye on a long-run strategy towards a desirable future global economy. Any set of recommendations with such a demanding aspiration has to pay a tribute in the form of a didactic element to be considered. Commandments have to be short, easy to understand, and equipped with a sufficient number of links to everyday experience of the general public³. The next chapter will introduce the proposed commandments necessary for the short-run survival of a European Union, while chapter 2 will then discuss them in a broader context (including some necessary caveats), and will show how they are related to each other. In chapter 3 the mid-run perspective that comes to the forefront in chapter 2, will finally be shown to be a possible step towards Europe's role in the global political economy in the long-run.

² That Europe 'speaks with one voice' is only useful if the content of its statements has been elaborated by a diversity considering dialogue. Or with respect to a more economic topic: A common interest rate policy (monetary policy) of the ECB is not the same thing as a common interest rate!

³ The business of political decision-makers resembles a gear mechanism, which needs to have enough grip with respect to public opinion to transmit the power of some (hopefully) more enlightened designs produced by social scientists. Transmitters have to be elected, which only can be expected if they present issues that are attractive *and* correctly enhancing welfare from a scientific point of view. In particular in times of crisis it thus is part of the job of social scientists to take one more didactic step towards political practice.

European economic policy for the short-run

The following radical imperatives for a successful policy, which can lead to a feasible European Union for the next decades, have crystallized during the current global crisis.

1. **No government bankruptcy:** Current budget deficits of all EU member states are covered by Euro-credit provided by the ECB.
2. **Zero interest rate on government debt:** States are not firms and need not generate profits and growth, their purpose is to provide infrastructure that enables reproduction.
3. **European banks become politically legitimized entities:** The role of European financial intermediaries, in particular investment banks, is redefined and directly linked to the social needs of Europe.
4. **No unemployment is the prime goal of European economic policy:** High unemployment is the most important source for European disintegration, local nationalism, and pre-democratic political movements. To declare its abolishment directly as the central task of the European agenda has strong symbolic value.
5. **Innovation policy in Europe focusses on social innovation:** Democratic mechanisms for governance within Europe - including possible ICT solutions and explicitly considering environmental constraints – are preferred to solely technological advances.
6. **Europe's SMEs become consciously socialized:** Cooperation and politically legitimised subsidies to small and medium sized enterprises (including agriculture) are made an explicit goal of European economic policy.
7. **European exchange rate policy favours devaluation of the Euro:** This favours exports of European transnational corporations and stimulates domestic demand. Moreover non-European currency speculation becomes less attractive.
8. **European centralized wage bargaining is introduced:** European unions, representatives of TNCs, and the EU government (representing SMEs and European infrastructure) enter an annual tri-partite bargaining process.
9. **A European fiscal authority for short- and medium-term policy is introduced:** A coordinated structure of taxes and EU expenditures across EU member states is the backbone for a re-adjustment of distorted income and wealth distributions. This immediate task of implementing such an authority is coupled with a medium-term strategic mandate to move European disposable income and wealth structures towards desired (i.e. politically legitimized) levels.
10. **A great leap forward in Europe's education infrastructure:** Longer and heavily updated education processes for all young Europeans; and with this initiative at the same time to become the most attractive place in the world for higher education. This should become Europe's place in the global division of labour in the long-run.

It is evident that this package of measures is hard to swallow for most observers trained in mainstream economic theory; not to speak of the 'practical men', who are 'the slaves of

some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back', as John Maynard Keynes vividly noted in a similar situation in 1936⁴. Nevertheless I would insist that these ten commandments are to a large extent consistent, and that the further deepening of the crisis will destroy all the barriers, which critical commentators would immediately point at. E.g. the inertia of law systems more recently has proven to be rather limited, laws are an epiphenomenon; acceptance of more radical regime change is easier accepted by citizens if the current setting is seen as responsible for a rapid decline in living standards; capital flight has not to be feared in a world economy that experiences a synchronous decline; and the like.

Instead of taking up single counter-arguments the next chapter will discuss each of the ten points a bit more in detail, for parts of the argument the appendix will even provide some quantitative underpinnings. This, of course, is a consequence of the fact that these ten commandments bear no resemblance to the biblical Ten Commandments. In the current case authority follows from a worldly goal (welfare increase), which with the help of some rational arguments (to be given below) implies some urgent actions – no external superior being or canon of moral is necessary. This certainly can be counted as one of the major achievements of the 20th century: Science has started to overcome religion; the use of a subtitle like the one of this paper is to be understood as a mnemonic trick.

⁴ Compare (Keynes, 1936, p. 383).