Whither Europe? The Modest Camp vs the Federalist Austerians

Yanis Varoufakis and James
Galbraith

Proposals are multiplying – especially as evidence mounts that the crisis is continuing, despite all the official announcements of its end. Why not save Europe *today*, so that we can consider, in due course, how best to proceed with deeper, more difficult measures later on?

Soon after the Great Crisis of the Eurozone struck, Europe decided to treat it *piecemeal* – as though each affected country had committed separate and unrelated policy errors. The governing institutions of Europe denied that the difficulties of Greece, Ireland, Spain, Portugal and Italy could be part of a single disaster, spanning at once the realms of banking, public debt and investment.

They placed the full burden of adjustment on the crisis countries – a burden that those countries could not meet, and with a goal, to restore "confidence," that could never have been achieved by the means chosen. As a result, Europe now faces a chronic depression in its periphery, powerful deflationary forces everywhere else, and a loss of legitimacy in the eyes of its citizens, as the recent European Parliament elections made clear.

Yet from the start, there were voices and proposals that insisted on the systemic, continental, European nature of the crisis. These voices are now returning to the stage. Indeed proposals are multiplying – especially as evidence mounts that the crisis is continuing, despite all the official announcements of its end.

This article catalogues and describes the new proposals, and argues that they boil down to a choice between two main camps, both of which first emerged quite early on. These are: 1) a 'Federalist Camp', who favour a greater concentration of powers in Brussels, and so the constitutional and treaty changes required to bring that concentration into effect, and 2) a 'Modest Camp', whose recommendations could be implemented immediately and without major 'constitutional' or treaty changes.

Common ground

The common ground between the two camps consists in their agreement that the crisis is a crisis of the Eurozone, and in their agreement that, as such, the crisis is far from over.

A group of eleven German economists, known collectively as the Glienicker Gruppe, [i] have prefaced their manifesto (October 2013), with the warning that: "the complacency of large sections of the German public with regard to the euro crisis is not only unfounded: it is dangerous". Even more poignantly, they suggest that, while the Eurozone's original rules were right and proper, if their post-2008 enforcement "causes incalculable damage, neither debtors nor creditors will believe the assertion that states must take direct responsibility for themselves. The architecture of the euro area can only be sound and stable if it prevents such collateral damage."

Another, older document, for which we are responsible as co-authors, [ii] known as the Modest Proposal (April 2010, revised July 2013), states that: "Europe is fragmenting. While in the past year the European Central Bank has managed to stabilise the bond markets, the economies of the European core and its periphery are drifting apart. As this happens, human costs mount and disintegration becomes an increasing threat."

Much more recently, a group of fourteen French economists, fronted by Thomas Piketty, [iii] issued its own manifesto arguing that the "…European Union is experiencing an existential crisis.... This mainly involves the Eurozone countries, which are mired in a climate of distrust and a debt crisis that is very far from over: unemployment persists and deflation threatens. Nothing could be further from the truth than imagining that the worst is behind us."

A month before that, yet another group of economists, co-chaired by Joseph Stiglitz and Jean-Paul Fitoussi (and

including one of us), issued a document which states that: “The EU’s political fragility has been made worse by the damage the on-going crisis has inflicted and continues to inflict on its citizens, on its economies and welfare systems, and increasingly, on the quality of its democracies.”[iv]

Thus a variety of groups of economists of different persuasions and nationalities, have reached the same conclusion: that current policies threaten the European project, jeopardize any chance for shared European prosperity, and are poisoning European democracy into the bargain.

Yet the solutions proposed by these groups differ quite fundamentally. Before one can understand what is on offer, and how the proposals differ, it is useful to look at their origins.

A brief history of the various proposals

The first two proposals appeared in 2010. The Bruegel Blue Bond (BB) proposal[v] (which was later augmented in 2011 by Bruegel’s Comprehensive Solution to the Euro Crisis[vi]) and our Modest Proposal (MP) addressed the three sub-crises that made up the broader crisis of the euro: *public debt*, *insolvent banks* and *low investment*.

- On the public debts, both BB and MP suggested that the debt of member-states be split into two parts: a ‘good’ and a ‘bad’ part (‘blue’ and ‘red’ parts according to BB, or ‘Maastricht Compliant’ and ‘Maastricht Violating’ parts according to MP).[vii] The two proposals also recommended that the ‘good’, ‘blue’ or ‘Maastricht Compliant’ be ‘Europeanised’.[viii]
- On the banks, BB and MP recommended disentangling the insolvent banks from the fragile member-states by assigning to the newly formed European Financial Stability Mechanism (which later morphed into the European Stability Mechanism) the role that TARP (the Troubled Assets Relief Program) had played in the United States; that is to recapitalize the failed banks directly.
- On investment, the two proposals argued that sorting out public debt and banking losses would *not* suffice for the purposes of restoring growth.

While BB and MP were similar in some respects, their differences were also significant. And the differences led to divergent proposals later on, when other economists took up and built on (especially) the original BB suggestions. So, to understand the recent crop of blueprints, and the reasons why they differ as much as they do, it helps to analyze the differences between the two proposals that came out in 2010: BB and MP.

Different public debt reduction strategies: BB recommended that the “good” part of a member-state’s debt be ‘Europeanised’, or pooled, using common bonds – or eurobonds – that are jointly backed by all member-states. Participation of a particular member-state in eurobonds would be conditional on a pledge to drive that member-state’s ‘bad’ public debt (i.e. that part which exceeded the Maastricht criteria of 60 percent of GDP) to zero within a specified period and would have to be vetted by a newly established Independent Stability Council (ISC) *and* by each and every Eurozone member-state parliament. BB was adamant on its strict, and cumbersome, conditionality:

> *“In order to be admitted to the Blue Bond scheme, countries would have to convince the ISC that their fiscal policy is credible enough to be insured (via the joint and several liability) by the most credible countries of the euro area. For example, one could imagine that a country would not be allowed into the Blue Bond pool if it did not have a binding fiscal rule, analogous to the one inserted by Germany into its constitution.” [BB, 2010]*

But why would pooling debts from *crisis* countries lead to a lower interest rate on those debts? Surely, the joint interest rate must be higher than, say, Germany would pay for its own public debt. It is hard to see why German taxpayers would provide this ballast which, in any event, might end up with interest rates that are not only too high for Germany but also insufficiently low for the crisis countries. Furthermore, it would do nothing to relieve the severe austerity that BB *de facto* demands of the crisis countries: the conditionality clause committing them to eliminate their “bad” debt within a pre-agreed period (and independently of their growth performance). Whether

German taxpayers would be placated by the formation of an ISC, and by the veto power of national parliaments, is uncertain. But what is certain is that these provisions would introduce a degree of insufferable inflexibility into a scheme of uncertain effectiveness.

For this reason the MP suggested a simple alternative to issuing jointly issued and severally guaranteed bonds, or eurobonds, with eighteen parliamentary approvals, plus the green light from an ISC, as pre-conditions: Upon a simple request from a member-state, the ECB should service a portion of each maturing government bond equal to the member-state's 'good', 'blue' or 'Maastricht Compliant' debt.

And how would the ECB pay for this 'servicing'? By issuing its own bonds (ECB-bonds) and then passing on the cost of servicing these bonds to the member-state on whose behalf the ECB issued them.[ix] This would assuredly reduce interest rates on that portion of the debt, since the ECB bonds would secure ultra-low interest rates without imposing any requirement on say, German taxpayers. It would also reduce the risk of the *non-compliant* (or 'red' in BB's parlance) tranche, in each country, thus lowering the overall interest burden on the crisis countries. Overall, the present value of Eurozone-wide public debt would fall by at least one third overnight, without having the surplus countries back, or buy, the debts of the deficit ones.

As for conditionalities, there would be none, except that the participating member-state would agree to grant super-seniority status to its debt to the ECB. No joint liability between the government of Germany and of Portugal, no parliamentary approvals, no new ISC, no destructive austerity measures in order to eliminate the 'red', Maastricht-violating parts of public debts.

Different strategies for growth: BB and MP differed also on the method for boosting public investment and the conditions to be imposed on member-states. BB promoted IMF-style structural adjustment programs (SAPs) for the European periphery, in precisely the same way that the latter had been imposed on developing nations prior to 2008. It recommended that the EU's unspent structural adjustment funds, amounting to no more than 0.8% of Euro Area GDP, be disbursed for public investments in the crisis countries, only after the latter had implemented the usual array of IMF-like structural reforms, with the emphasis on 'labor market flexibility', privatization and so forth. A year later, the IMF-SAP logic in BB was articulated fully in the Chatham House (CH) Real Marshal Plan proposal (June 2012).[x]

MP countered BB's proposal on two grounds: First, an investment drive of 0.8%, even 1%, of Euro Area GDP was far too feeble. MP counter-proposed a New Deal-like injection of up to 8% of Euro Area GDP, or ten times the BB proposal. Second, MP ruled out extracting the funds necessary from the EU budget or through heavier taxation. MP proposed, instead, an Investment-led Recovery Program administered by the European Investment Bank (EIB) and its sister organization the European Investment Fund (EIF), without any formal guarantees or fiscal transfers by member states.

The EIB-EIF would raise the entire amount from the money markets - as the EIB has been doing for decades - with the ECB standing behind the EIB-EIF either directly (through supportive net ECB-bond issues that pooled the risk between the ECB and the EIB-EIF[xi]) or, as might be preferred today by the ECB's Governing Board, through quantitative easing that takes the form of ECB purchases of EIB-EIF bonds in the secondary markets. Either way, the yields on these bonds would be kept low while the EIB-EIF are administering a large-scale investment program capable of getting Europe back on its feet.

In summary, the two main proposals that emerged in 2010 were united in their determination to address the crises of public debt, of banks and of substandard investment, However, they differed in two important ways:

On public debt: BB's proposal would pool the periphery's 'good' part of public debt by having Germany (and other surplus countries) take on a measure of this debt on behalf of the deficit nations and in exchange for stringent austerity in the periphery that would serve the purpose of eliminating their 'bad' debts.

- MP would restructure the public debt without any fiscal transfers, without any guarantees of the crisis countries' debts by the surplus nations, and without further destructive austerity.

On public investment: BB envisioned the imposition of IMF-like SAPs, in exchange for tiny doses from the EU's

unspent structural funds pool.

- MP recommended a European New Deal run by the European Investment Bank (and the European Investment Fund) and funded by the EIB-EIF itself, with the ECB's backing. This would require no increase in taxation either at the EU or at the member-state level and, therefore, no fiscal transfers.

Federalist Austerians: Three recent proposals stemming from the original Bruegel Plan (BB)

In November 2011 Germany's *Council of Economic Advisors* borrowed heavily from Breugel's 'Blue Bond' proposal (BB) to present its idea for a European Debt Redemption Fund (ER). As in BB, the ER proposal was all about eliminating the 'bad' debts through a deal between surplus and deficit member-states according to which: (a) surplus nations would agree to mutualize part of the debt of the crisis states, and (b) the crisis states would agree to run down these 'bad' debts (down to the Maastricht-compliant level) within a period of twenty years (give or take) through substantial primary budget surpluses.

There were three innovations of ER over BB. First, instead of mutualizing (through jointly and severally issued eurobonds) the periphery's 'good' or 'blue' debts, ER recommended that 'bad' or 'red' debts should be mutualized in the same manner. Secondly, the participating crisis states would introduce German-style debt brakes in their constitutions. Thirdly, they would offer collateral to the European Redemption Fund (in the form of gold and foreign exchange reserves, as well as public assets) that would be forfeited if agreed debt reduction strategies were abandoned or pursued too meekly.

Both BB and ER required the issue of common bonds, or jointly and severally issued eurobonds. But these were ruled out both by the German government and by the German constitutional court, for violating the no fiscal transfer (or no bailout) clause of existing Treaties, even if they were meant to be temporary.[xii]

In October 2013, the Glienicker Gruppe of German economists issued their manifesto (GG) taking the ER and BB proposals to the final step. Accepting the Court decision, GG suggested a treaty revision to legalize temporary eurobonds. And since the Treaty was to be changed, GG added to the revised Treaty provisions for a Euro-government that would be funded by 0.5% of the member-states' tax revenues, that would administer a common unemployment insurance fund, and that would ensure austerity in the periphery never reaches the point of degrading essential public goods and services.

Moreover, GG recommended that a new chamber of the Euro-Parliament be convened, to approve and to supervise the aforementioned Euro-government, comprising the Members of European Parliament (MEPs) from the Eurozone.

More recently still, another manifesto was published, this time in France by a group of fourteen economists headed by Thomas Piketty (see note 3). The Piketty Group (PG) accepts GG's basic principles and takes them further in the following two ways: First, PG amend GG's Euro-Parliament idea slightly, arguing that it should be made up not of MEPs but of national parliament representatives in proportion of the population of each Eurozone member-state.[xiii] Second, PG argue that the Euro-government should be funded not from the member-states' general tax revenues but, exclusively, by pooling together a proportion of corporate taxes.[xiv] Otherwise, PG is a variant of GG and represents an attempt to re-build the Franco-German axis, at least in the realm of manifestoes on how to fix the Eurozone.

The Modest Camp: The Modest Proposal 4.0 (MP) and The Call for Change (CC)

In July 2013 our Modest Proposal was revamped, and published (as Version 4.0) with the endorsement of M. Rocard, formerly France's Prime Minster. The main amendments were three.

First, instead of the so-called Banking Union to which Europe's leaders recently agreed, MP recommends a step-by-step approach to banks, beginning with the banks that need public funds to be recapitalized. These, and only these banks, we argued, should be recapitalized directly by the European Stability Mechanism (in exchange for equity that stays with the ESM), with new Boards of Directors appointed by the ECB supervisors. Once cleansed

of bad assets, banks can be sold back to the private sector, thus repaying the ESM with interest.

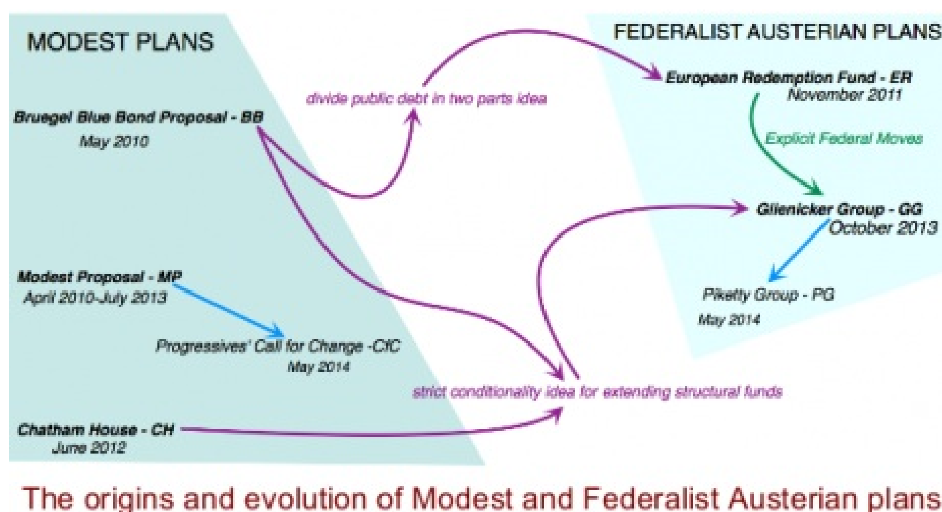
Secondly, having already recommended that the EIB-EIF ought to issue enough bonds, without any guarantees from member-states, to fund an investment-led recovery program to the tune of 8% of Euro Area GDP, we proposed that the ECB ought to step into the secondary bond market and purchase as many of the EIB-EIF bonds as are necessary to keep the EIB-EIF bond yields at their present, ultra-low levels. This means that the ECB would enact quantitative easing (as it ought to at a time of zero interest rates and deflationary headwinds) by buying AAA-rated bonds that: do not violate any Treaty; do not count against national debt limits; and which are not backed by member-states. This is precisely what the EIB-EIF bonds are![xv]

Thirdly, MP4.0 included a policy for combating a fourth crisis, the result of four years of policy paralysis and self-defeating austerity. This is a policy to address the human and social crisis of the Eurozone. Specifically we propose a program of social solidarity, focused on food and energy security for the most vulnerable Europeans in the countries too impoverished by the crisis to provide it.

Unlike the Federalist Austerian proposals (PG-GG-ER), MP does not recommend the creation of a Euro-government to administer this, nor does it propose pooling of taxes. Instead, it advocates a food and energy stamp program to be funded by the accumulating interest on the European System of Central Banks' internal accounting system known as TARGET2. These may be supplemented by other Eurozone-wide financial transaction taxes, as they come on stream in the future).[xvi]

In May 2014, the Scientific Board of the Progressive Economy Foundation of European Socialists and Social Democrats, co-chaired by Joseph Stiglitz and Jean-Paul Fitoussi (and co-signed by one of us[xvii]) issued its own manifesto, entitled A Call for Change (CC) drawing heavily upon the MP proposals on banks, public debt, investment-led recovery and social solidarity, and extending its analysis and focus to matters touching upon social justice and inequality.

As Prime Minister Rocard says in his preface to the Modest Proposal's Version 4.0, while there is nothing modest about its ambition, it is nonetheless modest in that it requires no Treaty changes nor the federal moves advocated by the Federalist Austerians.



The origins and evolution of Modest and Federalist Austerian plans

Note that the first plans, BB, MP and CH, were all of the modest variety, in that they were intended to be implemented without Treaty changes and, certainly, without federalism. CH was not comprehensive enough – it had no plan for public debt or the banking crisis – and was incorporated alongside BB into the ER – which had to move in a Treaty Change-Federal direction as the jointly and severally issued eurobonds necessitated Treaty changes and even a Euro-government. This is something that GG and then PG acknowledged. That left only MP, and then CC, as the "modest plans."

Two key issues: austerity and treaty changes

First key issue: austerity, or not?

The Glienicker Gruppe manifesto (GG) says almost nothing specific about austerity, beyond the general comment that it must not be pushed too far:

> *"It is therefore inevitable that taxpayers will have to shoulder a large share of the burdens of the crisis, and suffer painful reforms. But the limit of responsibility when livelihoods are threatened. If in Greece, Portugal or Spain, a whole generation is deprived of their chance to live a productive life, it is not just a Greek, Portuguese or Spanish problem, but one that affects us all as citizens of the EU."*

This is a worthy sentiment but it does not tell us what is to be done. Later in the document, it becomes clear that, for GG, the very purpose of a European government is more effective implementation of binding austerity measures. This is inescapable as GG is based on the 2011 ER, which was based on the original 2010 BB, the purpose of which was to 'trade' eurobonds (to which Germany would concede) for a large-scale austerity drive in the periphery. GG states:

> *"As long as member states comply with their obligations, this may involve only non-binding recommendations. If a member state, however, violates the stability criteria, the economic government must be able to make binding stipulations of how much the state as to save – the state will keep the decision where to save." (Italics added)*

It is not clear how the 'binding stipulations' would differ in practice from the current regime of the troika, except that they would be imposed by a new Euro-government with more legitimacy than the troika can muster. Apart from this, GG merely calls for limited central support of essential public goods, funded by a 'membership fee'.

The Piketty Group (PG) welcomes the Glienicker language, describing it as proposals to "strengthen the political and fiscal union of the eurozone countries." The declared purpose of PG is to "take the proposals of the Glienicke Gruppe still further." Nowhere does PG take exception to the concept of *binding stipulations* for a state that *violates the stability criteria*. This is so because it shares GG's commitment to the 2011 European Redemption Fund, which is fundamentally austerian in logic. Thus it joins in calling for Treaty changes that will create the strong Euro-government to implement the austerity programs that, to date, have not been sufficiently severe.

In contrast, the Modest Proposal proposes:

> *… a European New Deal which, like its American forebear would lead to progress within months, yet through measures that fall entirely within the constitutional framework to which European governments have already agreed.*

Instead of securitizing the toxic parts of Eurozone member debts (as ER,GG and PG recoomend), the MP would have the European Central Bank issue bonds to cover the Maastricht-compliant *first* 60 percent – the safest portion – of each participating country's national debt. Simultaneously, the ECB would back an Invesment-led Recovery Program, funded and administered by the European Investment Bank and the European Investment Fund. The MP's plan would therefore ease the debt crisis. It would do so without requiring further destructive austerity measures, without further non-credible long-term debt-reduction charades, without joint debt issues by deficit and surplus member states, and without appeals to the risk-takers in the private financial markets.

The Progressive Economy Foundation's Call for Change is anti-austerity too. It recommends:

> *...a comprehensive policy involving income stabilisation, a more considered and growth-oriented approach to fiscal consolidation, increased social and infrastructure investment, debt restructuring,*

> *and social support would have produced both stronger economic performance and a better debt and financial outlook.*

Both the MP and the CC place their emphasis mainly on growth, investment, debt-restructuring and the deployment of existing institutions so as to 'Europeanize' part of the public debt, the failed banks, the funding of large scale investment projects, and the relief of food and energy deprivation amongst Europe's citizens who have been struck by the crisis. And to do this with *no* fiscal transfers, *no* German or Dutch guarantees of Greek or Portuguese debt, *no* tax financing whatsoever.

On austerity, a further difference concerns the fiscal requirements for an investment or social-solidarity program. Amongst the Federalist Austerians, the PG would turn to pooled corporate taxes, while the GG would impose a levy on national tax revenues. But neither would spend more than revenue raised. Even if the intended investment were large, its multiplier effect would be small.[xviii] This is not a counter-austerity or an anti-crisis program, but one that keeps repeating the tired call for more 'labour market flexibility'.[xix] In contrast, the Modest Proposal's Investment-led Recovery Program is both large (8% of Euro Area GDP) and funded by harnessing the idle savings now sloshing around in the global financial markets.

Second key issue: Treaty changes?

The second key issue separating the two camps (Modest and Federalist Austerian) concerns the need for a new European Treaty. To support their modified austerity regimes, the Glienicker and Piketty Groups both call for radical restructuring of the European Union and the Eurozone. In particular, they call for the creation of a new Euro-government, complete with a Euro-Parliament or Euro-Chamber. Neither flinches from the task of writing the new European Treaty that this would require.

The *Modest Proposal* takes a different view. MP argues that if the crisis remains severe (as all groups agree) then impossible objectives should not be set; especially if they are also unnecessary *and* undesirable.[xx] Instead, the key tasks are first to stabilize Europe, to bring about an atmosphere of genuine European solidarity, to stop the economic and political fragmentation of the Continent (so far as possible within the existing European Treaties) and, only then, to debate the possibility of a Federal Europe.

In the article outlining his group's manifesto, Thomas Piketty dismisses concerns that Treaty changes are unlikely to be passed by our eighteen electorates (in the middle of the current crisis) as "false and dangerous". He adds: "The treaties are being modified constantly, as was the case in 2012, when the matter was settled in a little more than six months. Unfortunately, this was a poor reform."

Indeed it was. The only reason it passed was that it was fiercely promoted by Germany, so as to strengthen the iron cage in which the periphery, and France, are now confined. A new Euro-government, as GG and PG propose, would pass only if it were meant to solidify this iron cage further.

At this date, we believe that changes in policy must come immediately, and must be sought within the existing Treaties. Only then will they (a) succeed and (b) allow Europe a chance to design future institutions whose logic will not be that of perpetual austerity, inequality and domination.

The Modest Proposal is designed for this purpose. Each of its elements – ECB bonds, case-by-case bank resolution, an investment program and a solidarity fund – can be implemented by existing authorities within the time permitted by the gravity and urgency of the crisis. And that time, we believe, is short.

The Modest Proposal and The Call for Change thus ask: *Why not us? Why not now?* Why not act with the powers at hand? Why not take the feasible steps? Why not solve the problems we can solve with the tools that we have? Why not save Europe *today*, so that we can consider, in due course, how best to proceed with deeper, more difficult measures later on?

That is the question.

---

[i] The Glienicker Gruppe comprises Armin von Bogdandy, Christian Calliess, Henrik Enderlein, Marcel Fratzscher, Clemens Fuest, Franz C. Mayer, Daniela Schwarzer, Maximilian Steinbeis, Constanze Stelzenmüller, Jakob von Weizsäcker, Guntram Wolff.

[ii] The Modest Proposal for Resolving the Euro Crisis was co-authored by Yanis Varoufakis, Stuart Holland and James K. Galbraith.

[iii] The Piketty Group (PG) includes, besides Thomas Piketty: Florence Autret, Antoine Bozio, Julia Cagé, Daniel Cohen, Anne-Laure Delatte, Brigitte Dormont, Guillaume Duval, Philippe Frémeaux, Bruno Palier, Thierry Pech, Jean Quatremer, Pierre Rosanvallon, Xavier Timbeau, Laurence Tubiana.

[iv] The European Progressive Policy initiative was launched in 2013 by the Group of the Progressive Alliance of Socialists and Democrats in the European Parliament. It is made up of: Joseph E. Stiglitz, Jean-Paul Fitoussi, Peter Bofinger, Gosta Esping-Andersen, James K. Galbraith, Ilene Grabel, Stephany Griffith-Jones, András Inotai, Louka T. Katseli, Kate Pickett, Jill Rubery, Frank Vandenbroucke. The policy document they issued is entitled A CALL FOR CHANGE: From the Crisis to a New Egalitarian Ideal for Europe.

[v] See Bruegel's Blue Bond Proposal, May 2010, authored by Jacques Delpha and Jakob von Weizsacher.

[vi] Authored by Zsolt Darvas, Jean Pisani-Ferry, André Sapir February 2011

[vii] Where the 'good', 'blue' or 'Maastricht Compliant' debt equalled debt up to 60% of a member-state's GDP; the rest being labelled 'bad', 'red' or 'Maastricht Violating' debt.

[viii] Quoting from BB (2010), its authors' main proposal was to institute:

> *"Blue Bonds: EU countries should pool up to 60 percent of GDP of their na-tional debt under joint and several liability as senior sovereign debt, there-by reducing the borrowing cost for that part of the debt.*
>
> *Red debt: Any national debt beyond a country's Blue Bond allocation should be issued as national and junior debt with sound procedures for an orderly default, thus increasing the marginal cost of public borrowing and helping to enhance fiscal discipline.*
>
> *Independent Stability Council (ISC): Blue Bond allocations to member states are to be proposed by an ISC and voted on by member states parliaments in order to safe-guard fiscal responsibility."*

In contrast, MP (2010) stipulated:

> *"The creation of ECB bonds for the levels of debt already allowed for by the Maastricht Treaty (60% of a country's GDP) will pool Europe's borrowing resources together and ensure that, as long as a country stays within the Maastricht debt limits, it will be paying the same interest on its debt. Compared to the EFSF, which generates terrible risks similar to those of the toxic derivatives on the basis of interest rate differentials (see Appendix A), this simple tranche transfer will lower systemic risks significantly. Moreover, a 'tranche transfer' would not be a debt write-off. The member states whose bonds are transferred to the ECB would be responsible for paying the interest on them, but at much lower rates. Additionally, by issuing ECB bonds, it would attract investments from the Central Banks of surplus economies (i.e. China, Japan,) and also sovereign wealth funds (e.g. Chinese, Norwegian, UAE) which are seeking to diversify the way their surpluses are invested. Indeed, that could herald the rise of the euro as a true reserve currency."*

[ix] The idea here is that the ECB, upon issuing its bonds to service, say the Maastricht Compliant portion of a maturing Italian bond, will simultaneously open a debit account for Italy in which the Italian state will be committed to paying the monies necessary for servicing the coupons and the final redemption of these ECB bonds.

[x] The author of which was Nicholas Crafts. The full title of **CH** was: Saving the Eurozone: Is a 'Real' Marshall Plan the Answer?, June 2012.

[xi] The MP stated:

> *"Member-states, regardless of whether they have chosen or not to participate in the tranche transfer of their Maastricht-compliant debt (N.b. recall the MP's proposal for the issue of ECB-bonds for the purposes of alleviating member-states' 'good' or 'blue' debt) are now invited to co-finance, along with the EIB, 50% of the cost of new investment projects, that are approved by the EIB, through a bond account held by the ECB. The ECB issues the bonds necessary for the purpose on behalf of the member-state, this new debt does not count as part of the national debt but, however, it is serviced by the member-state from the revenues of the projects and by means of long-term amortisation of their existing debit account at the ECB."*

[xii] Member-states, regardless of whether they have chosen or not to participate in the tranche transfer of their Maastricht-compliant debt (see **Policy 1**) are now invited to finance investment projects that are approved by the EIB through an e-bond account held by the ECB. The ECB issues the e-bonds necessary for the purpose on behalf of the member-state, this new debt does not count as part of the national debt but, however, it is serviced by the member-state by means of long term amortisation of their existing debit account at the ECB.

[xiii] The argument here being that national Parliaments maintain the right to tax and spend, and this right cannot be passed on to MEPs.

[xiv] PG argue that this will also help prevent some countries (like Ireland) from playing the tax-optimisation, beggar-thy-neighbour game.

[xv] See this article for more on this recommendation.

[xvi] The reason for recommending that TARGET2 'profits' are used in this manner, to fund food stamps and minimal energy provisions for the weakest Euro Area citizens, is that they are directly proportional to the magnitude of the crisis that is, after all, responsible for the observed deprivation that causes the need for food stamps etc.

[xvii] James K. Galbraith

[xviii] It is true that tax-financed spending is expansionary. Contrary to what many think, when new public spending is exactly matched by new revenue, the economy grows. But the target sums – one-half to one percent of GDP --- are feeble. And the multiplier is small, so an investment program limited to tax receipts or fees will have at best a weak effect on the whole Eurozone. And it is likely that most of that money would be spent in the core economies, where conditions are least grave.

[xix] The Piketty Group makes no mention of European social policy. In this respect, the Glienicker Group makes an important, though qualified statement of necessary action:

> *The monetary union cannot be permanently stable without a controlled transfer mechanism. … we need a euro-area insurance mechanism to cushion the fiscal consequences of a dramatic economic downturn. The euro area could therefore establish a common unemployment insurance system, to complement national systems; all countries that organise their labour market in line with the needs of the monetary union could be eligible for participation. This would create a mechanism to counteract deep recessions with automatic European stabilisers.*

We hail this statement. Common automatic stabilization played the central role in saving the United States from disaster. A common automatic stabilization for Europe is precisely what has been lacking, precisely what is needed. But there is no need to qualify this need with a call for common organization of labor markets. Stabilization and social-solidarity programs are *per se* essential. And the crisis should have disabused all of the notion that 'flexible labor markets' add to the stability or resilience of any economy.

[xx] Undesirable because the proposed Euro-government is envisaged as the enforcer of more self-defeating austerity. And unnecessary because, as the Modest Proposal demonstrates, debt, banks, investment and social solidarity can be 'Europeanised' without a new Euro-government or a Euro-Parliament; i.e. without the political tumult of creating them.