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Think Piece

Think Big, Think Bold:
Why the Left must aim for a radical Pan-European Green New Deal

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Discussion series: Europe

Can a left agenda for Europe deliver a sustainable economic future?

A recent YouGov poll commissioned by Class found that 65% of Britons don't think enough has been done to prevent a repeat of the 2008 international banking crash.

Countries across the Eurozone responded to the financial crisis by implementing a programme of draconian austerity measures. While this response has now been discredited, the left was faced with the challenge of presenting a convincing economic alternative.

It is increasingly clear that a new economic settlement for Europe is long overdue, but what form it should take has yet to be decided. It is vital that a long-term vision for a modern, fairer and greener economic future for Europe is developed that can ensure greater economic stability and raise living standards for all.

Ahead of the European elections, this paper was commissioned by Class to examine whether a pan-European left agenda can deliver a sustainable economic future for countries across the continent.

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Along with Stuart Holland and James K. Galbraith, Yanis co-authored the influential paper—*A Modest Proposal for Resolving the Euro Crisis.*

Yanis Varoufakis dedicates this paper to the memory of Tony Benn.

Executive summary

European capitalism was always going to become unhinged once the post-war global system, known as Bretton Woods[1], had run out of steam. And so it did in 2008, stubbornly refusing to recover ever since. It took next to no time for City bankers, and their Conservative Party associates, to work out a new business model for the UK. Their approach was to turn the City of London banks into a halfway station, linking the world's net exporting nations with Wall Street – and turning their backs on British industry in the process. Years later, in 2008, the pyramids of private money, that Wall Street and the City of London had built on this constant tsunami of capital, crashed and burned.

Post-2008, while the United States and Britain sought to bail out the banks with a combination of taxpayers' money and Quantitative Easing, Europe was making a meal out of the same project. Having rid themselves of their central banks, the Eurozone's politicians did their utmost to shift all the stressed bank assets onto the shoulders of the weakest amongst the taxpayers, causing a horrid recession and putting the European Union on a path toward certain disintegration.

Presently, the crisis which began in 2008, and is metamorphosing into new socio-economic tensions throughout Europe, threatens to empower not the left but the ultra-right – exactly as the Great Depression did before. Our task should then be twofold. Firstly, we need to present those who do not want to think of themselves as left-wing with an insightful analysis of the current state of play, and secondly, we need to follow this sound analysis up with proposals for stabilising Europe and ending the downward spiral that, in the end, only reinforces the bigots.

These proposals should constitute a European Green New Deal

This should include a credible plan for infrastructural investment; the notion of a cross-border welfare net, common public debt instruments and a powerful manifesto threatening bankers with severe wing clipping. It should also combine centralised funding for large-scale green energy research projects with decentralised assistance to small cooperatives that create local, sustainable development in cities and rural areas. Our European Green New Deal should operate at a pan-European level without crushing national sovereignty.

Governments in the UK and Europe are stuck in the false mindset that recovery will come through Quantitative Easing. The left needs to challenge this two-pronged fantasy by pursuing a new system of taxing and regulating banks, coupled with a renewed emphasis on public investment banking. We need to rethink the role that the state has in funding future technologies. Our attitude towards banking and finance must also be central to such a rethink.

If the past has taught us anything, it is that progressive radicalism is the only antidote to regressive radicalism. The time has now come for the left to revive its critical perspectives on dominant economic theories of capitalism and to consider radical alternatives.

It is of the essence to stabilise capitalism through banking regulation, substantially higher minimum wages, a stronger safety net and a link between central bank operations and public investment initiatives. These are important prerequisites for reviving our democracies at local, national and European levels.

In implementing a Green New Deal to reinvigorate Europe, we face a barrier in the very way the Eurozone crisis is playing out across the continent. It will not be possible while continental Europe is gripped by such divisive discontent and as long as Britain continues to see Europe as, at best, a useful trading zone. Therefore, the question is: How can this deadlock be broken across Europe?

I suspect that change must come from the periphery; from the countries most savagely injured by Europe's austerity-fanned crisis. Progressives in the UK and on the European continent must, for that reason, do what they can to help Europe's periphery resist the political onslaught of economic austerity and political suppression. The left needs a common vision around which to coalesce and to build the pan-European alliances, without which no progressive agenda stands a chance in our individual countries. A European Green New Deal offers such a vision.

Think Big, Think Bold

European capitalism was always going to become unhinged once the post-war global system, known as Bretton Woods, had run out of steam. And so it did in 2008, stubbornly refusing to recover ever since.

Margaret Thatcher's 1979 electoral victory was a pivotal moment in the post-Bretton Woods era. It marked a moment of truth when the establishment proved less conservative than the working class and the left. Feeling its grip on power weakening, Britain's bourgeoisie reluctantly, yet consciously, gave Thatcher the green light to swing her wrecking ball through the steel industry, the car and lorry factories, the coalmines, the shipyards; through each and every work site where the "enemy within" – organised labour – congregated. The left's reaction was to defend livelihoods by seeking to defend a business model that business itself no longer had any interest in. Therefore, it is unsurprising that It was mightily defeated as the threat to strike becomes pointless when the capitalist is no longer interested in production.

Thatcherism was not solely responsible for the tidal change that swept Britain's industrial model overboard. The decline was evident before 1979 and, as we have witnessed in continental Europe ever since, labour and industry were on a losing streak everywhere. However, there are key areas of responsibility. Firstly, it was instrumental in developing the ideology necessary to present de-industrialisation as a progressive, populist political project. Secondly, it nurtured, and inflated a twin bubble of real estate and finance that drove British capitalism at a time of industrial subsidence, and thirdly, arguably most critically, in exporting this twin bubble and new-fangled ideology to the rest of Europe.

Of course, this 'contribution' to European history was dependent on several key external factors. The United States, under the far-sighted leadership of Federal Reserve Chairman Paul Volcker, was already turning itself into a gigantic vacuum cleaner, sucking into its territory both the world's net exports and most of the world's capital that was generated, in the form of profits, from exporting to the United States or to other lands *because* of the aggregate demand the United States was whipping up globally through its trade deficit. It was this astounding global recycling mechanism that marked the end of British industry.[2]

Indeed, a tsunami of capital was already beginning to flow from Japan, Germany, Holland, France, the oil producing countries, and later from China, to Wall Street, thus closing the recycling loop and financing America's deficits. It took next to no time for City bankers, and their Conservative Party associates, to work out a new business model for the UK. Their approach was to turn the City of London banks into a halfway station, linking the world's net exporting nations with Wall Street – and turning their backs on British industry in the process.

Years later, in 2008, the pyramids of private money, that Wall Street and the City of London had built on this constant tsunami of capital, crashed and burned. At first, continental Europeans smiled, allowing themselves an 'I told you so' moment, directed at the Anglo-Saxons who had spent a decade or two sneering at the continent's antiquated commitment to manufacturing. Alas, that moment proved very brief. Soon, they realised that their own banks were replete with toxic assets and that their bankers had been allowed to run debts, or 'leverage', twice as great as those in the Anglosphere. Put simply, the aforementioned banking bubble had been surreptitiously exported to major European cities like Frankfurt, Paris, Rome, Madrid and Brussels. As had the 'model' of building up competitiveness by squeezing wages until the local economies, behind the glitzy suburbs and the globalised jet set, were in a permanent state of slow-burning recession. This provided the conditions for the financial crisis to happen.

Post-2008, while the United States and Britain sought to bail out the banks with a combination of taxpayers' money and Quantitative Easing that aggressively sought to re-inflate the deflated toxic assets, Europe was making a meal out of the same project. Having rid themselves of their central banks, Eurozone politicians did their utmost to shift all the stressed bank assets onto the shoulders of the weakest amongst the taxpayers, thus causing a horrid recession and putting the European Union on a path toward certain disintegration.

Nevertheless, and despite the significant differences between Britain and the Eurozone, the broad picture remains the same. The establishment responded to the financial crisis by inflating bank and real estate assets, that should have been left well alone, and inflicting austerity on the masses. In short, the Thatcher model on steroids.

The left's historic duty

When Thatcher felt the compulsion to fight a ruthless class war on behalf of the ruling class, she had no qualms about destroying capital in order to 'get' labour and its organised expression. The truth remains that the left failed to realise an effective counter strategy to this attack on both labour and, indeed, industrial capital. Today's never-ending crisis is the result of this failure. In the post-2008 world, capital is even less interested in value creation than it was between 1979 and the Lehman Brothers' moment. As these lines are being written, we are witnessing a remarkable phenomenon. As Morningstar, the US based investment research group, reported recently, on the one hand the states are scraping the bottom of the barrel to make ends meet, to finance the public sector and to re-finance public debt, on the other hand nearly $3 trillion of idle corporate savings are slushing around in the UK and Europe, too frightened by low demand to be invested in productive processes and activities[3]. Instead of investing in machines and skilled labour, corporations throughout Europe are using the cash to buy back their own shares in a bid to push up short-term share prices and the executives' bonuses that are linked to the company's share price. In conjunction with the terrible architecture of the Eurozone, which is keeping eighteen nations in the clasps of permanent debt-deflation, Europe's labour and society remain moribund and are increasingly at the mercy of far-right sirens.

Britain, in particular, can legitimately be called the "Buy-back Nation" as, in addition to company shares, the Bank of England has also been buying back public and private debt from the banks in a concerted effort to re-inflate the aforementioned, neoliberal twin bubble. Put together, the Bank of England and the corporate sector's buy-back schemes amount to a large portion of Britain's national income. And to what effect? Well, inflated house prices in the South, primarily in London, and a fresh spate of debt-driven consumption is leading Britain straight into the next financial, economic and social meltdown. Meanwhile, as George Osborne is celebrating his shadowy 'recovery', industry remains threadbare and investment in capital goods is at an all-time low.

In short, unless the left intervenes successfully, European societies will not recover. In 2014, we must turn the tables on the conservatives, both in Britain and the

European Union as a whole, with a new mantra that will make people understand a simple truth - capital is no longer capable of, or interested in, value creation. So, it is labour's historic duty to fill in the vacuum. We need politicians to intervene to make value creation fashionable and possible again.

Towards a European Green New Deal

Growth is not the issue. The left understands that eclectic growth in the technologies and goods that contribute to a more successful life on a sustainable planet is key. The left has always known that markets are terrible at providing these commodities sustainably, and in a manner that sets prices at a level reflecting their value to humanity. What the left was never very good at was in the conversion of that gut feeling into workable policy that the beneficiaries of this policy – the vast majority – would back.

To become relevant again, while Europe's elites are sleepwalking into the next crisis, the left must admit that we are just not ready to plug the chasm that a collapsing European capitalism will open up with a functioning socialist system; one that is capable of generating shared prosperity for the multitude. Presently, the crisis which began in 2008, and is metamorphosing into new socio-economic tensions throughout Europe, threatens to empower not the left but the ultra-right – exactly as the Great Depression did before. Our task should then be twofold. Firstly, we need to present those who do not want to think of themselves as left-wing with an insightful analysis of the current state of play, and secondly, we need to follow this sound analysis up with proposals for stabilising Europe and ending the downward spiral that, in the end, only reinforces the bigots.

These proposals should constitute a European Green New Deal. Like Franklin D Roosevelt's New Deal of 1933, our European New Deal should include a credible plan for infrastructural investment; the notion of a cross-border welfare net, common public debt instruments; and last, but certainly not least, a powerful manifesto threatening bankers with severe wing clipping. Unlike the previous New Deal, Europe's Green New Deal should also combine centralised funding for large-scale green energy research projects with decentralised assistance to small cooperatives that create local, sustainable development in cities and in rural areas. This New Deal should operate at a pan-European level without crushing national sovereignty. A large part of the financial burden of implementing and financing this should be placed on the European Investment Bank and the European Investment Fund, with substantial background support from the European Central Bank and the Bank of England.

Rehabilitating the state

One of Thatcher's only successes was the propagation of the belief that nothing good can ever come of democratically, state-controlled agencies while extolling the limitless capacity of the private sector to perform miracles. This was a remarkable achievement in a world where the computer, the transistor, space travel, the Internet, Wi-Fi, GPS, the touchscreen display of smartphones and 75% of the most significant new drugs are the result of publically funded research and development[4].

Apps and social media can be invented quickly and efficiently by the private sector as the public sector has done the hard slog, over decades, of investing into long term innovation that requires steadfast financing that privateers would never, ever provide. As Mariana Mazzucato has brilliantly exposed in her book, *The Entrepreneurial State*, private venture capital sits on the sidelines, while the public sector funds the basic research, until a breakthrough has been made, then it intervenes to cream off the profits, sponsoring political attacks on the state's 'failure to innovate' and its 'crowding out effect' on private investment.

There are two charges against the state. The first being its debt, supposedly dragging the private sector down, and its inability to innovate, the second. Both charges are utterly false and self-serving. Britain and the Eurozone are sporting this overbearing public debt because the state has had to clean up after the mess of private finance. And if the state's innovative achievements have become fewer and further in between, it is because of thirty years of talking down the public sector, depleting public research funding and institutions and dismantling departments and institutes that could have kept Europe truly innovative.

The worst, and costliest, misconception of our era is that investment is an inverse function of taxation, wages and government involvement. It is generally true that investors prefer fewer taxes, lower wages and less red tape. However, this correlates strongly with unmotivated, de-skilled workers and lack of the research and development ecosystem which can uniquely nurture investment into seriously productive activities. The left must, therefore, rethink the role that the state has in funding future technologies. Our attitude towards banking and finance must also be central to such a rethink.

Putting the banking genie back in its bottle: Strategies for de-funding gambling and funding investment

A spectre is haunting Europe. It is the spectre of 'Bankruptocracy'. A curious regime of rule by the bankrupt banks. A remarkable political arrangement in which the greatest extractive power, vis-à-vis other people's income and achievements, lies in the hands of the bankers in control of the financial institutions with the largest 'black holes' on their asset books. It is a regime that quick-marches the majority of innocents into the trap of austerity-reinforced hardship that serves the guilty few, while Parliament and civil society are held at ransom. While 2008 was meant to raise 'regulatory standards', we now know that nothing of substance has been done to reform finance.

Governments in the UK and Europe are stuck in the false mindset that recovery will come through Quantitative Easing that reflates the value of dodgy assets, including anti-social house prices, and fills up the banks' coffers in the desperate hope that the bankers will then lend to innovative business. In short, the Thatcherite strategy of the 1980s, squeezing labour and betting on bricks, mortar and the City all over again. The left needs to challenge this two-pronged fantasy by pursuing a new system of taxing and regulating banks, coupled with a renewed emphasis on public investment banking.

Taxing and regulating the banks

The current system of regulating and taxing the banks is absurdly contradictory. The state requires banks to have minimum capital and equity ratios, in other words, they must be based on firm foundations of capital. On the other hand, governments offer tax breaks for relying on borrowed money to gamble in risky markets. This absurdity results from taxing the banks' profits. But when a bank borrows money to buy derivatives, its interest costs are deducted from its taxable income. As 'bank profit' is at best a dubious notion, the simple solution is to abolish corporate taxes on banks and replace them with a tax on their liabilities. In association with a hefty minimum equity requirement of, say, 15% relative to their assets, the banking genie will be put back in the bottle, where it belongs.

Public green investment banking

Proper banking regulation will, in spite of its other great social benefits, not reverse the lack of investment in productive activities. International experience suggests that to mobilise the mountains of idle savings, we need public investment banks staffed by specialists in the sectors that need to be developed.

One mistake the left must not make again is to think that the solution lies entirely in the area of infrastructural projects. Building urban transport systems and investing in existing renewable energy technologies is undeniably important for both the environment and for short term job creation. However, the challenge must be greater: how to invest in transformative technologies. There is no reason why our societies should not establish a new Manhattan Project, staffed by as many scientists as possible, with a brief to discover new forms of green energy, as opposed to developing the existing, primitive green technologies.[6]

Funding such a Green Manhattan Project can only come from an ambitious vision of binding together Europe's greatest achievement, the European Investment Bank, its sister organisation the European Investment Fund, which already has a brief to fund small and medium sized firms specialising in urban renewal, technology and green energy, with the central banks of our member states. In the book *Modest Proposal for Resolving the Euro Crisis*[7] I co-authored with Stuart Holland and James Galbraith, we have spelled out how this could happen. Put simply, why should Quantitative Easing be all about central bank money creation for the purposes of boosting government bond, real estate, and toxic derivative assets? It could instead fulfil the far more productive purpose of supporting the bond values of the European Investment Bank (EIB) and, potentially, a new British public investment bank that collaborates with the EIB. This would be Europe's innovative answer to Brazil's public investment bank (BNDS), which recently (according to BNDS's annual report) invested more than $5 billion on clean technologies, or to China's five year plan (2011-15) to invest $1.5 trillion (about 5% of China's GDP) on green energy, biotechnology and zero emission cars.

Epilogue: Campaign for democracy, stabilise capitalism, re-imagine socialism

If the past has taught those of us on the left anything, it is that progressive radicalism is the only antidote to regressive radicalism. For decades now we have allowed our 'reasonableness' to become the passive accomplice of a wholesale assault on rationality, development and propriety. At a time when the right became increasingly ideological, the left forfeited its ideology, trading it for a dubious respectability. European socialists even lost the capacity to distinguish capitalism from some, supposedly, neutral market system. Meanwhile, capitalism was busy at work undermining itself and paving the path to its own implosion in 2008. The time has now come for the left to revive its critical perspectives on dominant economic theories of capitalism and to consider radical alternatives.

This is not to say that we are anywhere near ready to replace capitalism. 'Bankruptocracy' is well and truly in command of the European continent and the only political forces on the march are those of the bigoted ultra-right. The left must not assume, as it did in the 1930s, that economic crisis will naturally lead to something better. This is why it is of the essence to stabilise capitalism through banking regulation, substantially higher minimum wages, a stronger safety net and a link between central bank operations and public investment initiatives. These are important prerequisites for reviving our democracies at local, national and European levels. Success in these limited, but crucial, goals will be the foundation upon which we can build a sustainable socialist future: a European society where most people will be gainfully employed in innovative, green enterprises, of which they are the sole shareholders.

In implementing a Green New Deal to reinvigorate Europe, we face a barrier in the very way the Eurozone crisis is playing out across the continent. Unwilling to alter its irrational monetary design, Europe imposed sinister policies based on huge loans and stringent austerity. The purpose of this was simple: to transfer losses from the banks' asset books onto the weakest citizens. And all in the name of 'European solidarity'. The tremendous social costs inflicted upon working people both in the core Eurozone countries and in the periphery quickly turned one proud nation against another in a sad repetition of Europe's inter-war experiences. No Green New Deal will be possible while continental Europe is gripped by such divisive discontent and as long as Britain continues to see Europe as, at best, a useful trading zone. Therefore, the question is: How can this deadlock be broken across Europe?

I suspect that change must come from the periphery; from the countries most savagely injured by Europe's austerity-fanned crisis. Already, Angela Merkel's government, the cynical European Central Bank, and the austerians of the European Commission seem to agree with my verdict, and are investing considerable energy and resources in blackmailing and terrorising the electorates of Greece, Portugal, Ireland and Spain into submission. If they succeed in extracting their 'desired' electoral results in the forthcoming European Parliament elections and beyond, a Green New Deal will recede into an uncertain future. Progressives in the UK and on the European continent must, for that reason, do what they can to help Europe's periphery resist the political onslaught of economic austerity and political suppression.

If the past three decades of neoliberal dominance have taught us anything, it is that the left's defeat goes hand in hand with our societies' fragmentation and Europe's steady loss of character, soul and dynamism. Electorates will never trust a progressive agenda that has no purchase in the rest of Europe. They understand that our nations are too small to go against the Financiers' International. To give itself credence, sharpen its analytical power and revive its ideology, the left needs a common vision around which to coalesce and to build the pan-European alliances without which no progressive agenda stands a chance in our individual countries. A European Green New Deal offers such a vision.

Notes and References

[1] The Bretton Woods system was initially designed in July 1944 in a large conference held at a hotel in Bretton Woods, New Hampshire. Allied powers were represented, with John Maynard Keynes batting for the UK and Harry Dexter White representing the United States. The resulting system had three planks: (1) Fixed exchange rates, revolving around the US dollar (which was freely convertible into gold); (2) Strict controls of capital movements and strict banking regulation; and (3) an implicit agreement that American surpluses would be recycled to Japan and Europe in order to maintain demand for American exports. The Bretton Woods system, which survived until August 1971, 'presided' over capitalism's Golden Age (a period of sustained growth, low inflation, negligible unemployment and narrowing income inequality).

[2] For a complete account of this global recycling mechanism, see **Varoufakis, Y.** (2013) *The Global Minotaur: America, Europe and the Future of the World Economy*, London and New York: Zed Books

[3] **Varoufakis, Y.** (2014) *Why has the Eurozone bonds market stabilised?* http://yanisvaroufakis.eu/2014/03/18/why-has-the-eurozone-bond-market-stabilised/

[4] **Mazzucato, M.** (2011) *The Entrepreneurial State: Debunking public vs private sector myths*, London: Anthem Press

[5] See **Mazzucato, M.** (2011) above

[6] When the United States faced the menacing prospect of a Nazi atom bomb, the state gathered together the allies' top physicists and engineers, built an impressive facility for them in Los Alamos, provided them with any resources their heart desired, and let them get on with it. It was called the Manhattan Project. Now, with the planet facing the menace of climate change, it is absurd that a similar project is not even on the cards.

[7] **Varoufakis, Y., Holland, S. and Galbraith, J K.** (2013) *A Modest Proposal for Resolving the Euro Crisis, Version 4* *http://varoufakis.files.wordpress.com/2013/07/a-modest-proposal-for-resolving-the-eurozone-crisis-version-4-0-final1.pdf*

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