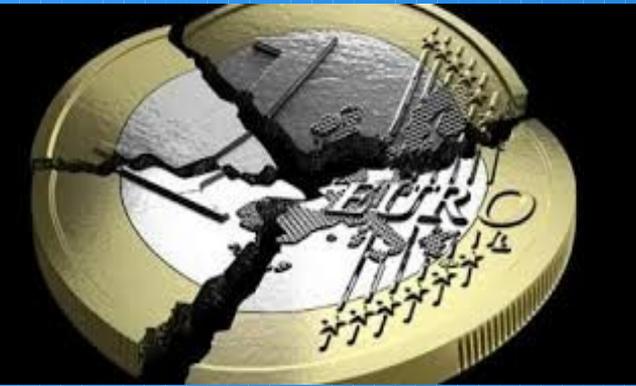




The European Debt Crisis What solutions are possible?



Dr David Rees

The world has been slow to realise that we are living this year in the shadow of one of the Greatest economic catastrophes of modern history.

John Maynard Keynes 1930

***Cost of 2008-2010 US bank bailout with taxpayers' money:
\$23,000,000,000,000***

***US Population 317,000,000
= \$72,550 per person (men, women and children)***

1929 Crash

1933 New Deal

1940 US comes out of Depression – why ?

Lend-lease program to the UK.

Building army camps – 1m new recruits.

Military spending increased jobs

Increased jobs led to increased spending

Increased spending led to business profits and investment

Did it matter that spending was for war not for domestic programs ?

In economic terms, no.

The New Deal was too small to resolve the problem.

The war silenced the voices of fiscal conservatism (austerity)

Current EU spending in rescue programs mostly goes to pay back loans with high interest rates to the banks, which doesn't create jobs.

Lend-lease to the UK, Russia, Australia...
See <http://www.youtube.com/watch?v=BBQZ6POyYo0>
1941-1945
\$50bn (\$650bn today)
Repayed annually from 1951 to 2001 at 2% IR
Final payment (\$83m) made in December 2006



Solution 1

Austerity plan

(standard IMF restructuring program)

Reduce government expenditure

Reduce health, education...

Sell off public services and goods

Balance the budget

Increase taxes

**An individual worker can be more attractive on the market if he accepts a lower wages, but if everyone reduces wages everyone's in the same place except everyone's reduced their income, but the level of debt remains the same
More flexibility in wages makes matters worse**

Solution 2
Eurobonds (debt mutualisation)

Mutualisation of debt (Eurobonds)
See <http://www.youtube.com/watch?v=tMd7EfFsPlc>

Governments borrow money cheaply from the ECB
Instead of borrowing from the private market

Italian debt: €2t (€2,000,000,000,000)
If IR lowered by 1% gain €20b (20,000,000,000) that can be used
to launch a growth package.

Solution 3
A European New Deal
(following Roosevelt and Keynes)

**If falling wages and prices make things worse, is the opposite true?
Raising wages and prices creates inflation – and this reduces the amount of debt.**

**Policies to reduce the burden of debt, such as mortgage relief,
should be a part of achieving the solution**

**USA – if the government had spent the money used to bail out the banks by
helping owners pay their mortgages, it would have avoided a collapse of
the housing market and the failure of the banks.**

**Solution 4.
The Icelandic Solution
Refuse to pay the debt – let the banks fail**

**<http://www.youtube.com/watch?v=DDexDNn6vSM>
Iceland President : 'Let the banks fail'
Justice done in a democratic way
Currency devaluation**

**See <http://www.youtube.com/watch?v=FMgwgEGbBK4>
Forgive and Forget – Iceland's mortgage forgiveness**

**But this only came about by pressure from the street
See <http://www.youtube.com/watch?v=GIQg9qf3VVw>**

Personal ideas for a European rescue plan

- 1. European protectionism** (import barriers) to increase EU industrial production and increase employment
- 2. National mortgage resolution** to repay 'standard' interest rates to save the housing market
- 3. Eurobonds** to provide cheap loans to EU countries
- 4. A European New Deal** for employment financed by a European Financial Transfer Tax at 0.5% (**£3,340bn**)

Revenue Estimate for Global Currency Transaction Tax
Tax base Tax rate Revenue estimate (US\$ billion)

USD spot. 0.005% 28.4

GBP spot 0.005% 12.3

EUR spot, 0.005% 5.6

JPY spot, 0.005% 5

Global total 0.005% **33.4**

Personal ideas for a European rescue plan
Continued

- 5. Reintroduce a Steagall-Glass Act** to regulate banking
- 6. Long-term restructuring of debt** to countries in difficulty tied to a fiscal reform package – democratically sanctioned by referendum
- 7. Harmonise taxation and labour conditions** within the EU

The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes

John Maynard Keynes

***Suggested reading:
Paul Krugman (2008 Nobel Prize in Economics)
'End This Depression Now' (2012)
(dedicated – 'To the unemployed who deserve better')***

The European Debt Crisis
What solutions are possible?

Group discussions and questions