**“*Europe in Question – and what to do about it* by Stuart Holland**

**Review Article by Nirupam Sen, former Indian High Commissioner to the United Nations.**

What distinguishes Stuart Holland from most economists is that he is both a brilliant theorist and has been a brilliant practitioner, both in the U.K. and in Europe. For long he was a Labour M.P. and the Shadow Minister for International Development in the British House of Commons. In the 1990s he advised Jacques Delors, the then President of the European Commission, and drafted the case for the 1993 Delors White Paper on Growth, Competitiveness, Employment which, had its case for Eurobonds been implemented, would have saved Europe from its present crisis. A special mention may be made of his two earlier books that complement the book under review: *The European Imperative* and *Towards a New Bretton Woods*. The former Greek Finance Minister Yanis Varoufakis compares Stuart Holland to Keynes - to the Keynes of *The Economic Consequences of the Peace* on the evils of the Versailles settlement. Nobody in power listened to Keynes and the result was the rise of Hitler and the Second World War. But, Stuart Holland also supplements and goes beyond Keynes’ *General Theory*, developing it in the light of the evolution of the European and the world economy since Keynes’ days. He also has something of Keynes’ literary quality, which makes this book absorbing from beginning to end.

The book is beautifully structured. First he clears the economic conceptual decks of rubbish. Then he surveys the evolution of the European economy – the wrong roads taken and the right roads not taken in spite of concrete proposals being available. Then, he examines the New Deal. Finally, he concludes with clear proposals, both for the global economy and specifically for the European economy. The concluding Annex is called “A Modest Proposal for Resolving the Eurozone Crisis”, drafted by Yanis Varoufakis, Stuart Holland and James Galbraith. The proposal was not accepted. Varoufakis resigned, climbed onto his motorcycle and went home. Greece accepted terms that the referendum had specifically rejected an even more profound crisis is likely to engulf Greece in the short run, and the European Union in the longer run. It was never part of the Syriza programme to quit the Euro. The European Troika knew this and therefore the referendum result had little impact on their inflexible negotiating position. Only a radical socialist leadership and a radical socialist party could have organized and prepared the people for the immense hardships of leaving the Euro and instituting the Drachma and going through a period of stabilizing it.

Stuart Holland’s comments on macroeconomic concepts are both illuminating and relevant, not just for Europe but for the world. This book would enrich the economic understanding of not only those interested in Europe but also of those interested in India. He shows the error of ‘structural reforms’ and ‘flexible labor markets’. There are a range of goods and services that are not subject to international competition but are local, such as hospitals, dispensaries, schools, urban transport and other social and civic services. Maintaining Keynes’ effective demand is important, but equally so is meeting *latent* social demand for wellbeing and welfare, such as greater labour intensity in health and education (more doctors for every clinic and hospital; more teachers for every classroom and school).

He similarly corrects the popular understanding of Adam Smith, who said that functional economies depend on functional societies. This means recognizing the salience of social and human, rather than merely market values. Holland reminds us that Adam Smith only once uses the ‘invisible hand’ metaphor in his *Wealth of Nations*, and that only 400 pages into it, and ‘only in a parenthesis within a sub-clause of a chapter’, which is devoted to defending the right of a nation to protect trade if foreign economic dominance is likely to destroy its manufacturing capacity. Adam Smith, thus, clearly needs to be rescued from his misinterpreters and misusers. Stuart Holland clearly shows that it is not reducing labour costs but Schumpeterian product innovation that has lifted economies and societies, and this has been led by public investment, including the internet, Google’s algorithm and nanotechnology.

Another economist gravely misrepresented in mainstream economics is Leon Walras. Stuart Holland shows that he distinguished pure theory from policy needs and outcomes and emphasized that public utilities and public transport should be publicly owned and run on a non-profit basis. More presciently, Walras stated that banks and financial institutions should be cooperatives or mutual societies because, in private hands, they would speculate, destroy people’s savings and cause crises. Holland also punctures ‘rational expectations’ and ‘efficient market’ theories because they ignore Pareto’s argument that there is no case for projecting past market trends into future outcomes. By ignoring this insight, banks and hedge funds displaced the looming subprime crisis and the crash of 2008.

The real way to mitigate and deal with such crises in future, according to Stuart Holland, is not the unavailing reform of entrenched Bretton Woods institutions, but for ‘the G 20 to nominate the governing body of a World Development Organization’ - a bold and imaginative proposal, inspired by post-war European experience, where recovery was not through IMF and the World bank, but through a non-hegemonic institution’, the Organization for European Economic Cooperation which administered Marshall Aid. Whereas European institutions today have come to deny democracy; Stuart Holland advocates political and economic decentralization to realize the democracy of Rousseau’s social contract. He thereby rescues Rousseau from the misrepresentations and totalitarian imputations of Popper and Talmon. He refers with approval to Rousseau’s insight that a majority may not safeguard the rights of minorities and, even when it freely votes, risks that electors can only ‘choose the better of two bad alternatives’ and, in between, ‘remain as unfree as before’.

When touching on macroeconomic concepts and issues, Stuart Holland offers a trenchant critique of Thomas Piketty. I may say, however, that this is not too difficult because of the contradiction between the richness of Piketty’s empirical research and a few specific insights, and the poverty of his theoretical framework. In 1944 Keynes had achieved fixed exchange rates. In 1971, when USA devalued the dollar, this regime perished and, with it, an economic era. Middle East oil revenues, denominated in dollars, depreciated. OPEC was formed. The oil shock inflation of 1973 was the result. Deflationary policies inevitably followed. The abolition of fixed exchange rates and, therefore, the liberalization of financial capital, made the outcome infinitely worse. In the Keynesian era, when growth had trebled, foreign exchange was controlled and finance ‘caged’ nationally. Now the demon of finance had broken out of its cage. It was not high taxation of personal wealth and income, stressed by Piketty, that was responsible for this growth and welfare, but the Keynesian Marshall Plan and the Keynesian public investment-led ‘clustering’ of innovation, as wartime technologies were translated into civilian use.

So also, it was not Piketty’s lowering of taxation on personal income and wealth but the dynamics of financial liberalization and foreign investments, including speculative investments by finance capital, which restored inequality to pre-World War I levels and created an increasingly ‘patrimonial’ society. Behind this is Piketty’s law that the ratio of return on capital is greater than the rate of economic growth, so that wealth accumulates faster than income to labour, thus sharpening inequality. As Stuart Holland points out, Keynes long before had argued that capital accumulates faster than income. Keynes had not only related this to income inequality, but pointed out the fallacy of the ‘Treasury View’ that the rate of growth can be increased through austerity and savings by demonstrating that savings may remain uninvested or under-invested, whereas increasing the wages of ordinary people (thereby reducing income inequality) would have a positive economic impact.

Ironically, the ‘Treasury view’, demolished by Keynes, is today the ruling dogma in the major EU countries. Stuart Holland feels that Piketty’s recommendation on global income and wealth tax is technically unrealizable, besides being politically unacceptable. On the other hand, major European countries have supported a Financial Transaction Tax. This has been known to us as the Tobin tax - ‘throwing sand into the wheels of finance capital’. One of the aims of his proposal that the G20 should nominate a World Development Organization is to recycle global surpluses to sustain a global recovery.

The Yanis Varoufakis-Stuart Holland-James Galbraith’s Modest Proposal builds on Roosevelt’s New Deal and the 1993 Delors White Paper. Roosevelt was not a Keynesian, because Keynes’ General Theory was published only after he was elected President. In fact, Roosevelt began by cutting spending. It is interesting that the only woman in his cabinet, Frances Perkins, realized, independently of Keynes, that public works would stimulate demand and lead to economic recovery- a remarkable fact of economic history brought to light in this book. Stuart Holland shows how the Industrial Recovery Act of 1933 enabled the USA to directly undertake public investment projects. In contrast to unemployment increasing in Greece and Spain since the onset of the Eurozone crisis, it took Roosevelt 37 days, since his inauguration, to set up the Civilian Conservation Corps which employed three million people from 1933-1941.

In contrast to the EU Troika’s emphasis on structural reforms and flexible labour markets (short hand for restricting trade union rights), Roosevelt’s National Labour Relations Act of 1935 reinforced workers’ right to join and form trade unions, and made it obligatory for employers to recognize and participate in collective bargaining - to increase wages and effective demand. Rather than refusing to lend money to needy EU member countries to combat poverty, the US Reconstruction Finance Cooperation lent money to state and local governments to do so. Instead of cutting public investment, on the fraudulent ground that this would increase competitiveness (as the EU is doing), the US Work Progress Administration, from 1935, funded a range of infrastructure projects. It employed 8.5 million people. Instead of encouraging fascist movements (a 2013 poll found that 46 % of those polled supported Marine Le Pen’s neo-fascist National Front in France), Roosevelt’s New Deal strengthened democracy.

In his report to Jacques Delors on the feasibility of bond financed economic and social cohesion (*The European Imperative*) Stuart Holland made a powerful case for a European New Deal, Its necessity flows from the dynamics of European capitalism, and from the original design of the EU itself. Gunnar Myrdal, in his *Economic Theory and Underdeveloped Regions* had demonstrated that strong points within an economy would attract both labour and capital, and these would inversely ‘backwash’ other regions. Myrdal frankly acknowledged his debt to Marx who, in *Capital*, had famously analysed the dynamics of wealth accumulating at one pole and poverty and misery at the other. This is precisely what has happened both in the EU, and globally. The sentiment, though not the macroeconomic concept, had been anticipated by the poet Oliver Goldsmith in his famous line on ‘where wealth accumulates and men decay’. As early as 1960, in his Yale lectures (published as *Beyond the Welfare State*), Myrdal, had prophetically recognized that Scandinavian and other welfare states would be undermined by globalization. Clearly, therefore, counter measures were necessary.

Stuart Holland suggests that the New Deal for Europe, proposed by him to Delors, and endorsed by Delors in his foreword to its publication by Spokesman in November 1993, was not accepted because neither Roosevelt’s New Deal nor the case for a New Deal in Europe were cited in the Delors’ White Paper of 1993, and many EU heads of government were not briefed on the US New Deal precedent legitimizing recovery bonds. Both then, and now, it was not widely understood that borrowing from the European Investment Bank (EIB) neither is nor ever has counted against national debt. It was not recognized that Eurobonds for investment did not need a common fiscal policy or fiscal transfers since they would be serviced form project revenues, as indeed had been the case with EIB borrowing since 1958. It was not realized that these bonds would not need any treaty revisions, new institutions or national guarantees. It was not remembered that the original aim of the European Investment Fund (EIF), recommended by Stuart to Delors, and set up in 1994, was that it could recycle global surpluses and finance a European Venture Capital Fund for small and medium firms.

While these reasons may be partly responsible, they do not seem to be wholly so. I feel that the Delors White Paper did not gain acceptance for the same reason that the Varoufakis-Holland-Galbraith proposal did not gain acceptance now – not because a lack of understanding stood in the way but because the interests of finance capital, of German and allied EU banks, stood in the way. Potential acceptance came up against, not a wall of willful ignorance but a wall of vested interests. It is this, rather than a misreading of their own history. Stuart Holland points out that it is not the hyperinflation of the 1920s that is responsible for German attitudes today and is assumed to have led to Hitler’s rise but the deflation and austerity of the 1930s, practiced by Brüning’s government, which fueled unemployment and Nazism.

The Varoufakis-Holland-Galbraith proposal is modest only in the sense that it requires no treaty or institutional change. It is imaginative, clear, concise, comprehensive, elegant and eminently practical. Its acceptance required a political shift towards a social-democratic future for Europe. It addresses the centrifugal force tearing apart the core and periphery economies of Europe. It recognizes that there are four sub-crises in the Eurozone crisis: a banking crisis, a public debt crisis, a crisis of underinvestment and a social crisis. Europe with a central bank but without a supranational government, and governments without central banks were uniquely unprepared for the 2008 crisis. This crisis showed that the European principle of separable public debt could not work. The European Stability Fund and the European Stability Mechanism (ESM) did not contain the crisis because they could not jettison this principle. Lack of investment destroyed living standards and competitiveness: deficit countries were especially hard hit by the 2008 crisis and least able to bear the cost of adjustment. Years of austerity have devastated the lives of ordinary people.

The proposal addresses each of these four sub-crises:

(1) The authors propose that banks in need of recapitalization from the ESM should be managed by the ESM directly, instead of national governments borrowing on their behalf. The ESM would then restructure, recapitalize and resolve failing banks. This can be done without first setting up a banking union, which the EU has been vainly trying to do.

(2) The authors propose that the ECB offer member states the opportunity of a debt conversion for the Maastricht Compliant Debt (each member state under this treaty is permitted to issue sovereign debt of up to 60%), while the national shares of the converted debt continue to be serviced separately by each member state. The ECB ‘would orchestrate a conversion servicing loan for the MCD, for the purpose of redeeming these bonds upon maturity’.

(3) The authors’ third proposal is the centerpiece of the programme – they propose an Investment Led Recovery and Convergence Program, financed by bonds issued jointly by EIB and EIF. These would not count as national debt (such bonds have been issued without national guarantees and not counted as national debt since 1958) ‘anymore than US Treasury borrowing counts on the debt of California or Delaware’. These joint bonds would be serviced directly by the revenue generated by the projects they fund. Shifting savings into investments through bonds was how Roosevelt funded US recovery from the Great Depression.

(4) Their fourth proposal is an Emergency Social Solidarity Programme by means of a European Food Stamp Programme (modelled on the US) and a European Minimum Energy Programme. The stated economic proposals are not radical; the unstated political ambition is radical, in the current circumstances. A practical proposal becomes utopian if finance capital will not allow its acceptance or implementation. But not if electorates reject this.

A single example will show what the challenge. Man made climate change is being supported by convincing scientific evidence, and the immediate urgency of mitigation and adaptation measures is now beyond dispute. Yet these require considerable resources, such as recycling global surpluses idle in pension and sovereign wealth funds. The ultimate proof of the power of banks is that while enormous resources were mobilized to save them, they are not available to save the human race. A thoroughly rational proposal has hit the wall of a completely irrational system. Paradoxically, therefore, the title of Stuart’s latest brilliant book, *Europe in Question* –*and what to do about it*, looks forward to the title of his second book published forty years ago *The Socialist Challenge*..

Editor’s Note. *The European Imperative* and *Towards a New Bretton Woods,* referred to by Nirupam Sen, are available from Spokesman Press. *Europe in Question and what to do about it* is available both as a paperback and eBook.