

# Beyond Austerity

## Democratising Europe

*Stuart Holland*

*Stuart Holland was a Labour MP for ten years before resigning his seat in 1989 to work with Jacques Delors, President of the European Commission. He prepared this paper for the launch of the Democracy in Europe Movement 2025 (DiEM25) in Berlin in February 2016, where he co-chaired with Yanis Varoufakis the session on economy. He develops the argument in his new book, Beyond Austerity: Democratic Alternatives for Europe (Spokesman, £8.95), which shows how another Europe is possible.*

### A precedent for DiEM25

The DiEM25 agenda is immensely ambitious. But an example relevant to its potential success was the campaign for European Nuclear Disarmament, during the 1980s, with its apocryphal acronym – END. Conceived and then mobilised across Europe principally by Ken Coates of the Bertrand Russell Peace Foundation, the END Appeal and its Conventions attracted tens of thousands of supporters, while its demonstrations mobilised hundreds of thousands across Europe in opposition to Cruise and Pershing medium range missiles and Soviet SS20s.

END distinguished itself from CND (Campaign for Nuclear Disarmament) in Britain in not only protesting against nuclear weapons, but also in stressing the feasibility of Europe as a non-nuclear security zone. Much as the DiEM25 (Democracy in Europe Movement) agenda is not only to protest against austerity, but also to demonstrate the feasibility of alternatives to it.

END was supported by a range of leading European politicians including, notably, Willy Brandt and Bruno Kreisky, as well as Neil Kinnock. With Robin Cook, I was a member of END's executive committee, and drew on it in making this case to the Soviet leadership before Neil's visit to Moscow as leader of the Labour Party, gaining their agreement to a joint declaration that if a Labour government insisted that the US withdraw Cruise missiles, they would not target Britain with SS20s, and would agree to joint site inspection to confirm this.

The Soviets accepted the feasibility of

Europe as a zone without medium range missiles since withdrawal of Cruise also was supported by the SPD in Germany at a time when Cruise missiles were deployed only in the UK, Germany and Italy. Within which there was a credible political and security logic. If the governments of two of these three countries would insist on their withdrawal, the third would be more likely to do so since it would not welcome being the only target for Soviet SS20s.

Through its combination of a mass protest movement, and political support, European Nuclear Disarmament thereby influenced the context, and credibility for the Soviets, of the 1987 Treaty on Intermediate Nuclear Forces (INF), which is the only one to successfully outlaw a whole class of missiles.

### **Not over her dead body**

It is clear that Angela Merkel – as in her 2012 ‘over my dead body’ declaration on Eurobonds – wrongly assumes that these must be guaranteed, underwritten and financed by German taxpayers. Yet European Investment Bank (EIB) bonds – since 1958 – never have been guaranteed by member states, nor serviced by them. Not that she is alone in displacing this.

At a meeting in Brussels in December 2014, neither the economic adviser to Council President Donald Tusk, nor the advisers to Jyrki Katainen, Commissioner for Investment and Growth, nor those to Marianne Thyssen, the Commissioner for Employment, nor the senior economic adviser to the Commission knew this. Whereas, it was immediately confirmed by Philippe Maystadt, a former president of the European Investment Bank.

This combines ignorance and incompetence. But it is highly relevant to realising the ambition of DiEM25 to achieve a European recovery. Even if, by a ‘house rule’ rather than treaty provision or statutory requirement, the European Investment Bank traditionally has only co-financed investments rather than financed them outright. Which was why, in a 1993 report on economic and social cohesion to Jacques Delors, President of the European Commission, I recommended a European Investment Fund whose bonds also need not count on national debt, and which was agreed and set up by the European Council in 1994 and which, since the 2000 Lisbon Agenda, has been part of the EIB group.

- Thereby, bonds issued by the European Investment Bank – and counterparted by the European Investment Fund – have the attributes of US Treasury Bonds, which do not count against the debt of the

American Union such as California or Delaware, but without needing fiscal federalism.

### **Incompetence in inventing unneeded new institutions**

Besides this, the Commission has been incompetent in inventing a new and entirely unneeded European Fund for Strategic Investments to implement the Juncker ‘recovery programme’ by assuming that the European Investment Fund could only offer loan guarantees to small and medium enterprises (SMEs) rather than bond finance. This was an incompetent reading of the website of the EIF – for which an undergraduate or, certainly, a graduate student should be flunked – rather than a correct reading of its statutes. Which has more general relevance: institutions that have no memory of their own previous commitments invite a legitimization crisis. Which they now face.

### **Inconsistency, displacement and denial**

In July 2014 Jean-Claude Juncker declared to the European Parliament that the top priority for his Presidency of the Commission would be a €300 billion bond-backed European Investment Bank ‘recovery programme’. This was not accidental. In 2012 he had been invited by the Economic and Social Committee of the Union – representatives of employers, trades unions and civil society – to attend the public launch of its report claiming that economic recovery and social cohesion were feasible on the above lines.

By November 2014, President Juncker had allowed this programme to be slashed to €5 billion from the European Investment Bank plus recycling of some research funds in what otherwise is a private finance initiative (PFI) wish-list. A part-time committee then was appointed to decide what investment criteria for recovery should be, displacing that these were agreed for the European Investment Bank at Essen in 1994 to include Transport and Communications Networks – the TENS – and that the Amsterdam Special Action Programme of 1997 agreed a ‘cohesion and convergence’ remit for the EIB to include investments in health, education, urban regeneration, and safeguarding the environment – as well as support for SMEs.

### **Democratising decision-making**

*Inverting QMV by Enabling Majority Voting*

Qualified Majority Voting means that member states in a majority weighted by population can bind others to adopt a policy irrespective of

the intent of their governments, the will of their parliaments, or the wishes of their electorates.

Giuliano Amato, a former prime minister of Italy, who was a vice-president of the Giscard d'Estaing Convention drafting the misbegotten Constitution for Europe, realised this risk and proposed alternative decision-making – Enabling Majority Voting or EMV rather than QMV. This could enable progress of joint policies by those governments ready to agree them on a majority basis, without imposing these on others which either disagreed or were not as yet ready to adopt them; as *de facto* had been the case with the introduction of the euro, which was agreed by some member states yet not imposed on others.

Giscard dismissed such Enabling Majority Voting out of hand. But with only a one clause Treaty amendment, it should enable any member state to call for an enabling majority vote if a qualified majority vote is moved by another or by others.

Remarkably, this has been displaced by David Cameron, since such a procedure can protect national democracy, and should be acceptable to the government of any member state. It would be the equivalent of De Gaulle's January 1966 'Luxembourg Compromise' by which any member state could reject a proposal that was not 'in the national interest' without inhibiting constructive common policies.

The proposal of such an enabling majority voting procedure, unlike qualified majority voting, also should allow it to be considered and accepted or rejected by national parliaments and, if it affects them, regional assemblies. Which, again, should attract support from governments who are concerned to convince electorates that Europe can reinforce democracy, rather than deny it.

### *Enhanced Cooperation*

Until recently, 'enhanced cooperation' had been a footnote in treaties which near to no one ever read. Its main reference was to Schengen, which now is in total disarray in view of the refugee crisis. Yet although an enhanced cooperation procedure was not formally invoked at the time, the introduction of the euro itself was a *de facto* case of it since the euro was adopted by some members states without being imposed on others.

Nor could Germany now readily reject a wider use of enhanced cooperation in principle. She has invoked it in the proposal for a Financial Transactions Tax where the aim is to outflank David Cameron. If needed, it could be invoked to issue Eurobonds for recovery to outflank opposition to them from Germany.

Germany has gained the support of only 10 other member states for a Financial Transactions Tax. If invoked by France, Italy, Portugal and an anti-austerity coalition in Spain, issuing Eurobonds for recovery could well gain support from more, or most – not excluding the UK, granted George Osborne declaring in 2011 that he would support Eurobonds for recovery of the European Union since this was vital for British exports.

### **The power to govern they have but don't use**

#### *The European Council*

The higher economic and financial authority either of the Eurozone or the wider European Union is not the Eurogroup or Eurozone finance ministers, nor the European Central Bank, but the European Council of heads of state and heads of government. The Council can define 'general economic policies' which can and should be those of a bond-based European recovery to fulfil Article 3 of the Treaties on the Functioning of the European Union, which includes the goals of high employment, sustained development and balanced growth. Thus Antonio Costa, before becoming prime minister of Portugal, with good reason had made the case that:

'We can't continue to have a Europe governed by finance ministers. We have to have a Europe governed by politicians. It's increasingly important that decisions are centred on the summits of heads of state and government, and less on the technicalities of finance ministers.'

### **The 'relative autonomy of the ECB'**

It also has been widely displaced that the European Central Bank has a dual remit both to ensure the internal and external stability of the currency and, without prejudice to this, 'to support the general economic policies of the Union'. These terms of reference directly reflect those of the Bundesbank, i.e. *'die allgemeine Wirtschaftspolitik der Bundesregierung zu unterstützen'*. This reflected German concern to avoid inflation. But stability in terms of inflation now is not a problem, rather than major disinflation, plus risks of disintegration of the Eurozone itself. Notably, the governor of the National Bank of Austria, Ewald Nowotny, in June 2013, spelled out this dual remit of the ECB:

'In accordance with Article 127(1) and Article 282(2) of the Treaty on the Functioning of the European Union, the primary objective of the ESCB [The European System of Central Banks] shall be to maintain price stability. Without prejudice to the objective of price stability, it shall support the general economic policies in the Union with a view to contributing to the achievement

of the objectives of the Union as laid down in Article 3 of the Treaty on European Union.’

Nowotny therefore claimed that

‘the primary task of monetary policy is to prevent inflation, but also deflation.’

He is right, and this should be cited and mobilised at a national and European level by DiEM activists.

### **DiEM25 and mobilising latent synergies**

There also is the case for mobilising latent synergies with those who have a vested interest in alternatives to austerity, including not only trades unions and the institutions of civil society but also employers’ federations, pension funds and sovereign wealth funds. This is consistent with the case made by Yanis Varoufakis in relation to our *Modest Proposal* in a conference address in Zagreb in May 2013. As he put it:

‘When addressing diverse audiences ranging from radical activists to hedge fund managers, the idea is to forge strategic alliances even with right-wingers with whom we share a simple interest: an interest to end the negative feedback loop between austerity and crisis, between bankrupt states and bankrupt banks; a negative feedback effect that undermines both capitalism and any progressive programme for replacing it.’

#### *Trades Unions and Employers’ Federations*

Synergies also are needed between anti-austerity governments and trades unions, but also with employers’ federations. Not least since the Economic and Social Committee’s 2012 *Restarting Growth* report not only was unanimously endorsed by German employers’ representatives but also by all European employers’ representatives on the committee, including Philippe de Beck, president of the European employers’ federation, *Business Europe*.

#### *Pension Funds*

Similarly, Bill Gross when heading PIMCO, one of the world’s largest pension funds with assets of over \$1 trillion, also called for European recovery, stressing that pension funds needed growth to secure retirement incomes, whereas low to near zero interest rates in Europe would not enable a fund such as PIMCO to fund retirement incomes.

#### *Sovereign Wealth Funds*

Sovereign wealth funds have been damaged by the failure of Europe to gain an economic recovery. Thus, in March 2012, the Norwegian minister

of finance announced that Norway's sovereign wealth fund, the world's biggest and hitherto Europe's major institutional investor, would reduce its European commitments from over half to two-fifths while raising investments in emerging markets and Asia-Pacific from just over a tenth to two-fifths.

Yet, since when, growth in China has been slowing down, which increases the need for sovereign wealth funds to find investment outlets in Europe.

### *Rating Agencies*

Such synergies should include briefing rating agencies. This may appear counterintuitive. Yet, while they can downgrade 'sovereign' debt, they cannot themselves govern. Thus, it has been widely overlooked that when Standard & Poor downgraded twelve Eurozone member states' debt in January 2012, it stressed that key reasons were simultaneous debt and spending reductions by governments and households, the weakening thereby of economic growth, and the transparent inability of European policymakers to agree what to do about it.

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*The 'short version' of DiEM25's Manifesto*

## **A Manifesto for Democratising Europe**

**For all their concerns with global competitiveness, migration and terrorism, only one prospect truly terrifies the Powers of Europe: Democracy!**

**They speak in democracy's name but only to deny, exorcise and suppress it in practice.** They seek to co-opt, evade, corrupt, mystify, usurp and manipulate democracy in order to break its energy and arrest its possibilities. For rule by Europe's peoples, government by the demos, is their nightmare.

The European Union could have been the proverbial Beacon on the Hill, showing the world how peace and solidarity may be snatched from the jaws of centuries-long conflict and bigotry. Alas, today, a common bureaucracy and a common currency divide European peoples that were beginning to unite despite our different languages and cultures.

**Now, today, Europeans are feeling let down by EU institutions everywhere.** From Helsinki to Lisbon, from Dublin to Crete, from Leipzig to Aberdeen. A stark choice is approaching fast. **The choice between authentic democracy and insidious disintegration.**

**At the heart of our disintegrating EU there lies a guilty deceit:** A highly political, top-down, opaque decision-making process is presented as 'apolitical', 'technical', 'procedural' and 'neutral'. Its purpose is to prevent Europeans from exercising democratic control over their money, communities, working conditions and environment.

**The price of this deceit is not merely the end of democracy but also the dream of shared prosperity:**

- The Eurozone economies are being marched off the cliff of competitive austerity, resulting in permanent recession in the weaker countries and low investment in the core countries
- EU member-states outside the Eurozone are alienated, seeking inspiration and partners in suspect quarters
- Unprecedented inequality, declining hope and misanthropy flourish throughout Europe

The more they asphyxiate democracy, the less legitimate their political authority becomes, the stronger the forces of economic recession, and the greater their need for further authoritarianism. Thus democracy's enemies



gather renewed power while losing legitimacy and confining hope and prosperity to the very few (who may only enjoy it behind the gates and the fences needed to shield them from the rest of society).

**This is the unseen process by which Europe's crisis is turning our peoples inwards, against each other, amplifying pre-existing jingoism, xenophobia.** The privatisation of anxiety, the fear of the 'other', the nationalisation of ambition, and the re-nationalisation of policy threaten a toxic disintegration of common interests from which Europe can only suffer.

Europe's pitiful reaction to its banking and debt crises, to the refugee crisis, to the need for a coherent foreign, migration and anti-terrorism policy, are all examples of what happens when solidarity loses its meaning.

**Two dreadful options dominate:**

- Retreat into the cocoon of our nation-states
- Or surrender to the Brussels democracy-free zone

**There must be another course. And there is!**

It is the one official 'Europe' resists with every sinew of its authoritarian mind-set:

A surge of democracy!

Edmund Burke's line applies to today's Europe perfectly: 'The only thing necessary for the triumph of evil is that good people do nothing'. **Committed democrats must resolve to act across Europe.** With a view to call forth just such a surge, we are gathering on 9<sup>th</sup> February in Berlin to found a movement, **DiEM25**.

We come from every part of Europe and are united by different cultures, languages, accents, political party affiliations, ideologies, skin colours, gender identities, faiths and conceptions of the good society.

We come together as committed Europeans determined to prevent a clueless EU establishment, which is deeply contemptuous of democracy, from rendering impossible an authentically democratic European union.

One simple, radical idea is the motivating force behind **DiEM25**:  
**Democratise Europe!**

**The EU will either be democratised or it will disintegrate!**

**Our immediate priority** is (A) full transparency in decision-making (e.g. live-streaming of European Council, Ecofin and Eurogroup meetings, full disclosure of trade negotiation documents, publication of ECB minutes etc.) and (B) the urgent redeployment of existing EU institutions in the pursuit of innovative policies that genuinely address the crises of debt, banking, inadequate investment, rising poverty and migration.

**Our medium-term goal**, once Europe's various crises have been stabilised, is to convene a constitutional assembly where Europeans will deliberate on how to bring forth, by 2025, a full-fledged European democracy, featuring a sovereign Parliament that respects national self-determination and sharing power with national Parliaments, regional assemblies and municipal councils.

**We call on our fellow Europeans to join us forthwith to create DiEM25 and to fight together to democratise the European Union**, to end the reduction of all political relations into relations of power masquerading as merely technical decisions; to subject the EU's bureaucracy to the will of sovereign European peoples; to dismantle the habitual domination of corporate power over the will of citizens; and to re-politicise the rules that govern our single market and common currency.

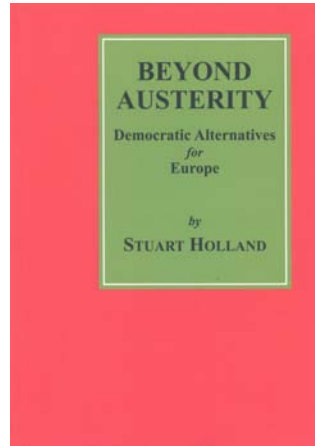
We are inspired by a Europe of Reason, Liberty, Tolerance and Imagination made possible by comprehensive Transparency, real Solidarity and authentic Democracy. **We aspire to:**

- A Democratic Europe in which all political authority stems from Europe's sovereign peoples
- A Transparent Europe where all decision-making takes place under the citizens' scrutiny
- A United Europe whose citizens have as much in common across countries as within them
- A Realistic Europe that sets itself the task of radical, yet achievable, democratic reforms
- A Decentralised Europe that uses central power to maximise democracy locally
- A Pluralist Europe of regions, ethnicities, faiths, nations, languages and cultures
- An Egalitarian Europe that celebrates difference and ends all forms of discrimination
- A Cultured Europe that harnesses its peoples' cultural diversity
- A Social Europe that recognises freedom from exploitation as a prerequisite for true liberty
- A Productive Europe that directs investment into a shared, green prosperity
- A Sustainable Europe that lives within the planet's means
- An Ecological Europe engaged in genuine worldwide green transition
- A Creative Europe that releases the innovative powers of its citizens' imagination
- A Technological Europe pressing new technologies in the service of solidarity
- A Historically-minded Europe that seeks a bright future without hiding from its past

- An Internationalist Europe that treats non-Europeans as ends-in-themselves
- A Peaceful Europe de-escalating tensions in its neighbourhood and beyond
- An Open Europe that is alive to ideas, people and inspiration from all over the world, recognising fences and borders as signs of weakness and sources of insecurity
- A Liberated Europe where privilege, prejudice, deprivation and the threat of violence wither, allowing Europeans to be born into fewer stereotypical roles, to enjoy even chances to develop their potential, and to be free to choose more of their partners in life, work and society.

**Carpe DiEM25**

[www.diem25.org](http://www.diem25.org)



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