

# Working Notes

facts and analysis of  
social and economic issues

## Issue 74 May 2014

Jesuit Centre for Faith and Justice  
26 Upper Sherrard Street, Dublin 1

Phone: 01 855 6814  
Email: [info@jcfj.ie](mailto:info@jcfj.ie)  
Web: [www.jcfj.ie](http://www.jcfj.ie)

Editor: Margaret Burns

Production Team: Berna Cunningham  
Lena Jacobs

Printed by: Colorman Ireland  
Design: [www.artisan.ie](http://www.artisan.ie)

© Jesuit Centre for Faith and Justice, 2014  
*Articles may not be reproduced without permission. The views expressed in articles are those of the authors, and do not necessarily represent the views of the Jesuit Centre for Faith and Justice.*

Cover Photograph: Bought under licence from iStock Photo.

**The Jesuit Centre for Faith and Justice** is an agency of the Irish Jesuit Province. The Centre undertakes social analysis and theological reflection in relation to issues of social justice, including housing and homelessness, penal policy, health policy, and asylum and migration.

A complete archive of *Working Notes* is available on the website of the Jesuit Centre for Faith and Justice: [www.jcfj.ie](http://www.jcfj.ie)

If you enjoy *Working Notes*, we invite you to consider making a voluntary subscription to the Jesuit Centre for Faith and Justice. We suggest a sum of €20.00 per year.

## Contents

Editorial	2
Forced Migration: A Challenge for European Solidarity <i>Eugene Quinn and David Moriarty</i>	3
Unemployment and the European Union <i>Rory O'Farrell</i>	10
Elections 2014: A Turning Point for the European Social Model <i>Robin Hanan</i>	16
Interview with James K. Galbraith <i>Jean Merckaert and Solange de Coussemaker</i>	23
The Social Dimension of Europe: Withered on the Vine? <i>Denis Clerc</i>	27
Interview with Pat Cox, Former President of the European Parliament <i>Edmond Grace SJ</i>	31

# Interview with James K. Galbraith

*Jean Merckaert and Solange de Coussemaker*

**Jean Merckaert and Solange de Coussemaker:** *You are aware that Italy, Spain and Portugal made the choice for Europe in order to distance themselves from their fascist past. Fifty years on, we are witnessing a strong rise of extremists in advance of elections. Has Europe lost its soul?*

**James K. Galbraith:** This is a real danger. The Nazi parties prospered at a time of social collapse. Indeed, this is the situation familiar to the countries on the periphery of Europe. If Europe is to succeed in the long-term, it must take all necessary steps to confront fascist movements.

**Jean Merckaert and Solange de Coussemaker:** *The crisis of 2007–2008 began in the United States. But five years later the United States seems to have overcome the situation better than Europe. How can that be explained?*

**James K. Galbraith:** From a statistical point of view, the economic outcomes are quite similar on both continents, but some differences should be noted.

In the United States, it was personal debt that posed the problem, especially mortgage loans which could not be repaid. The problem lessened over time: if someone does not repay their mortgage they lose their home and that is the end of it. In Europe, it is sovereign debt that is at issue: here, the problem will continue as long as a political solution to that has not been found. In fact, the political authorities have made the choice to prolong the debt crisis. This is because to resolve the question of public debt is also to resolve the issue of the banks. The authorities want to avoid at all costs taking such a decision, which would lead to colossal losses for the banks. The United States also prefers to keep the banks alive rather than oblige them to acknowledge their losses on mortgages.

A second difference: the social insurance system in the United States supports the incomes of the population over the entire country. There are no bankrupt states – as is the case with Greece. If a municipality goes bankrupt, as in the case of Detroit, there are laws to resolve the matter. In

Europe, the ‘automatic stabilisers’ of income tax and social security are organised country by country. In the absence of solidarity at the European level, the crisis is concentrated in those countries in which a policy of austerity is imposed – and which do not count for much in the overall European economy.

**Jean Merckaert and Solange de Coussemaker:** *You say that they do not wish to resolve the question of the banks. Is it that they do not wish to, or that they cannot do so?*

**James K. Galbraith:** They do not wish to. The resolution of bank failures certainly gives rise to technical difficulties, in particular if a large bank is in question. But it is unhealthy when a government puts itself in the position of supporting its banks at all costs. When a bank has collapsed, keeping it in operation as if everything was normal is folly. It creates a licence to do anything.

It is difficult to say if there are European banks in a situation of bankruptcy today. That depends on the value of their assets. It is certain that the Cypriot banks were affected by the fall in Greek debt instruments which they had bought from German banks. Often the big banks know something that the small banks do not: it is an old story. Before the Asian crisis, the Korean banks had bought Indonesian assets from American banks. Similarly, before the crisis of 2007, Goldman Sachs had offloaded its assets that were based on American mortgages.

**Jean Merckaert and Solange de Coussemaker:** *Is the ‘re-appropriation’ of Europe by its citizens, conditional, in your view, on the resolution of the bank question?*

**James K. Galbraith:** In order to function, an economy needs financial institutions that allow companies to operate, especially new enterprises and small and medium companies. But the majority of large banks, particularly in the United States, are not interested in that area any more. A different way must be found! The second problem has to do with the toxic relationship which the national banks

have with the political life of their country. It is not democracy when the bankers are in a position to dictate government policy. In countries like Greece this is very obvious. In the case of larger countries, let the historians be the judges ...

**Jean Merckaert and Solange de Coussemaker:**

*Do European politics seem to you to be at the service of the citizens, or, on the contrary, do you get the feeling of a Europe that is playing against its own team?*

**James K. Galbraith:** The governments of Europe have not, for a long time, stood up for the interests of the citizens of Europe. It is obvious: the Greeks do not vote in German elections ... The German Chancellor has no need of the votes of the citizens of the periphery. Mrs Merkel is accountable, politically, to only a minority of the population that she governs. She can hardly be reproached, in this situation, for taking decisions that are favourable only to the citizens of her own country.

**Jean Merckaert and Solange de Coussemaker:**

*Does the designation 'German Europe' seem exaggerated to you?*

**James K. Galbraith:** The German government has clearly taken the lead in Europe. The French government has shown very little independence. Will there be, in the months to come, governments from the periphery who will try to negotiate more egalitarian policies regarding the direction that Europe is taking? It would be novel if Berlin were to respect the independence of its partners! In regard its choice of particular policies, the German government has got used to making decisions in its own interests, before going on to dictate them to others. 'There is no alternative' is in the tradition of Mrs Thatcher. But Angela Merkel is a very adroit politician, not an ideologue. Every Chancellor has to deal with the objective interests of German creditors. There is also a punitive streak in the political tradition of that country, which has a destructive outcome in dealing with the 'bad pupils' of Europe. Is the fact that the concept of 'absolution' has a limited role in certain Christian traditions relevant here? I need to tread carefully in this area in a Jesuit journal!

**Jean Merckaert and Solange de Coussemaker:** *If Europe is to be at the service of its citizens, does this presuppose a change in the statutes of the European Central Bank (ECB)?*

**James K. Galbraith:** The American situation is preferable. The Federal Reserve is accountable to Congress, which retains the ultimate power to change the law. The European Parliament does not enjoy the same prerogatives *vis-à-vis* the ECB. This institution was created at a time when the prevailing ideology was monetarism – which disappeared thirty years ago in the United States. According to this view, it is the central banks which must control inflation. The reason this phase in the history of economic ideologies still endures in Europe is that the Treaty governing the ECB was written on the basis of these ideas. In practice, however, the ECB conducts itself in a manner very like the Fed. The Fed is simply more in conformity with its mandate ... doesn't Mr Draghi play with Irish and Portuguese securities to reassure the markets? In practice, the institutional deadlock affecting the ECB is much attenuated because the situation is not covered in the texts. But the scope of a central bank is limited: it has an influence on the price of sovereign debt securities, but it does not have the capacity to revitalise economies that are in crisis. For this, it would be necessary to change policies – institutional, structural, and financial – and stimulate these economies.

**Jean Merckaert and Solange de Coussemaker:** *In Europe, national divisions often outweigh divisions at the European level. Do you see new divisions taking shape on the European political scene?*

**James K. Galbraith:** Yes, the big fear is that voters will turn to the extreme right, which is always opportunistic and ready to exploit negative sentiments towards Europe, and which also engages in violence, especially toward immigrants. The risk is growing in Greece, in Great Britain, in France – in fact, everywhere to some extent. Regionalism and separatism are also forms of ethnically-driven policies.

On the economic front, problems cannot be addressed without the use of government budgets. There is profound confusion between economic and budgetary policy. Addressing deficits in the public accounts has nothing to do with social and economic stabilisation. How can this confusion be explained? Either through ignorance of economic principles, or as part of a strategy to destroy the social institutions constructed in the course of the twentieth century, institutions which have never lacked internal critics, either in Europe or in the United States.

**Jean Merckaert and Solange de Coussemaker:**  
*If it is the case that Europe is working against its own citizens, are you advocating for a return to the national level, or for a more common policy?*

**James K. Galbraith:** I cannot claim to be objective here. A growing proportion of the European population seems to regret the decisions for unity, whether this is in France, in Great Britain, or in Germany. But in practice, in the countries on the periphery, most people consider that they have no real choice in regard to leaving, or not leaving, the European Union. Even in Greece, I do not believe that a significant proportion of the population are happy to leave and be ready to face the consequences. Siriza, the party of the left in Greece, is, incidentally, favourable towards Europe. But they know very well that the EU will not survive if it continues on its present course.

**Jean Merckaert and Solange de Coussemaker:**  
*What course do you recommend in this case?*

**James K. Galbraith:** The Greek economist, Yannis Varoufakis, the English economist Stuart Holland – a former architect of the European Union – and I recently published *A Modest Proposal for Resolving the Crisis in the Eurozone*.<sup>2</sup>

The changes in European policy that we propose would stabilise the situation, without the need to change the treaties – because if a new treaty were put to referendum, it would certainly be rejected by the voters! Our proposition rests on four pillars: the management of public debt, a resolution of bank problems, investment, and solidarity.

We propose a mechanism to permit states to put the portion of their public debt which is below the threshold of 60 per cent of their GDP in a common fund, so as to lower the rate at which they borrow, and make the whole of the debt sustainable.

As for the banks, we do not expect a coalition of banks. That is a mirage! The resolution of bank failures is a matter of urgency. But in certain countries, especially Greece, the governing parties have put the banks and the public assets into the hands of an oligarchy. To avoid such a situation, the resolution of the Greek bank problems should be entrusted to Europe; the left wing in Greece is ready for this.

Thirdly, it is necessary to stimulate public and social investment (public services as well as

infrastructure) through the European Investment Bank.

Finally, the security of households must be ensured – for example, by a feeding programme in schools, starting with the most extreme situations. Nowadays, it is the extreme right which delivers food to the sectors most affected by the crisis! The legitimate governments must have the means to give direct support to their citizens. To finance these policies, without changing the treaties, one could use the surpluses of balances of payments between the EU Member States,<sup>3</sup> organise systems of social insurance, or, as the German trade unions have suggested, create a global system of insurance against unemployment.

**Jean Merckaert and Solange de Coussemaker:**  
*Can Europe still provide inspiration to intellectuals in other countries?*

**James K. Galbraith:** Without changing its ideas, no. It is not possible to govern a region in the manner of a debt management agency! The current situation is morally very difficult for Europe, and especially for France. Ever since the Revolution, France has always been guided by ideas: the rights of man, democracy, the Republic ... I am not convinced that the same applies in Germany. The European ideal is founded on social democracy, solidarity, convergence, and mutual prosperity. A Europe founded on the rights of banks, the demands of multinationals, and the banalities of economists leads nowhere. Even in these areas, Europe does not compete with China!

**Jean Merckaert and Solange de Coussemaker:**  
*What cards does Europe still have to play?*

**James K. Galbraith:** I do not see any of much value. If I have a little hope, it comes from the attitude of resistance that can be detected, from time to time, in some countries of the periphery. I was in Athens when, during the summer of 2013, the government decided to shut down state radio and television. Without a public media, whatever its defects, a democratic political system no longer existed in Greece. For several long weeks, the professional staff continued to occupy their workplace. The trade unions guaranteed the electricity supply and the crowds were massed around the headquarters to prevent an attack by the police. This kind of social resistance shows that the spirit of community is still alive in Greece, as was also the case at certain times in Italy and Spain. I

hope the time comes when something will result from it.

**Jean Merckaert and Solange de Coussemaker:** *Europe has been an inspirational utopia for a whole generation. Can the peace and common values that are Europe's legacy not lead us to a different view?*

**James K. Galbraith:** If Europe continues on its present course, its values and ideas will not survive. At the risk of stating the obvious, democracy assumes the possibility of alternation, the option of a real change of policy. The question arose in France at the time of the election of François Mitterrand in 1981. The Japanese face the same question: can one truly speak of democracy when elections change nothing?

The question arises in a more acute manner in present-day Europe, and under another form in the United States. If the defenders of European values are elected, they must really hold the reins. If they cannot change course because of some completely dogmatic institutional system, founded on ideas that the population largely rejects, that is a big problem!

But fresh ideas are emerging. The people of the peripheral countries know that this cannot continue. And even the Germans know that this should not continue. Have they any way of changing the situation? Before it can assert its leadership role in the world, Europe first has to deal with its own internal problems.

## Editor's Notes

1. A concept developed in particular by the German sociologist, Ulrich Beck. (See Ulrich Beck, *German Europe*, London: Polity Press, 2013.)
2. Yanis Varoufakis, Stuart Holland, and James K. Galbraith, *A Modest Proposal for Resolving the Crisis in the Eurozone*, Version 4.0, July 2013. (<http://varoufakis.files.wordpress.com/2013/07/a-modest-proposal-for-resolving-the-eurozone-crisis-version-4-0-final1.pdf>)
3. The system for regulating cross-border payments in the European Economic Area, 'TARGET 2', is used by 23 central banks and more than 4,400 banks. (TARGET stands for 'Trans-European Automated Real-time Gross Settlement Express Transfer System'.) When, for example, a Spanish bank makes a payment in favour of a German bank, TARGET 2 debits the account of the former with the Bank of Spain, and credits that of the latter with the Bundesbank. The latter obtains as an asset a claim against the Bank of Spain. At the end of each day, the credits and debits of the national central banks are aggregated and offset, leaving each of them in a bilateral position with the European Central Bank.

Interview conducted in Paris on 22 October 2013 by Jean Merckaert and Solange de Coussemaker of the Jesuit centre, CERAS (Centre for Research and Social Action), Paris.

The interview was originally published in French in *Revue Projet* (the journal of CERAS), No. 339, April 2014. (<http://www.revue-projet.com/articles/2014-03-galbraith-l-europe-actuelle-ne-fait-pas-davantage-rever-que-la-chine/>)

Translation by Bill Toner SJ.

**James K. Galbraith is an economist and holds the Lloyd M. Bentsen Jr. Chair in Government/Business Relations and a professorship of Government at the Lyndon B. Johnson School of Public Affairs, The University of Texas at Austin.**