TRANSNATIONAL INSTITUTE

A GUIDE TO

By blaming the crisis on government spending, politicians and bankers argued that the **ONLY SOLUTION** was to **CUT** public spending, but this has predictably **WORSENED** the debt crisis.

Austerity measures have **NEVER WORKED**, and have led growth to collapse across the EU. Greece witnessed its battered economy shrinking by 6.2% in the second quarter of 2012, and is forecasted to enter its sixth straight year of recession in 2013.

Austerity means **LESS NATIONAL INCOME** from taxation, reducing governments' capacity to pay back spiraling debts, leading to even **HIGHER DEBTS**.

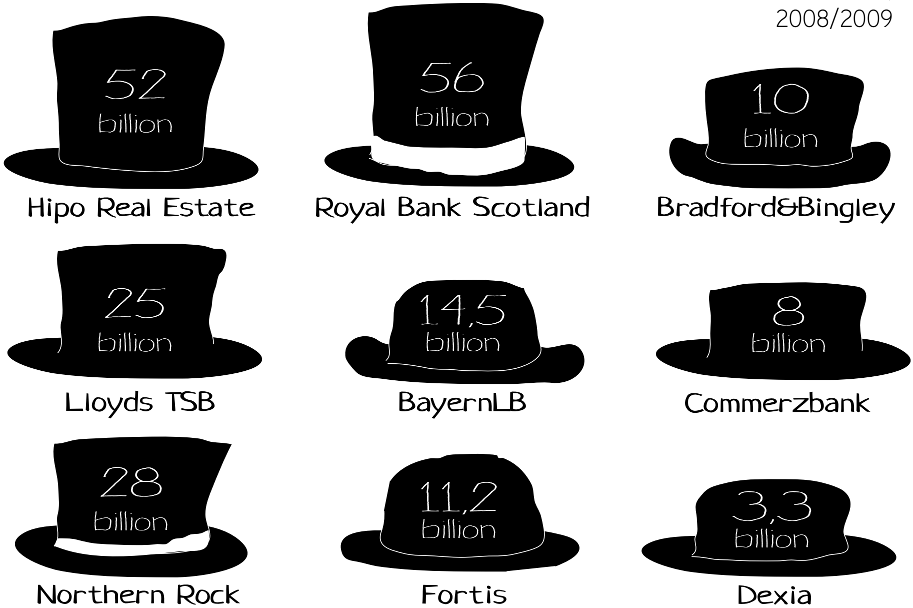
Even the International Monetary Fund (IMF) has warned **AGAINST** austerity measures during recessions, saying they will cost the UK an extra £76bn (€94bn) by 2015. Additionally, speculators have encouraged doubts about certain countries' **ABILITIES TO PAY**, causing rates of interest to soar for countries like Greece and Portugal, making their debts completely **UNAFFORDABLE**.

> **"If you diet when you are sick, it's quite probable you'll get a lot sicker so it's not a good idea."** *Nicoletta Batini, one of the authors of the IMF report, on austerity during recessions.*

THE CRISIS

EUROPEAN BANKS Bailouts*

Bailout costs in euros,
2008/2009



These are partial figures from the initial 2008/2009 bailouts and do not include the more than €210 billion lent by the US Federal Reserve to prop up European banks

Between October 2008 and October 2011, the European Commission approved €4.5 trillion (equivalent to 37% of EU GDP) of state aid measures to financial institutions.

The total cost of the Irish banks' bailout is over €70 billion or nearly 43% of Ireland's GDP.

In spite of the crippling costs of bailing out the banks, the EU still has not agreed, let alone put into operation, any major bank reforms. Four years on, only a few new rules to reduce some particularly risky practices by banks and financial markets, exposed by the financial crisis, have become operational.

Critically, by early November 2012, the EU had not demanded major bank reform that would require banks to absorb their losses and engage in less borrowing. Forceful decision-making on bank reform that could prevent state bailouts during such crises has been delayed due to bank lobbying.

- No restrictions have been imposed on the size of banks even though the biggest banks will clearly need to be bailed out if they get into serious trouble.
- There is still no EU decision on whether or how to separate high street retail banking from investment banking – which exposed ordinary taxpayers to the enormous risks taken by gambling banks and investors.
- Effective prohibitions on speculative trading on financial markets ("the casino") that caused the crisis in the first place have not been put in place. The focus of negotiations has been confined to limiting the risks and improving the transparency of speculative instruments.
- Financing a transition to socially and environmentally sustainable societies is not even being discussed.

Devastating Consequences

Unicef has warned of the "irreversible impacts" of wage cuts, tax increases, benefit reductions and reductions in subsidies that will bear most heavily on the most vulnerable in low-income nations – particularly children.

In Spain, youth unemployment reached 52.9% in August 2012.

In Greece, 20,000 people were made homeless in 2011.

According to the International Labour Organization (ILO), young people, low-skilled and temporary workers are being hit the hardest. 90% of employment losses in Spain affected temporary workers.

Shocking facts

As austerity cuts swept Europe, the numbers of the wealthy in Europe with more than US$1 million (€772,000) in cash rose from 2.6 million in 2008 to 3.2 million people in 2011. Together they were worth US$10.1 trillion (€7.8 trillion) in 2011.

The five biggest banks in Europe made profits of €34 billion in 2011. Executive pay for the CEOs of the 100 largest companies on the London stock exchange rose by 49% in 2010, compared with 2.7% for the average employee.

There are between 15,000 and 30,000 estimated lobbyists in Brussels – more than in Washington. Some operate as "professional consultants" and under other titles and relatively few have registered with the EC voluntary lobbyist register. 68% of European lobby groups represent business interests. Trade unions make up 1-2%.

"Today only the foolhardy would dismiss a movement reflecting the anger and frustration of ordinary citizens from all walks of life around the world ... the fundamental call for a fairer distribution of wealth cannot be ignored. The consequence [of the crisis] has been growing inequality, rising poverty and sacrifice by those least able to bear it – all of which are failing to deliver economic growth. ... The cry for change is one that must be heeded." *Financial Times, Editorial, 16 October 2011*

OCCUPY THE EU!
MAKE THE BANKERS PAY!

European Union's answers to the problem?

MORE AUSTERITY. EU austerity policies attack the remnants of the welfare state and democracy. Mario Draghi, president of the European Central Bank, has announced that the European social model has "gone".

> **"There is a strong recognition all over the world that fiscal austerity pursued by many governments has been the main cause for the protracted economic downturn."** *UN Department of Economic and Social Affairs.*

MORE PRIVATISATION. Greece is selling off its railways, ports, postal and water services. Portugal is privatising its water, transport, telecommunications, energy and insurance. The UK government plans to privatise and fragment the National Health Service. Bulgaria has seen a steep hike in water service rates since privatisation was pushed through as part of the country's austerity measures. In early 2012, 370 families were evicted in Sofia because they were unable to pay their utility bills.

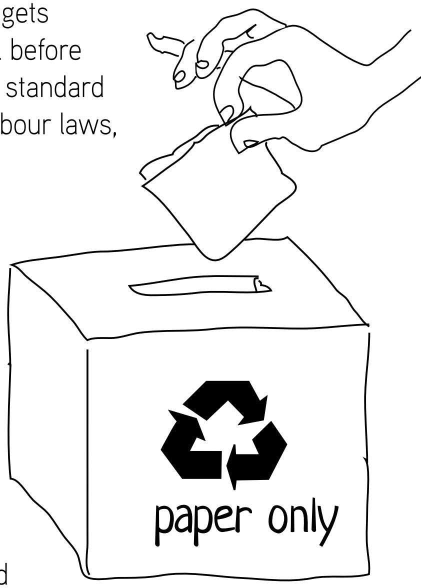
The European Commission has acknowledged that it is using the crisis to impose privatisation of municipal water systems on countries receiving rescue loans.

> **"We are punishing the innocent through austerity, and we are rewarding the guilty because the banks are continuing to receive huge privileges and subsidies from our governments. That is why we must defeat this austerity treaty, and all the measures that come with it unless we want Europe to be retrograded to, shall we say, the 19th century."** *Susan George, President of the Board of the Transnational Institute, author of Whose Crisis, Whose Future?*

LESS DEMOCRACY. Six Pack Measures: Without any thorough national public and parliamentary debate, the European Parliament and the EU Council of Finance Ministers rushed through a decision in Autumn 2011, that saw the passage of six pieces of legislation amending the EU's Growth and Stability Pact and introducing a new mechanism to curb "macroeconomic imbalances".

This means that if countries do not reduce their debts and deficits fast enough or refuse the budgetary "suggestions" from Brussels enforcement measures will kick in. In the case of France, with a GDP of about €1.900 billion, the Commission could demand a deposit or a fine of between €20 to €100 billion!

The European Semester: During 2013 all national budgets will be scrutinised by the Commission and the Council before they are even seen by each country's parliament. The standard requirements are cuts on pensions, and changes in labour laws, including wage-setting systems.



The Fiscal Compact (formally, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union): In March 2012, 25 heads of states signed the Fiscal Compact, which imposes strict budgetary rules (the so-called debt brake) and requires the adoption of the austerity mechanisms into national laws.

Ratifying states will effectively be dictated to by the European Commission. Prior to its signing, member states were told that only those who sign and ratify the treaty will be eligible to apply for bailout money from the European Stability Mechanism (ESM).

Ireland was the only country that subjected the Fiscal Compact/Treaty to a referendum. 60% voted in favour but many didn't vote, meaning that only 30% of Ireland's electorate were persuaded to back the treaty in spite of being pressured to do so by the entire weight of the Irish establishment and EU officials.

> **"The debt brakes will be binding and valid forever. Never will you be able to change them through a parliamentary majority."**
> *German chancellor Angela Merkel.*

MAP OF RESISTANCE 2012

4 April
A 77-year old pensioner, Dimitris Christoulas, takes his own life due to his debt burden, in a country that has seen suicides soar.

26 September
200,000 march on the Greek parliament to oppose new wage and pension cuts.

More than 90% of Greeks believe the planned cuts are unfair and a burden on the poor.

9 October
50,000 protest when German Chancellor Merkel visits Greece.

18 October
30,000 workers from the two largest unions march through central Athens, marking the second 24-hour walkout in three weeks.

19 February
Hundreds of thousands protest in Barcelona, Madrid and Valencia against spending cuts and changes to labour rights.

25 September
Tens of thousands take part in demonstrations around Spain's parliament in Madrid.

10-11 July
Several hundred miners march towards Madrid, meeting with thousands of other striking miners and supporters in the capital.

19 July
Over 100,000 in 80 cities protest against the austerity package pushed through parliament.

15 September
Across Portugal, over half a million protest against a rise in social security payments in the biggest protests since the end of the dictatorship.

28 September
30,000 members of two of Italy's largest unions stage a strike against cuts in public spending.

20 October
130,000 march through London in a trade union-organised protest against the cuts.

alternatives from the 99%

Clearly, there is a *strong* need to break with the dangerous free market fundamentalism that has created and worsened a social crisis of vast proportions. Here are some proposals for alternatives – put forward by many civil society groups – that could create a fairer and more just world.

1. Bring the financial sector back under public control

- Ban speculative financial instruments like Credit Default Swaps and food speculation
- Reintroduce rules that separate retail/utility banking from investment banking
- Impose size limits on banks so none can become “too big to fail”
- No new financial products unless proved safe and socially useful
- Ban hedge funds and other risky speculators who only make money from money
- Re-introduce controls on capital flows

2. Tax the rich, the speculators and the polluters

- Impose tax on international financial transactions
- Increase taxes on the rich to at least the same as pre-1980 levels
- End subsidies for fossil fuel industries
- Close down tax havens
- Establish a maximum pay ceiling and ban bonuses
- Introduce a Basic Income available to all

3. Make corporations accountable to people

- Produce new legal charters for corporations that require them to recognise worker and nature rights
- End the rule and business model that *require* shareholder companies to maximise profits, no matter what social and environmental harm they cause
- Enforce transparency rules for payments between governments and corporations and require independently audited reporting on social and environmental impacts
- Ban corporate donations to parties
- Close the “revolving door”: impose rules against politicians leaving office to work for corporations they used to regulate and monitor

4. Cancel the debt and put banks under public control

- Carry out a public and participatory debt audit and cancel all illegitimate debts
- Establish an independent debt workout mechanism where creditors are no longer in charge
- Reorganise the banks to serve social and environmental purposes
- Close for-profit credit rating agencies and replace them with independent, public credit rating agencies

5. Enshrine human rights and nature rights in international law *above* corporate rights

- Re-negotiate all free trade and investment agrements so that they enhance job creation, environmental and social rights in international law

- End the right of corporations to sue national governments and instead enforce obligations that require companies to privilege national and public needs over profits

6. Change EU treaties to put democracy and people above corporations

- Stop the European Commission's takeover of national budgets (Fiscal Treaty/Troika etc) and make these accountable to each country's population
- Reform the European Central Bank, for example allowing it to lend directly to EU governments, not to banks, at very low interest rates
- End the Lisbon Treaty's bias towards deregulation and inflation-control, in favour of boosting employment and investment in a just low carbon economy
- Abolish individual country bonds [debt] in favour of Eurobonds. Use these to invest in intra-European green transport and communications networks, renewable energy, waste reduction and environmental and social research

7. Stop and reverse privatisation of social services. Put citizens and workers in charge

- Stop and reverse the privatisation of all social services and common resources, such as water, health and education
- Create participatory public services that involve joint citizen and worker control

The Italian Water Movement, backed by a referendum in which 96% of voters opposed the privatisation of water services, forced the Italian government to withdraw their privatisation proposals.

8. Localise the economy (banks and businesses)

- Put money in local banks and credit unions
- Support local diverse food systems
- Start local currencies
- Help communities become self-sufficient in energy

9. Participatory budgeting

- Develop mechanisms at local, regional and international levels that give citizens a say on how money is raised, spent and prioritised

10. Transition to a Just Low Carbon Economy

- Make massive investment in renewable energy and energy efficiency to end fossil fuel dependence
- Support radical conversion of polluting industries to be environmentally sustainable
- Fund expansion of public transport

for further info

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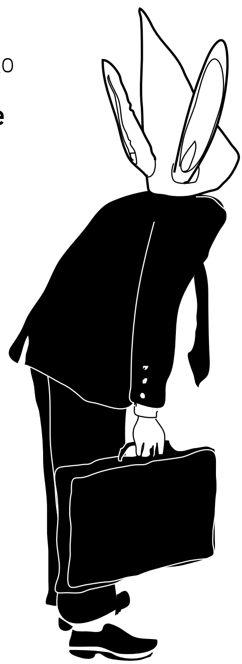

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We are the 99%

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Founded in 1974, TNI is an international network of activist scholars committed to critical analyses of the global problems of today and tomorrow. It aims to provide intellectual support to grassroots movements concerned to steer the world in a democratic, equitable and environmentally sustainable direction.
In the spirit of public scholarship, and aligned to no political party, TNI seeks to create and promote international co-operation in analysing and finding possible solutions to such global problems as militarism and conflict, poverty and marginalisation, social injustice and environmental degradation.

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