

When the mainstream Left gets lost down its Europhile hole

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Thomas Fazi and I recently published an Op Ed in Social Europe (October 20, 2017) – [Everything You Know About Neoliberalism Is Wrong](#), which is a precis of the main arguments in our new book [Reclaiming the State: A Progressive Vision of Sovereignty for a Post-Neoliberal World](#) (Pluto Books, 2017). It seems that our message resonates with a lot of people. And, inasmuch as it is deeply critical of the extant Left position on ‘internationalism’ who continually seem to live in terror of those amorphous financial markets just waiting for a chance to send a nation state bankrupt, it seems to have also upset some who I consider to be the ‘lost’ mainstream Left. One such critic accuses us of using a “presumptuous title” but he is seemingly unable to capture the [pop culture irony](#) that is inherent in the choice. Just a bit of fun Andrew. Since when is comedy presumptuous? But failing to grasp the subtlety of the title is just the start. Things go downhill from there.

Among those who liked the article (and then presumably will like our book) were Dani Rodrik, who [Tweeted](#) (October 20, 2017):



Dani Rodrik @rodrikdani · Oct 20

"Everything You Know About Neoliberalism Is Wrong." Not great title but interesting essay with which I largely agree



It appears that Dani missed the irony in the title too.

And Wolfgang Münchau, in his excellent [Eurointelligence Briefings](#) (October 23, 2017) wrote in his introduction to his comment:

Bill Mitchell and Thomas Fazi provide a very useful insight into why the European Left is no longer betting on supra-national institutions like the EU, and why it is seeking national solutions instead. If you want to understand the success of Jeremy Corbyn in the UK, this is a piece worth reading.

Wolfgang Münchau continued ... you can read the rest if interested.

These two among others who have received the arguments in a positive manner are clearly not part of the MMT cheer squad.

But there is also discontent from the mainstream Left.

I think discontent is a good sign when new ideas that run counter to the mainstream narrative (whether it be from the mainstream Left or Right) create angst.

It is better than being ignored, which marks the first stage of introducing new frameworks. As one of the first MMTers, I can say that we were heartily ignored for some years.

But when people get upset with the ideas and start to fight back against them it is a sign that they are getting bugged by them. The threat invokes retaliation.

And so the Andrew I mentioned at the outset is one Andrew Watt, who is clearly a EU and EMU supporter but professes to be part of the Left.

Just the target of our book (and article).

He is offended by our article calling it a – [The left-sovereignist fantasy](#) – in his formal response to us.

The arguments presented by Watt are what you expect from a Europhile. But I was surprised how undeveloped his understanding of the issues we raised was.

He is upset the “colleagues at Eurointelligence” among others are favourably disposed to our argument.

Watt is initially upset that we represent the current dominant view held by progressives as being one where “nation states need to pool sovereignty in order to enact progressive policies”.

He claims that we do:

... not convincingly discredit the view that pooling sovereignty is a sensible response to the constraints imposed by globalisation. Nor does it make the case for a specifically left-wing strategy of enhanced national sovereignty, traditionally the mantra of the hard right, that might endear it to progressive politicians and academics.

He thinks our position is “indistinguishable from the extreme right” and thus demands a response.

Inasmuch as the ‘extreme right’ has grasped the reality that globalisation does not mean the nation state should surrender its legislative remit and currency sovereignty to advance the interests of capital over those of the rest of us, it is not surprising that we share that understanding.

But this is where the Left gets itself in a funk. Its kneejerk response to anyone who advocates an empowerment of the nation state and a dis-empowerment of supranational organisations is that it is a descent into nationalism – and then – a few breaths later – xenophobia – isolationism – Fascism.

Before long our advocacy for the restoration of currency sovereignty (where it has been surrendered) and a progressive use of that sovereignty is interpreted – accused – as being giving succour to the “extreme right”. Mitchell and Fazi are supporting Fascism – it is obvious – they support the primacy of the nation state.

Well there is a world of difference between the nationalism of the National Socialists and currency sovereignty rooted in democratic institutions with progressive application.

Andrew Watt agrees with our characterisation of the mainstream Left position, which we write as (in our words):

1. National sovereignty has become irrelevant in today's increasingly complex and interdependent international economy.

2. The deepening of economic globalisation has rendered individual states increasingly powerless vis-à-vis market forces.

3. The internationalisation of finance and the growing importance of multinational corporations have eroded the ability of individual states to autonomously pursue social and economic policies – especially of the progressive kind – and to deliver prosperity for their peoples.

3. Thus, our only hope of achieving any meaningful change is for countries to 'pool' their sovereignty together and transfer it to supranational institutions (such as the European Union) that are large and powerful enough to have their voices heard, thus regaining at the supranational level the sovereignty that has been lost at the national level. In other words, to preserve their 'real' sovereignty, states need to limit their formal sovereignty.

He says that is "a clear and accurate statement". Okay, square one.

We pointed out that while progressives often stress how neoliberalism has involved (and involves) a 'retreat', 'hollowing out' or 'withering away' of the state, which in turn has fuelled the notion that today the state has been 'overpowered' by the market, the reality is that government spending as a per cent of GDP has, if anything risen, in most countries over the last thirty years.

Hardly a withering away of the state.

Andrew Watt, however, claims that this doesn't mean that the "state capacity to deliver 'progressive' policy goals has not been eroded".

He then gets lost in some argument about "regulatory matters" and "sources of financing" and that "mobile capital and higher earners have been able to reduce their tax burden at the expense of (immobile) labour".

Andrew Watt is, I guess (although he doesn't come out and say it), trying to say that the amorphous bond markets will punish a government that tries to 'progressively' spend or tax.

Well, he should have read the argument more closely and appreciated the nuances or if uncertain gone to the book. We explicitly say that we explain the argument in more detail in our new book [Reclaiming the State: A Progressive Vision of Sovereignty for a Post-Neoliberal World](#) (Pluto Books, 2017).

The article is, in fact, a teaser for that book.

But even in the article we note that the state maintains a capacity to run fiscal deficits at will but has imposed "deliberate and conscious" limitations on that capacity.

If he had explored the point further he would have read from pages 161 to 221 in our book, which introduce and expand the basic principles of Modern Monetary Theory (MMT) within the context of what a state that issues its own currency can actually do.

He would have learned, if curious, that the bond markets can do nothing to harm a currency-issuing government should the government choose to ignore them and play them out of the game.

Even the most cursory understanding of what central banks have been up to in recent years should inform anyone with a basic comprehension of the workings of bond markets and yield curves that the government calls all the shots. Through their central banks they can set yields wherever they like including at zero.

Further, through the central bank they can ensure interest rates on non-government paper are zero at the short end and low at the longer end.

Hasn't the fact that many governments are now borrowing funds over 10 years or more at negative yields (that is, people are paying the government for the privilege of parking their uncertain funds in government paper) told

the likes of Andrew Watt anything?

He claims we make the same argument as above that tax bases have moved due to globalisation which has made the capacity of governments to run fiscal deficits more difficult now.

He says:

And you don't need to take my word on that because WM/TF say the same thing later in their essay.

Well that inference is highly misleading.

What we actually say is that it cannot be denied that in many respects – the capacity to promote local industries vis-à-vis foreign ones; to run fiscal deficits; to manage the money supply; to impose duties and taxation; to regulate the import and export of goods and capital, etc. – economic sovereignty, including advanced capitalist economies, *is* more constrained now than in the past.

But then we go on to say that to a large extent, however, this is the result of a deliberate and conscious limitation of state sovereign rights by national elites, through a process known as depoliticisation.

Note the causation. The nation states have become captive of the global capital elites and voluntarily acceded to limiting their fiscal capacity and using the legislative framework to advance the interests of the few at the expense of the many.

That has been a political decision not a financial imperative.

With a truly progressive political will and the correct understanding of Modern Monetary Theory (MMT) that capture could be terminated fairly quickly and capital brought to its knees.

Look at how Iceland has dealt with the hedge funds it has trapped within its sovereign borders by invoking capital controls. Nothing weak about that action. The government used its sovereign powers to take on two of the large investment banks in the world and succeeded.

So to finesse this point – Andrew Watt needs to become better informed about what currency sovereignty actually means. The understandings that MMT provides are intrinsic to comprehending what our book is about and what the article in Social Europe is about.

To criticise both by invoking the damage bond markets can do to a government or nation state is to demonstrate an ignorance of these advances in macroeconomics.

To put a finer point on it, Andrew Watt, for all his progressive pretensions, uses the mainstream neo-liberal macroeconomics frame as a centrepiece of his attack on why Thomas and I are lost in some fantasy world.

He then agrees (says we are “broadly factually correct”) with the second main contention in the article that (in his words):

... that the state at national level, far from withering away, has intervened extensively and permanently to deregulate, liberalise and engage in regressive redistribution.

Yet he thinks this is supportive of the argument we are critiquing that (in his words):

... globalisation pressures nation states into becoming willing servants of mobile capital,

| *pandering to its real or perceived needs and destroying the social acquis of an earlier generation.*

There is a world of difference between this statement and the initial thesis that we introduce to motivate the article.

The first says that the Left thinks globalisation has rendered the state powerless.

The second says that globalisation pressures nation states to do the bidding for capital.

Entirely different things.

Obviously, the nation state has always been pressured by global capital to do its bidding and to stop = as we characterise it – mediating the capital-labour conflict.

And obviously that has been a drawn out process which required a strategy to convince the population to support the abandonment of social democratic policies in favour of the neoliberal approach.

Collective will and social solidarity gave way to individualism as this neoliberal strategy unfolded.

In the book, [Reclaiming the State: A Progressive Vision of Sovereignty for a Post-Neoliberal World](#) (Pluto Books, 2017) – we catalogue in some detail how the Right instigated that strategy – the rise of the think tanks, the assault on the media, the penetration into schools and universities of right-wing thinking, and more.

But these social processes that have allowed social democratic parties to abandon their historical mission and becoming the vanguards for the implementation of neoliberal policies are not irreversible.

In the same way the Right strategically set about to capture governments and turn them into agents of capital, the Left has options to.

The unfortunate fact is that the idea of an Oppositional Left has waned as the traditional social democratic parties adopt policy platforms that at times, are indistinguishable from the conservative parties.

Andrew Watt thinks that because “globalization can materially constrain sovereignty” there is justification in “pooling it in structures like the EU, without destroying it entirely”.

The point we make is clear. The EU began as a political model to ensure the historical Franco-German rivalry would not break out into another damaging military conflict.

I cover that in detail in my 2015 book – [Eurozone Dystopia: Groupthink and Denial on a Grand Scale](#).

Of course, those who believe it has been the EU that has curtailed conflicts on the Continent conveniently overlook the vast presence of US military bases under the NATO alliance, which above all else, have been a strong deterrent to any military ambitions that Germany might have exercised.

But a supranational organisation such as the EU is well-placed to handle matters that individual Member States cannot easily handle – such as migration, climate change, rule of law – human rights etc.

But none of those issues require any “pooling of sovereignty” in the sense that we use the term sovereignty – the primacy of the currency-issuance capacity.

The problem the Left created is that it took the supranational step too far and surrendered sovereignty when it pushed the Eurozone onto citizens.

In that sense there is no meaning to the term – “pooling of sovereignty”. When the Member States agreed (or were bullied into) to adopt what is essentially a foreign currency they abandoned their sovereignty in the way I use the term.

They lost their capacity to run fiscal policy in a way that would advance the well-being of their citizens. They

created a democratic void – handing over key economic capacities to unelected and largely unaccountable technocrats in Brussels and Frankfurt.

They then accepted harsh and unworkable fiscal constraints which rendered what policy capacity they retained – under the misused concept of subsidiarity – relatively useless.

That is not an effective ‘pooling’ model. It has been an unmitigated disaster.

Andrew Watt thinks that because labour is immobile and capital is not that:

... gives rise to the view that progressive economic and social policies in small open economies are constrained in an international context and that pooling is a necessary step to regain policy-making traction.

That is a false conclusion.

We note that even the smallest of nation states can exercise power against capital mobility via capital controls if it so desires. The example of Iceland is a case in point.

Before that, the Argentinean default in 2001-02, provides nation states with a model on how to reassert their currency sovereignty despite massive hostility from global capital.

Our argument that neoliberalism has coopted states in many ways and led to a process of “depoliticisation” – which includes the myth of ‘independent’ central banks (see my recent blog – [The sham of ECB independence](#)); fiscal rules imposed by non-elected bodies, investor-dispute resolution mechanisms in trade agreements etc.

Andrew Watt thinks that these developments are:

... perfectly compatible with a view that it has been driven by external constraints and is therefore not a convincing counter-argument.

Perhaps. But if you historically analyse the way these developments were introduced – the background, who was pushing, etc – which we do in detail in *Reclaiming the State* – it becomes apparent that these decisions were not inevitable or even efficient responses to the pressures being brought to bear on nation states by a very well-organised and strategically focused right wing assault on social democracy.

There was pressure – certainly.

But there was also a corruption within the Left – which became enamoured with the Monetarist ideas in the 1970s and the microeconomic analogues of those macro ideas – deregulation, privatisation, etc.

The central bank independence shift is an excellent case study and the blog I cite above (and the links within it) demonstrate that the claim to independence has been a chimera – there is no functional independence – only the appearance of such. Which has allowed governments to deflect responsibility for major economic decisions to unelected bodies such as central bank boards.

Meanwhile, as I noted in the blog cited – the ECB is totally captured by the financial market elites by its own choosing.

None of this is surprising – it is the way elites maintain their hegemony.

Andrew Watt then says:

Quite how this Damascene-like conversion by national elites, or a sudden re-imposition of people-power that had been oddly absent to date, will come about remains a mystery; possibly the lack of an argument is intended as an incentive to read the authors' book.

Yes, read the book. The Social Europe Op Ed was less than 2000 words, the book is 310 odd pages.

I have also documented extensively in past blogs how the Left fell into the neoliberal trap.

We also do not claim that there will be a “sudden re-imposition of people-power”. That is Watt being impetuous.

We argue that the ascendancy of the neoliberal program took decades and was the result of a very well-funded and coordinated strategy implemented through many platforms (media, schools, justice system, universities, think tanks etc).

The changes that are required to create a true Oppositional Left capable of rejecting the neoliberal narrative and offering truly progressive alternatives, which includes an understanding of MMT, is a work in progress.

How long it will take is conjectural. It clearly won't be a “sudden” shift.

The point we make is that there is a window for the Left now – Brexit, for example, has opened that window for Jeremy Corbyn. At present, the Right is seizing that window and giving voice to the growing discontent by citizens of the neoliberal era.

The Left are still arguing about creating international movements and the like. The Right know that people want their governments to advance well-being. It is just that the Right's construct of that is perverted in the extreme (at times).

So there is an opportunity. Whether the Left take it is another matter. Our book provides a guide as to how they might start to take that opportunity.

And finally, Andrew Watts gets all steamed up about our critique of the EU. He once again lapses into the false accusation that when we talk about reestablishing currency sovereignty that is tantamount to nationalism. He is wrong on that and just rehearsing the standard misrepresentation that the 'Pan European Cheer Squad' engages in to deflect criticism away from their prized baby, which has delivered such chaos and dysfunction for its citizens.

He thinks that the creation of the Eurozone has “some neoliberal ... precepts were embedded in the economic governance of the EU and Euro”.

Only some?

The whole plan was the result of the dominance of Monetarist ideas and the desire to put Member States in a fiscal straitjacket. It was a result of a belief that only monetary policy mattered and that the free market would self regulate to deliver optimal outcomes.

Neoliberalism front and centre. Not just tinkering at the edges.

And the flawed design – violating any notion of an optimal currency area – denying the long-held view that there had to be an alignment between the currency powers, the macroeconomic policy capacity and the democratic institutions – is the reason that the Eurozone has failed.

The 1970 Werner Report was categorical on what would be needed to create an effective currency union. The 1977 Macdougall Report concluded that these characteristics would not be attainable in Europe because of rivalries, cultural differences and vast differences in economic structures.

The 1989 Delors Report, ignored all the previous wisdom and pushed ahead with a neoliberal experiment. It has failed.

I say failed because the only reason the Eurozone is still intact is because the ECB has deliberately violated the Treaty via its QE programs (in various forms) which despite the denial are funding deficits across the monetary union.

And moreover, nations such as Spain have been allowed to violate the fiscal rules, because Brussels wanted the PP elected and knew that if austerity continued then growth would have been impossible and the PP would have been pushed out of office.

The Eurozone only continues intact because it is operating in denial of its own flawed rules.

And, moreover, despite Andrew Watt thinking that the “weaknesses of real-world sovereignty pooling” can be overcome by reform, the reality is different.

The necessary reforms to create an effective federation of Europe will never be implemented. Germany will never allow that to happen.

I cover that extensively in my 2015 book – [Eurozone Dystopia: Groupthink and Denial on a Grand Scale](#).

And then Andrew Watt loses it.

He claims that breaking up the Eurozone and returning to currency sovereignty will create “conflicts” on the Continent which will then:

*... lead to the threat of the use of force and, horror of horrors, war on European soil once more?
Are the authors really so blind as to the lessons of history when European countries engage as sovereign nation states without a (partially) supranational framework.*

A really poor thesis.

I understand the lessons of European history probably, at least, as well as Andrew Watt. I have studied the post war period in Europe in minute detail.

I have read all the historical documents. I have a deep knowledge of the institutional history down to developments within individual departments and ministries in individual countries.

So to try to hide behind the personal abuse (“are the authors really so blind”) tactic doesn’t cut it.

The creation of the European Community as a political construct to deal with major issues was a positive step. But there was peace for decades without the next step of creating a monetary union.

It is the monetary union that has created the conflict, the disenfranchisement, the angst among citizens – despite the on-going support for it.

Further most of the negative externalities he notes that arose when nations were less linked in the post war period were the direct result of an obsession with fixed exchange rates, necessitated by the introduction of the Common Agricultural Plan.

And need I remind him that that CAP was driven by France’s desire to extract subsidies for its farmers from Germany, who went along with it because they were in deep shame after their War behaviour and needed to expand markets for their industrial production – which was the only way they were going to restore some sense of belonging within Europe.

Andrew Watt also rejects our argument that the supranational arrangements have impinged democracy.

He expresses it this way:

Well, the tendencies and capacities of a system are tested when it is under stress. Those tendencies were revealed in the case of Greece, where the democratic will of the people was indeed trampled on by the Troika.

How else do you explain the ECB, which is empowered to maintain financial stability across its domain, deliberately threatening to send the Greek banking system bankrupt in June 2015 if it did not accede to impose even harsher austerity than before?

That was only 6 months after the people of Greece overwhelmingly voted to reject austerity.

How do you explain the fact that key economic decisions are made by Ecofin which is unaccountable to the people?

How else do you explain the dominance of financial interests on ECB advisory boards?

How else do you explain the Treaty ratification process after Denmark rejected it and the French referendum nearly failed? There was little democratic input after that and the elites rushed to Lisbon to make the Eurozone a fait accompli?

How else do you explain many other examples where national governments are forced to comply with dictates (fiscal compact etc) which clearly undermine the well-being of their citizens?

Conclusion

Andrew Watt can defend the Eurozone until the cows come home. But by any measure it has failed and only continues because its institutions break their own laws.

We reject the common currency for the same reasons I rejected the plan in the first place and for the same reason Pierre Werner's team in 1970 and Donald Macdougall's team in 1977 questioned the viability of monetary integration.

It is simply not politically possible to create an effective federation in Europe sharing a common currency with integrated fiscal and monetary policy at the federal level being executed by a democratically elected and accountable body.

Germany, for one, will never allow that.

The most superficial understanding of post war European history tells us that.

That is enough for today!

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