

POLÁNYI PUBLICATIONS

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**DISPLACEMENT, DENIAL AND  
PROJECTIVE IDENTIFICATION:  
PSYCHOLOGY, POLITICS AND  
EUROPEAN DISINTEGRATION**

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# Displacement, Denial and Projective Identification: Psychology, Politics and European Disintegration

Stuart Holland

## About the Author

**Stuart Holland** formerly was Labour member of parliament for Vauxhall, Shadow Financial Secretary to the UK Treasury and Shadow Minister for Development Cooperation, working closely with Willy Brandt. In his twenties he was personal adviser on European affairs to Harold Wilson, and gained the consent of Charles De Gaulle to the 2nd British application to join the EEC on a confederal basis. He co-authored Labour's economic programmes in the 70s and early 80s and, with the support of Andreas Papandreu and François Mitterrand, drafted the commitment to economic and social cohesion in the first revision of the Rome Treaty in the Single European Act of 1986. In a 1993 report to Jacques Delors he proposed the European Investment Fund and that it should issue Eurobonds to offset the deflationary effects of the Maastricht debt and deficit criteria. He has authored or edited some fifteen books on politics, economics, international development and governance. From 2010 to 2014 he was co-author with Yanis Varoufakis of *A Modest Proposal for Resolving the Eurozone Crisis*. In 2015 he published *Europe in Question - and what to do about it*, and in 2016 *Beyond Austerity - Democratic Alternatives for Europe*.

## Introduction

This paper analyses challenges to European identity which have emerged since the onset of the Eurozone crisis and of which one outcome has been the Brexit vote in the UK. It maintains that these reflect displacement and denial of realities by ruling élites as well as flaws not only in the introduction of a single currency but also in the Monnet ambition for a supranational rather than confederal model of European governance. It submits that the Eurozone crisis has enabled a reunited Germany to displace a darker past, to project herself to the rest of Europe as a model of sound economics and politics and also achieve a hegemony that former German Chancellors such as Konrad Adenauer, Willy Brandt, Helmut Schmidt and Helmut Kohl strenuously sought to avoid.

Controversially, but realistically, it claims that this has reduced the institutions of the European Union such as the European Council, the European Commission and the European Central Bank to supplicants for approval from Berlin. It chronicles that when, immediately after the No vote in the Greek referendum in July 2015, Wolfgang Schäuble insisted in the Eurogroup of EU finance ministers on even tougher austerity conditions, this was rendering Greece into a German protectorate but without either economic or social protection. Yet which, as the chapter cites, also has been strongly opposed by leading German politicians.

The chapter relates this to the reassertion of national and regional identities and the degree to which this is valid and needs to be recognised within a confederal political project for Europe. It seeks to nuance what is meant by nationalisms, including German nationalism,

and evidences the degree to which these may be benign rather than malign. It does so by distinguishing extremism in some of what have been or still are overtly racist parties from a concern in other cases that any future direction of Europe should be more intergovernmental and more concerned to fulfil the commitment of its treaties to high levels of employment and economic and social cohesion.

It cites the impressive response to the UK Brexit vote of the governments of the Visegrad 4 of Poland, the Czech Republic, Slovakia and Hungary, entitled 'Trust', yet stressing the lack of it in European institutions by electorates and proposing an agenda to restore it. To counter this, it proposes principles for a European Constitution which not only individual governments but also representatives of civil society could invoke in the European Court of Justice in challenging decisions by bodies such as the Troika of the IMF, the European Central Bank and the European Commission or the Eurogroup of Eurozone finance ministers which have no basis in any European Treaty and therefore no legitimation. Yet which would not be only a legal challenge but the basis for a political challenge to what has emerged as both a neoliberal ideological hegemony denying the democratic and social principles on which the postwar European project was founded.

## Displacement, Denial and Projective Identification

The relevance of psychology to what is blocking feasible alternatives to austerity as a response to the Eurozone crisis is deeper than perceptions of who has what debt and who might be to responsible for it. Such as splitting in the sense of denying or displacing what is sensed to be bad and projective identification of what is perceived to be *either* bad or good onto someone or something else.

Melanie Klein developed these concepts from her studies in child psychology and especially how an infant may projectively identify with a mother's 'good breast' when it is available, yet split from a 'bad breast' when it is denied and seek to punish the mother by then either refusing to feed further, or to bite it on its return (Klein 1932, 1962, 1981, 1984).

Not that Klein was the first or last to analyse less than conscious displacement and denial. Schopenhauer (1818) had done so. Ferenczi (1909) had recognised projective identification before Klein who owed much to him as well as to Freud who had deployed projective identification, *inter alia* in his Totem and Taboo (1913), which has resonance in totems such as stability through austerity and the taboo of debt and deficits in the Eurozone crisis. Freud's daughter Anna recognised both positive and negative projection, even if differences between her and Klein, and between Freudians and Kleinians, were to be visceral. Jung (1968), and Kleinians such as Bion (1962), recognised projection in the sense of externalisation of the self into objects and identification with them, of which the Deutschmark in postwar Germany as a symbol of security has been an example and the Bundesbank its guardian.

Projective identification also has been integral to Germany's role in the Eurozone crisis, and her increasing hegemony, since it has enabled her to escape the legacy of a darker past, including the Holocaust (Augenstein 2006). As a strong economy when others are weak, in part because of her export surplus, she has been able to project herself as a model of economic virtue that should be followed by others in what Matthias and McNamara, (2015) with reason have deemed a Saints versus Sinners syndrome.

Thus, mechanisms such as splitting, displacement and projective identification are not only relevant to child psychology (Sandler 1987) Dinnerstein (1978) has extended Kleinian splitting in terms of 'splits between heart and head, feeling and reason, private and public and where 'private is deemed good and public bad' and also vividly claimed that vividly has put it, the rocking of a cradle may outcome in the ruling of the world. Schneider (1975) and Richards (1989) have related displacement and projective identification to behaviour on markets, of which an example is rating agencies displacing that subprime and other financial derivatives could be toxic and projecting them as safe as government bonds.

Displacement also has been central to the Eurozone crisis in the sense that the increased debt of most EU member states was not due to profligate self-indulgence even in the case of Greece – whose problems rather came from profligate lending by French and German Banks and, certainly, high level corruption (Pitelis 2016) - but salvaging European banks and hedge funds from their purchase of worthless financial derivatives. Two of the countries hit hardest by the banking crisis, Spain and Ireland, had much lower levels of debt before the onset of the Eurozone crisis than Germany. While Wall Street had been complicit in enabling the New Democracy government in Greece after the onset of the Eurozone crisis to disguise the scale of its debt by shifting it off the balance sheets of national accounts (Thomas & Schwartz, 2010; Cresswell & Bowley, 2011).

## Misperceiving Debt as Guilt

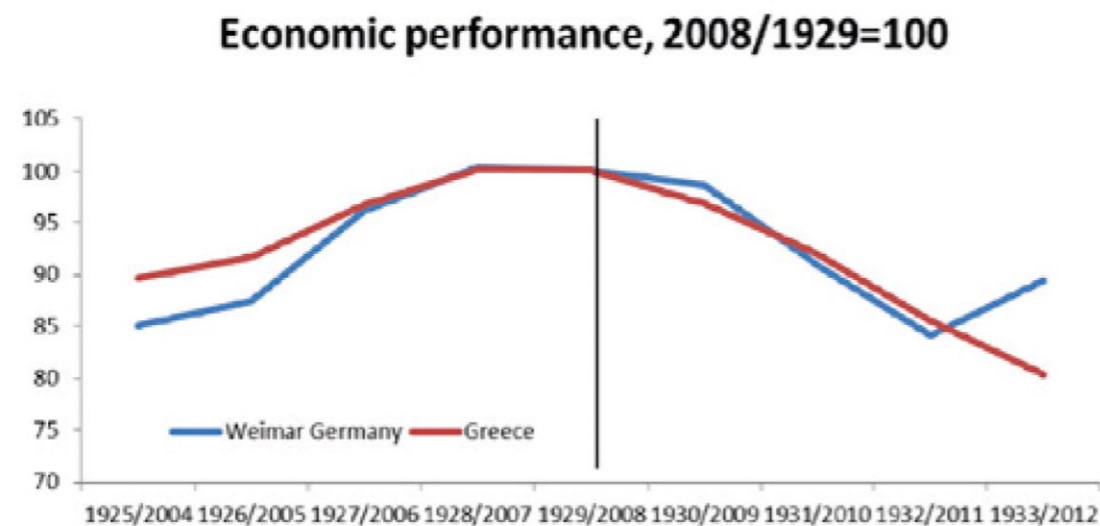
Yet the crisis in Europe, and for a European identity, relates also to something deeply psychological in the case of a prejudice against debt, reinforced by the German (and Dutch) for debt – *Schuld* – also meaning guilt. Such a dual meaning of *Schuld* was stressed by Nietzsche in his *Genealogy of Morals*, in which he also observed that there was a tendency by strong German creditors not only to want repayment from weak debtors, but also to demand penitence for their debt-guilt and to punish them if they did not seek redemption (Nietzsche 1887).

A displaced identification related to a *Schuld* debt-guilt psychosis is the German obsession with inflation, as if this caused the rise of Hitler. Whereas it was not the hyper inflation of the early 1920s that enabled Hitler to seize power, but deflation and austerity insisted on by Heinrich Brüning as Chancellor from 1929 to 1932 which increased unemployment, lost him support in the Reichstag and drove him to govern by decree. Within three years support for Hitler and the Nazis soared from less than 3% to near 44% in 1933 with rising unemployment, after falling in 1932 when unemployment temporarily fell (Holland 2015).

Which has been paralleled by the decrees of the Troikas of the IMF, the European Commission and European Central Bank since the onset of the Eurozone crisis. Notably, as represented in Figure 1 the parallel between what happened in Germany under Brüning and what has been happening since the Eurozone crisis in Greece is striking, yet has been displaced.

Nor has it been widely recognised in Germany that the inflation that followed WW2 was not due to profligate public spending but involuntary scarcity of basic goods and therefore inflation in their price. It was only from 1948 with a redistributive currency reform, now denied by Germany for Greece, and, through US Marshall Aid, an investment-led European Recovery Programme rather than Keynesian deficit spending, that the Germany economy began what was to become known as a *Wirtschaftswunder* or economic miracle.

It also has been displaced that Marshall Aid combined both a major cancellation of German debt, which Germany now also is denying to debt-distressed Eurozone economies, and also was grant rather than loan funded. It was such gift based grants of dollars that enabled German banks to issue counterpart credit in local currency to cash-starved German firms. Combined with the psychological effect of Marshall Aid showing commitment to German recovery by the US, it was the allocation of such counterpart funds through the newly established and State owned Kreditanstalt für Wiederaufbau, or Credit Institute for Reconstruction, rather than a miracle, that enabled postwar German recovery and encouraged its people to gain confidence in its newly recovered democracy.



**Figure 1**  
**Deflation by Decree: Weimar Germany and Greece**

Source: Gustav Horn (2013). Austerity, Labor, Life and Politics in Europe. Presentation to the conference *Can the Eurozone Be Saved?* LBJ School of Public Affairs, University of Texas at Austin, November 4-5.

## Not by a Protestant Ethic

There also has been a misplaced conviction in Germany of the merits of a Protestant Ethic. On which Max Weber (1905), though an outstanding social scientist, was misleading in claiming that this was responsible for the rise of capitalism. As well critiqued by Tawney (1926) among others in that capitalism first emerged in Italy with the Medici and the Venetians who had well grasped that the inverse of debt was credit and belief that it would tend to be repaid with interest. While one of the most eminent 20th century economists, Jacob Viner (1978), observed that when Calvinism was the State religion of Scotland, the country was desperately poor because of adherence to Calvin's claim that interest on lending through credit was immoral.

The language of redemption and redeeming oneself also is familiar in relation to bonds, which enable borrowing for a fixed term at a pre-agreed rate of interest with redemption in the sense of lenders then getting their money back if they wish at the expiry of the borrowing term. Most pension funds and sovereign wealth funds balance their portfolios between secure financial investments such as bonds, and the shares or equity of firms which may offer a higher rate of return, but have less security. This is standard 'spreading of risk'. Yet while some bond holders do 'want their money back' at a pre-agreed redemption date not all do so, rather than seek to roll over their bonds to continue to earn fixed interest income.

Nor is refusal to redeem a bond and not repay debt for a delayed period, as proposed by Varoufakis and myself in *A Modest Proposal for Resolving the Eurozone Crisis* (2012), necessarily unsound finance. During the Seven Years War, the then British prime minister Henry Pelling simply announced that he would not be redeeming British bonds. Of which the outcome was not a financial disaster but

gains for Britain by denying French hegemony in Europe, gaining Canada and reinforcing its hold on India.

With similar delayed repayment of bond finance in the Napoleonic wars. With a cumulative outcome that the ratio of British debt to GDP by 1815 was some 300%. But which did not then cause financial collapse for Britain rather than, with a Pax Britannica, free trade other than for agriculture until the repeal of the Corn Laws, secure colonial markets, her 'mastery of the seas' and the Industrial Revolution which for decades thereafter made her the 'workshop of the world' (Toynbee 1884). When, also, her bonds, without the 'u' of guilt became known as 'gilts' and presumed to be as good as gold.

To which Germany responded not by accepting free trade, nor reluctantly accepting that Britain should be the world's financial hegemon, but by a national system of political economy inspired by Friedrich List (1885) who had studied US industrialisation behind protective tariffs, and the *Zollverein* whose external tariffs were designed to exclude British manufactures. While it was this, rather than free trade or free movement of capital, or a Protestant Ethic, that enabled her own industrial revolution in the decades before WW1.

## Return of 'The German Question'

In one of the last public statements that he made in 2011 to a convention of the German Social Democrats, former German Chancellor Helmut Schmidt said:

'Whenever the states or peoples in the midst of Europe were weak its neighbours entered from the periphery to the weak centre. The biggest devastation and the greatest loss of life occurred during the 30 Years War, 1618-1648, which mostly took part on German soil.' While Schmidt, inversely, also referred to risks. Such as that:

'When the dynasties or the states in the centre of Europe were strong – or when they felt strong – they then conquered the periphery. That already happened under the crusades which were also conquests. Not only in Asia Minor and Jerusalem but also in the direction of Eastern Prussia and all three Baltic states.'

The outcome of this was what Schmidt appropriately deemed the 'Second Thirty Years War' from 1914 to 1945 and, in both cases, disasters (Schmidt 2011).

Paralleling this analogy, in September 2015 French Industry Minister Emmanuel Macron, whose proposal for a bond funded European recovery had been opposed by Wolfgang Schäuble, called the struggle in the Eurozone a new Thirty Years War in Europe between Calvinists and Catholics, saying that:

'The Calvinists want to make others pay until the end of their life. They want reforms or no contributions toward any solidarity. On the other side are the Catholics, largely on the periphery ... At every Eurozone summit, at every Eurogroup, we have this same dilemma between member states. We have to end this religious war. (Evans-Pritchard, 2015).

While former German finance minister, and former president of Saarland, Oskar Lafontaine, writing in 2015, admitted that, as a convinced European, he had long supported the politics of a growing transfer of tasks towards the European level but that he now questioned this, recognising that:

'Thomas Mann dreamed of a European Germany. His wish has turned into its opposite. Today we have a German Europe. Democracy and decentralisation are mutually conditioning. The larger a unity, the more opaque it is, the more removed it is, the less controllable it is... One should not transfer to a higher level those things that [member states] can better manage themselves (Lafontaine, 2015).

Former German foreign minister Joschka Fischer had echoed this only days after the rejection by Wolfgang Schäuble of the 'No vote' in the Greek referendum in July 2015. As he put it:

'The path that Germany will pursue in the twenty-first century – toward a 'European Germany' or a 'German Europe' – has been the fundamental historical question at the heart of German foreign policy for two centuries. And it was answered during the long night of negotiations over Greece on July 12th-13th with a German Europe prevailing over a European Germany.'

Adding that this was a fateful decision for both Germany and Europe and wondering whether Angela Merkel and Wolfgang Schäuble 'knew what they were doing' (Fischer 2015)

## Denial of Dialogue and of Greek Democracy

At a conference in Austin Texas in November 2013, Alexis Tsipras made the *Modest Proposal* of Yanis Varoufakis, myself and James Galbraith the basis of the negotiating position of what shortly could be a Syriza government in Greece. The essentials of the *Modest Proposal* were that a recovery of the European economy is feasible without new institutions, without Treaty changes, without fiscal transfers between member states and therefore also without federalism. And that Greece could not recover without a recovery of the rest of Europe. Plus in particular, that there should be a moratorium on repayment of Greek debt (Varoufakis & Holland 2012; Varoufakis, Holland & Galbraith 2014).

Yet, within an hour of the victory of Syriza in the general election in January 2015, Wolfgang Schäuble declared: 'The election alters nothing... There is no alternative to structural reforms', adding that Greece must 'stick to the rules'. Jeroen Dijsselbloem, the Dutch president of the Eurogroup of Eurozone finance ministers, then ruled 'out of order' Syriza's case that Greek recovery depended on European recovery, and refused to allow it to be considered for discussion. Despite such a recovery being vital not only for Greece but also for the other Eurozone member states that were suffering high levels of unemployment, and especially youth unemployment and the need to reduce this rather than only reduce debt.

As Varoufakis has put it:

'In my first week as minister for finance I was visited by Jeroen Dijsselbloem, president of the Eurogroup (the Eurozone finance ministers), who put a stark choice to me: accept the bailout's 'logic' and drop any demands for debt restructuring or your loan agreement will 'crash' – the unsaid repercussion being that Greece's banks would be boarded up.' (Varoufakis, 2015a)

Yet, while Wolfgang Schäuble declared that Greece must 'stick to the rules', on what authority, and by whose rules does the Eurogroup propose or decide anything? As Varoufakis has recorded:

'The Eurozone is run by a body (the Eurogroup) that lacks written rules of procedure, debates crucial matters "confidentially" and without minutes being taken, and is not obliged to answer to any elected body, not even the European Parliament' (Varoufakis 2015b)

Psychology was relevant in other regards in that the finance ministers of several of the member states that had already accepted austerity programmes to the cost of their own popularity were unwilling to admit that there could be alternatives. But also in terms of identities and inter-personal dynamics in the Eurogroup. Most of its members were not economists. When Varoufakis made the case that austerity was self-defeating, some complained that he should stop lecturing them, and leaked this to the press on a coordinated basis, thereby implying that he was merely an academic whereas they were experienced politicians.

Though Varoufakis knew more about feasible alternatives to austerity – as in the Modest Proposal – than any of them other than, perhaps, Michel Sapin, who had been briefed earlier by me on the case for a bond-backed European recovery programme which I had recommended in 1993 to Delors and which had been the basis of the Commission's 'full employment' White Paper in December that year (Holland 1993; COM, 1993)

## Downgrading the IMF

Wolfgang Schäuble sought to downgrade the role of the IMF from the onset of the Eurozone crisis. As Philippe Legrain, at the time deputy director of the Forward Planning Unit of the then President of the European Commission Manuel Barroso has cited, 'powerful figures' sought to reduce the role of the IMF. To gain German and thus European support, IMF Managing Director Dominique Strauss-Kahn had to undertake that the Fund would be a 'junior partner', putting up a minority share of the loans Greece needed and refraining from the kind of dominant control over policy the Fund traditionally exercises in such situations (Legrain 2014).

The IMF since has reacted. For example, its Research Department, under the direction of Olivier Blanchard, has been remarkably open in a critique of economic theories which the IMF earlier had espoused as a member of the Troika with the ECB and the European Commission. This included:

1. That it had under-estimated negative multipliers in the EU, i.e. the multiplication of cuts in expenditures, by a factor of up to 1, 7 rather than its earlier assessment of 0.5 (Blanchard & Leigh, IMF Working Paper WP/13/1 January 1013)
2. Unlike the 'crowding out' hypothesis of Milton Friedman, recent research by the IMF has found there is no evidence that public spending drains rather than sustains the private sector (Abiad, Furceri & Topalova 2015).
3. That whereas the European Commission had been demanding 'structural reforms' claiming that there were negative effects on economic efficiency that result from defence of employee rights through protective labour market legislation IMF research found no such negative effects for any OECD country (IMF 2015; Janssen 2015).

Moreover, two days after the January 25 election that enabled Syriza to form a government in Greece, an article was published appeared in the Financial Times, arguing that Europe should offer Athens substantial debt relief. What made the article notable was that its author, Reza Moghadam, was the former head of the IMF's European Department, who played a major role in managing the Greek crisis from 2010 to 2014. Moghadam had advocated a solution--a 50% reduction in Greece's debt (Moghadam 2015).

As Paul Blustein has commented, Moghadam's article provided stark evidence of divisions that already had divided the Troika. At several junctures during the Greek crisis, Moghadam was one of the most influential figures in behind-the-scenes battles (Blustein 2015). But, as Legrain also has evidenced, from the start 'powerful Europeans' strongly resisted IMF participation in the rescue of a euro area country. Which, in turn, evidenced the reality of a German hegemony not only over other member states but also what was supposed to be the most powerful multilateral finance institution in the world.

## Dividing the ECB

In 2011, following being invited to prepare a report to the European Trades Union Congress (ETUC, 2011) on lines that I had made to Delors in 1993 (Holland 1993) I was invited to make the case to a working group of the Economic and Social Committee of the Union and which not only its trades union representatives but also all employers representatives, including those of German employers, supported (EESC 2012).

In a meeting in December 2012 of several of us from the Economic and Social Committee with senior officials of the ECB, the German member of its Executive Committee, Jörg Asmussen, agreed that that bond funded investment for this was vital, granted the limits of monetary easing, yet ruled out for the ECB by its statutes and that governments needed to take the lead on it. Whereas the austerity case was reinforced when Jörg Asmussen resigned as German executive director of the ECB after the federal elections in Germany in 2013 and was replaced by Sabine Lautenschläger.

By November 2014, Lautenschläger had signalled opposition to the ECB purchasing government bonds of Eurozone countries unless there was a clear threat of persistent fall in consumer prices, thereby contradicting the earlier message conveyed by ECB President Mario Draghi and his top deputy Vitor Constancio to bring inflation higher.

Siding with Bundesbank President Jens Weidman, she then led opposition in the Governing Council of the ECB to the decision on 22 January 2015 to start quantitative-easing through large-scale bond-buying on the grounds that it would reduce pressure on euro-area countries to reform their economies and boost competitiveness (Parkin & Reicher 2015). In other words, for Lautenschläger, 'structural reforms' still ruled despite the years in which it was apparent that they were deepening the Eurozone crisis, which was shortly to be confirmed by the analysis four months later by the IMF that there was no evidence for them in 27 of the OECD countries.

In January 2015 the ECB announced an expanded Outright Monetary Transactions Programme which included expanding purchases to include bonds issued by euro area central governments, agencies and European institutions; combined monthly asset purchases to amount to €60 billion, with the purchases intended to be continue until at least September 2016, with the package design to fulfil its price stability mandate.

In April 2015, Lautenschläger publicly called into question the effectiveness of the OMT programme, including the claim that 'with low interest rates, there is a greater danger of investment behaviour becoming too risky' and that 'overheating or price bubbles can easily emerge in other asset classes'. (Reuters 2015). Yet with only partial justification in that, as in Gestalt, this saw only one side of the issue, whereas the other was the need for a bond backed recovery of investment that Jörg Asmussen had recognised yet which Wolfgang Schäuble had rejected and was to continue to reject.

The IMF has been minoritised and side-lined. The ECB has been challenged by Germany and is divided. While the Commission since the onset of the Eurozone crisis has been both politically intimidated and technically incompetent.



## Intimidating the Commission

That the Commission was intimidated by Germany in the political crisis of confrontation between the Eurogroup of Eurozone finance ministers and Varoufakis was illustrated when its economic and finance commissioner, the former French finance minister Pierre Moscovici spoke in a short meeting with Varoufakis and said: 'Yanis, if it were up to us we could solve this in minutes on the back of an envelope. But I can't'. The reasons were the degree to which Brussels had been suborned by Berlin.

The background to this was well explained in 2014 by Philippe Legrain after he resigned as deputy head of the Forward Planning Unit (Cellule des Perspectives) of Manuel Barroso in a book entitled *European Spring: Why Our Economies and Politics are in a Mess - and How to Put Them Right* (Legrain 2014). During the latter part of the Barroso presidency of the Commission, the 'Community Method' by which the Commission should make proposals to a full Council of Ministers had been side lined. Anything of any significance was first cleared for approval with Berlin. Nothing other than Berlin's view was on the agenda.

While, whereas one of the ten commitments that Jean-Claude Juncker made in his adoption address to the European Parliament in June 2014 was restoration of the 'Community Method', this proved to be mere rhetoric. Which shortly after was to be echoed in the Brexit referendum in the sense that people voting 'leave' had no confidence that Brussels would pay any attention to national interests or their concern that a European Union should be more concerned with people and their welfare than with serving markets.

## Arrogance, Inconsistency and Incompetence

European recovery thereby has been confounded by a combination of arrogance, inconsistency and incompetence at the highest levels. The arrogance was that of an increasingly hegemonic Germany, personified by its finance minister Wolfgang Schäuble. The inconsistency was in broken commitments of Commission President Jean-Claude Juncker. In his adoption address to the European Parliament in June 2014 he declared that the top priority for his Presidency would be a €300 billion 'recovery programme' backed by European Investment Bank bonds. By November he had allowed this to be reduced to €5 billion from the EIB plus recycling of some research funds in what otherwise is a PFI private finance initiative wish-list.

In dropping his commitment to a major bond backed recovery by the EIB, Juncker had succumbed to the phobia against bonds of Angela Merkel and Wolfgang Schäuble. The Commission thereafter also had serially proved itself as institutionally and analytically incompetent.

This was not only in terms that in making its case for Stability Bonds its only reference to EU bonds had been to one of its own working groups rather than the repeated call for such bonds to offset the debt and deficit conditions of Maastricht since Delors, serially made by heads of state and government (Holland 2015). In endorsing the otherwise excellent proposal by the Polish minister of finance Mateusz Szczurek for a bond financed economic recovery programme through a new Fund for Strategic Investments, the Commission had entirely displaced that this was not needed since the similarly sounding but already established European Investment Fund already could do this.

It thereby incompetently failed to recognise that, jointly, the European Investment Bank and the European Investment Fund can issue bonds that can channel global pension fund and sovereign wealth fund surpluses into investment programmes for which wide ranging criteria already had been agreed by governments and which could enable a European New Deal.

While, in addition, in December 2014, at a meeting in Brussels, neither the economic adviser to European Council President Donald Tusk, nor to Commission President Jean-Claude Juncker, nor to the employment Commissioner Marianne Thyssen, nor the Commissioner for Economy, Jyrkii Katainen, nor the senior economist to the Commission were aware that EIB borrowing does not count on national debt.

Nor therefore recognised that the EU has its own financial institution whose bonds parallel those of the US Treasury, which do not count on the debt of member states of the American Union such as California or Delaware and thereby, with co-finance from bonds issued by its sister institution the European Investment Fund, the EIB could finance a European New Deal without needing to wait for fiscal federalism, without fiscal transfers between member states, nor guarantees of the bonds of either the EIB or the EIF by Germany or other member states.

As Jérôme Vignon, a former deputy director of the Commission's Forward Studies Unit, has submitted, the 'rich legacy' of the Delors 1993 White Paper on *Growth, Competitiveness, Employment*, which Delors regarded as the high point of his decade long Presidency of the Commission and on the basis of which there could be a full employment Social Europe thereby had gone by default (COM 1993; Vignon 2014).

## Without Legal Basis: The Troika and the Eurogroup

One of the ironies of the way in which Djisselbloem and Schäuble asserted to Yanis Varoufakis that he had 'obey the rules' and submit and sign a commitment to the Troika conditions for Greece was that the Troika had no basis in any rules established in any European Treaty. The European Parliament held a special inquiry in 2014 into the Troika and found that there was no appropriate legal basis for it, and that its austerity programmes did not respect to the Charter of Fundamental Rights of the European Union (European Parliament 2014).

EU economics and finance commissioner Pierre Moscovici in January 2015, speaking at a Brussels-based think tank, echoed the case, saying that the 'troika should be replaced with a more democratically legitimate and more accountable structure based around European institutions with enhanced parliamentary control' (Wishart 2015).

His comments came just a week after a legal opinion by the General Advocate of the European Court of Justice deemed that the European Central Bank should not oversee reforms of countries it helps via Outright Monetary Transactions. The text of the legal opinion stated that: 'The ECB must, if the programme is to retain its character of a monetary policy measure, refrain from any direct involvement in the financial assistance programme that applies to the state concerned.' (Popp 2015).

Finnish Liberal MEP Olli Rehn, formerly EU economics commissioner, claimed that the legal opinion of the European Court of Justice 'would probably mean the beginning of the end of the troika in its current form, which would in turn push the Eurozone to yet another important institutional reform' (euobserver 2015). But a spokesperson for the EU Commission responded by saying no draft legislation was not foreseen. While German finance minister Wolfgang Schäuble reacted to the surfacing of the issue by asserting that that he does not foresee a quick end to the troika format (Popp 2015).

Yet what changes and institutional reforms? Would they mean an end to the German hegemony that Adenauer, Brandt, Schmidt and Kohl did not want, or reinforce it? And where were the electorates of Europe in relation to any of this?

## Wrongly 'Over Her Dead Body'

While, from Berlin, Angela Merkel shared the TINA mentality of Margaret Thatcher that 'There is No Alternative'. Yet without any more grasp of economics than Margaret Thatcher and she – granted that both were educated as scientists rather than social scientists, or thereby students of history, philosophy, sociology, or psychology.

Thus, Angela Merkel in 2012 had denied Eurobonds in principle, pronouncing that 'I don't see total [European] debt liability as long as I live' and that the idea of Eurobonds was 'economically wrong and counterproductive'. Yet this 'over my dead body' opposition to Eurobonds was flawed on multiple grounds.

1. She displaced the key distinction between bonds for mutualisation of debt from bonds for recovery.
2. She neglected that the case for mutualisation of debt either by Varoufakis and myself, in two versions of The Modest Proposal in 2010 and 2011, or in the Brueghel 'Blue Bond' proposal, was not for the 'total debt liability' that she assumed.<sup>38</sup>
3. She overlooked that, rather than 'economically wrong and counterproductive', bond finance by the German Kreditanstalt für Wiederaufbau – KfW – was vital in both the postwar reconstruction of Germany during the period of Marshall Aid and in funding infrastructure and other projects in the reunification of Germany.
4. She showed no awareness that whereas KfW bonds count on the national debt of Germany, EIB bonds do not. Even if she might be excused as much since, as late as December 2014, not a single adviser to Donald Tusk, Jean-Claude Juncker or to Jyrki Katainen knew it either.
5. She presumed that Eurobonds would need to be guaranteed, and serviced, by German taxpayers, as had been the case with Helmut Kohl initially opposing extension of the terms of reference of the EIB to fund social and environmental investments which, in both cases, was misinformed.

Thus, displacing that bonds for a European recovery need not be 'over her dead body' since Germany neither need guarantee nor service them. And, by supporting Wolfgang Schäuble in blocking them, not only blocked a recovery of the Eurozone from the financial crisis of 2008-9 but, in continually supporting austerity, despite patent evidence that it was confounding rather than resolving the crisis, threatened not only the future of the European project for 'ever closer union' but also disintegration of the project itself.

### ***Supranational Failure: The Asylum-Refugee Crisis***

Racism and religious intolerance in many cases have underlain reaction in the EU to the refugee and asylum crisis which came to a head after military intervention in North Africa and the Middle East which, in most cases, resulted in failed or failing states. By 2015 the refugees were mainly from Syria. But also from Libya, Iraq and Afghanistan.

Angela Merkel gained plaudits from much of the international press in responding to the crisis as it came to a head by maintaining that Germany would accept a million asylum seekers and that EU member states should do so on a quota basis. Germany had historical precedents

for high levels of Islamic immigration from Turkey and the previous success of the then West Germany in absorbing immigrants had been dramatic. From 1955 to 1973, and the first OPEC oil prices increases, there were 12 million Turkish migrants to Germany with little to no concern that they mainly were Islamic rather than secular since this as how the Federal Republic managed to sustain its postwar *Wirtschaftswunder*. By the mid 50's Germany's 'miracle' was slowing as it approached a 'full employment ceiling' and, without immigrant labour, labour scarcity combined with high growth would have meant that firms competed for labour by offering higher wages out of line with a diminishing productivity. Immigration raised this 'full employment ceiling' and sustained economic growth, even if at lesser rates of growth of GDP (Kindleberger 1967; Holland 1987). By 2015, in an economy sustained in large part by exports both to China and to the rest of the Eurozone, immigration to Germany already was at its highest rate in nearly two decades ([dw.com](http://dw.com) 2015).

Leading Germany employers saw key gains from accepting immigrants. Daimler AG Chief Executive Officer Dieter Zetsche, said that absorbing as many as a million of them, while a 'Herculean task', nonetheless held the promise of laying the foundation for another economic upswing similar to the country's postwar boom in the 1950s and 1960s (Behrmann & Kresge 2015). Besides which, German population was ageing. Even with immigration, it may shrink to as low as 68 million people by 2060, from about 80 million now. The number of people of working age is forecast to drop as much as 30 per cent to 34 million by 2060, and the portion below 20 years is estimated to fall to as low as 11 million from 15 million (Statistisches Bundesamt 2015).

Yet while Germany could accommodate an inflow of Turkish – and Greek, and other - immigrants in the 1950s and 1960s, the crisis in 2014-15 was politically mismanaged. Germany was at near full employment and needed new younger workers. But other key member states in Central Europe were not near full employment and, on the European periphery, either or were suffering high levels of youth unemployment or, in the case of Greece, the key entry and transit area, were being devastated by austerity.

Merkel's mistake was not only that she failed to recognise this but also that she tried to gain her proposed quota system on a supranational basis rather than by consent. Moreover, not all of the rest of Europe now is at anything like full employment and needing immigrant labour. Which relates directly to why the Visegrad 4 of Poland, the Czech Republic, Slovakia and Hungary, as a bloc, rejected the Merkel call for quotas and Hungary was calling for a referendum on the issue in the autumn of 2016.

### ***Brexit and Potential Exits***

The issue of immigration and claimant refugees clearly played a role in the rise in support for the UK Independence Party (UKIP) which gained three and a half million votes in the 2014 general election, if only one seat in parliament. The threat of the mass defection of Conservative voters to UKIP nonetheless led British Prime Minister David Cameron to pledge a referendum on EU membership if elected for a second term. Winning an absolute majority in the 2014 general election made it difficult for him to renege on that pledge.

Yet when David Cameron made plain his negotiating terms in early November 2015, it was clear that a fundamental change to Britain's position in the EU was not even being requested. When he announced plans for a referendum three years earlier, he foresaw a 'new settlement' in Europe, one 'in which... some powers can be returned to member states'. Whereas little

thereafter was heard of repatriation of sovereignty. As the UK Telegraph put it, 'Mr. Cameron is effectively preparing the ground for a referendum that invites voters either to support the status quo with some modifications, or to leave'.

Much of the media coverage of David Cameron's EU speech focused on his statement that he is 'open to different ways' of delivering the promise to control migration from other EU states through restricting EU nationals' access to welfare. Within hours of his demands being published, the European Commission said that many were feasible but warned that the proposals to deny EU migrants benefits for four years were 'highly problematic'. (Coates & Waterfield 2015).

*The Daily Telegraph* submitted that 'Mr. Cameron is effectively preparing the ground for a referendum that invites voters either to support the status quo with some modifications, or to leave'. Cameron makes the European choice clear: leave or accept the status quo (*The Daily Telegraph* 2015. Editorial. November 11<sup>th</sup>). But this need not have been the case.

When he made plain his negotiating terms in early November 2015, it appeared improbable that a fundamental change to Britain's position in the EU would be achieved, nor was it indicated as likely by his round of EU heads of state and government. Yet the agreement by the European Council in February 2016 conceded several key points. It explicitly referred to 'enhanced cooperation' or the procedure by which some member states can adopt policies without these being imposed on others citing that the Treaties contain:

'specific conditions whereby some member states are entitled not to take part in or are exempted from the application of certain provisions... as concerns matters such as the adoption of the euro, decisions having defence implications, the exercise of border controls on persons, as well as measures in the areas of freedom, security and justice'.

With reference also to enhanced cooperation, it stated that:

'Therefore, such processes make possible different paths of integration for different Member States, allowing those that want to deepen integration to move ahead, whilst respecting the rights of those which do not want to take such a course. (European Council 2016).

As Philippe Legrain has commented: 'One big victory for Cameron was that the emergency brake to protect the interests of non-euro members can be pulled by a single government, i.e. Britain alone (Legrain 2016).

So how come this success in denying the need for 'ever closer union'? In part because the audience for the message was not only Britain, but also France where the National Front, which had done well in the first round of recent regional elections, was hoping that a Brexit would reinforce political support for a 'Frexit'. Meanwhile, the Polish parliament was about to debate whether or not to leave the Union (Chassany 2016). The EU at the time was in disarray on multiple fronts. Notably the failure to deal effectively with the refugee and asylum crisis on which Angela Merkel's leadership was being questioned both outside and within Germany. Her proposal that all member states should agree quotas for refugees had stumbled and the Visegrad 4 of Poland, Hungary, Slovakia and Slovenia had opposed it as a bloc.

In Germany she was being challenged on her refugee policy by Horst Seehofer, leader of her CDU's CSU partner in government, and popularity for the CDU-CSU coalition had fallen from 41% in 2015 to 35%. In parallel German public opinion was turning against the EU, with the share of Germans rating the EU positively falling from 45% in May 2015 to 35% in

November (Wagstyl 2016). In mid-2016 the CDU was beaten into third place in her own Land of Mecklenburg- Vorpommern by the AfD Alternative for Deutschland party which initially had been launched by intellectuals concerned to gain less Europe rather than German nationalism. But, with the refugee-asylum crisis had become overtly nationalist.

The terrorist attacks in Paris had thrown the border-free Schengen agreement into question. If Schengen failed, border checks between those member states that had agreed it would not only inconvenience individuals, but also slow trade in the internal market. Yet also, austerity was being challenged both by Matteo Renzi in Italy who in February 2016 compared EU decision-making to the orchestra playing on the decks of the Titanic (Bloomberg 2016). An August 2015 survey by Opinim Research found that whereas near 50% of those polled in Italy and over 50% in Spain and Portugal favoured 'ever closer union' only 24% of those polled in France, only 17% of those polled in the Netherlands and some 15% polled in the UK did so. While a quarter of those in Italy, over 30% in France and over 40% of those in the UK and the Netherlands wanted to repatriate powers from Brussels (Opinim 2015).

Yet Cameron did not exploit his success in gaining agreement that the UK need not submit to 'ever closer union'. One reason was that the policy of enhanced cooperation had been adopted by Germany to introduce a financial transaction tax to which he was wholly opposed and would not wish to succeed. Yet which missed that this was an end to 'ever closer union' on a Monnet style supranational basis. While he also failed to exploit the case that the European recovery programme 2020 to which the Union nominally was committed could be activated without fiscal federalism, without national guarantees and without new institutions or Treaty revisions through bonds issued by the European Investment Bank Group. Nor thereby 'stand up for Britain' both by indicating that Angela Merkel was wrong in opposing such Eurobond finance, and encouraging other member states to join him in moving the case for such a bond based recovery by enhanced cooperation in the European Council. Which relates directly to the failure of austerity in response to the Eurozone crisis and also to the failure of Jean-Claude Juncker as President of the European Commission to fulfil his commitment to the European Parliament in his June 2014 adoption address to launch a €300 billion European Investment Bank financed EU recovery programme which, with multipliers from the EIB of up to 3, could have meant a €900 billion public and private investment, employment and income recovery equivalent to postwar Marshall Aid. As well as to the failure to profile that the success of the New Deal encouraged both Truman and Congress to support the Marshall Aid that enabled the recovery of postwar Germany. Which, had Cameron mobilised this case, in validly criticising Angela Merkel's blocking of a bond based European recovery, and Juncker's subservience to her, could have been seen by many former UKIP voters as Britain not accepting *diktats* either from the European Commission or from Germany. As well as giving a different message to those English voters outside London, and especially those in the Midlands and North of England who voted for Leave, who may not have understood some of the constitutional issues in any detail (Streek, 2016), yet did so because they had seen demise of their former local industry and no added value from a Europe that was promising neoliberal globalisation policies rather than means to remedy this.

### **Nuance on Nationalisms**

Identities are not only personal, social, and national. Also, often regional – thus not a northern Spaniard, rather than Basque or Catalan. Not only an Italian but primarily a Tuscan. Not even a German, but a Bavarian. Not a northern Englander but a Tynesider. Sometimes also reluctantly

being derided for their regional identity, as with the emergence after German reunification of the derisory term Ossi for former East Germans.

Nationalisms and alleged national identities therefore need more nuance than often ascribed to them. For there are different 'nationalisms' held by people and parties rather than whole nations. Some are reactionary such as those of the AfD in Germany, a Heider in Austria, Golden Dawn in Greece, and emerging Danish, Dutch and Polish nationalisms.

Some of these in some parties are racist. Whereas other claims for national or regional autonomy are not at all reactionary in the sense of racism or a denial of the case for internationalism but reacting to the failure of the EU to assure the right to a higher degree of autonomy that can reinforce the democratic process by demonstrating that democracy is not derided, as in the case of the total disregard for it after the election of Syriza in Greece in January 2015 and the near two thirds No to Austerity vote by the Greek people in the referendum in the following July.

Claims for German nationalism especially need nuance as I am well aware despite strong earlier criticism of the obsession with austerity and the emergent German hegemony since the Eurozone crisis that Chancellors such as Adenauer, Brandt, Schmidt and Kohl wanted to avoid.

As already stressed, it was austerity rather than 'nationalism' that enabled support for the Nazi Party to rise from less than 3% in 1929 to near 44% in 1933 and to cause Hindenburg to invite Hitler to form a minority government under pressure from industrial and financial capital, and from its fear of the political strength of both the Marxist Social Democrat SPD and the KPD Communist Party.

While neither the SPD nor the KPD) were nationalist rather than internationalist, the former in the 2<sup>nd</sup> and the latter in the 3<sup>rd</sup> International. Despite the SPD in the Reichstag voting in August 1914 on the grounds that Russia and France had been mobilising and that Germany needed to protect herself. The total vote of both parties in the second round of the 1925 presidential election in Germany was 51.7% against 48.3% for Hindenburg. Had they presented a joint candidate they could have won. (Cary 1990), Brüning thereafter would have been unlikely to be invited to be Chancellor, and austerity and the rise of Hitler might have been avoided.

Even if the word 'might' is appropriate. It is possible that party discipline would not have held for a joint candidate in the 1925 presidential election. And possible also that the Social Democrats would have gone for some form of austerity after the 1929 Crash. Nonetheless it was clear that the two major parties of the Left in Germany in the early to mid-1930s who gained a majority of the popular vote, had they combined, could have outvoted the Nazis, were not nationalists. While Berlin, during WW2 taken as a synonym for Hitler and Nazism, never actually delivered a majority vote, when elections still prevailed, for either.

### **Benign Nationalisms and Projective Identification: Churchill and De Gaulle**

There have been benign nationalisms mobilised by leaders who projectively identified themselves with their nation. Of which Churchill's leadership in WW2 has been a classic example. Churchill identified himself not only with Britain and her survival, but also with the survival of European democracy. And, with reason, not only his own Conservative party but also the Labour Party – both hitherto sceptical of him – supported him in doing so. This has been sufficiently well recognised, in depth, not to need recounting in any detail here. Except that, in his case, it was the outcome of a near lifelong identity struggle since a dysfunctional

childhood with a socialite mother who showed him little concern and a father, a peer of the realm and Chancellor the Exchequer, who considered his son's schooling failure a personal slur. With struggles also to survive political disasters such as when he advocated the Gallipoli campaign to try to break the stalemate on the Western Front. Which failed when the generals in command insisted on consolidating their position before advancing, which enabled Turkish forces to command the heights at Gallipoli that they should within hours have assaulted.

While he not only returned Britain to the Gold Standard, rendering its exports entirely uncompetitive, and causing a crisis of austerity and unemployment that generated The General Strike in 1926, but was also consistently criticised as a man of rhetoric rather than action. Whereas, with the defeat at Dunkirk and his succeeding Chamberlain, rhetoric was vital in persuading the British people that they could and should 'fight and fight again' and that with his special relations with the US, not only through his American mother which he stressed in addressing a joint session of Congress, but also in persuading Roosevelt to agree to Lend Lease, Britain could survive.

By contrast, another case of benign projective identification with a nation – by Charles De Gaulle - has been demonised by federalists as obstructing the creation of a Federal Europe. Yet had made proposals for a confederal Europe that Brussels and the European Council at the time denied (Holland 2015).

France was deep in political crisis when Robert Schumann as its foreign secretary signed the Rome Treaty for a European Community in March 1957. In 1956, only two years after defeat in Vietnam, it committed itself to the Suez debacle. Its governments under the postwar Fourth Republic had been highly unstable and unable to resolve the Algerian question. There were moves for Algerian independence, but the army in Algeria moved first, occupying and controlling Corsica. Further preparations also were being made for an *Operation Resurrection* which aimed at the overthrow of the French government and the seizure of Paris by paratroopers and other armoured forces based at Rambouillet (De la Gorce 1964).

There was pressure for the recall of De Gaulle, who had formed an interim government at the end of WW2, notably from the former governor general of Algeria, Jacques Soustelle. De Gaulle made plain that he would accept but only on conditions, including a new constitution for a Fifth Republic, and with sweeping presidential powers. The risk that this could be a recurrence of Bonapartism dominated the French political agenda at the time not least since there were long standing dictatorships in adjacent Spain and Portugal (De la Gorce 1964).

But, as President, De Gaulle opened negotiations with Ahmed Ben Bella, leader of the movement for Algeria independence, and followed it through, out-facing attempts by disconcerted army militants to assassinate him. He both stabilised French politics, and accelerated programmes which have enabled her to stay at the frontier of advanced technology, each with European significance.

Such as in nuclear power, advanced passenger trains, aerospace and aircraft. Her TGV set the model for those which later followed in other countries. Nuclear power gave her 85% self sufficiency in energy and the French EDF later took over what was left of the less efficient and less innovative British nuclear industry. Her Diamant rocket was the basis of the later European Ariane. Concorde could have been replaced by a bigger, quieter, and cleaner Concorde 2 if Harold Wilson had followed through an agreement with De Gaulle on principles for a European Technology Community, negotiated by myself with his Interior Minister Louis Joxe in June 1967, which could have shared such advanced technology costs (Holland 2015).

May 1968 of course was a massive shock within French politics and a symptom of multiple new intellectual, social and political agendas, not only in France. In terms of Shakespeare's *Tempest*, it both was tempestuous and a 'sea change'. But with De Gaulle's resignation shortly thereafter, Pompidou as his successor managed both a peaceful and successful political transition. But while - in the interim - De Gaulle's role in representing France both during WW2 and from the foundation of the Fifth Republic was a classic case of projective, but benign, identification of himself - with France.

### ***Benign Devolutions***

There also have been a series of benign devolutions of power from former hegemonies to states which thereafter were part of a voluntary confederal framework. An example was the independence of Norway and Sweden from Denmark following the end of the Napoleonic wars. This at times was turbulent, yet so under-recognised outside Scandinavia that there are few English rather than Scandinavian language references to it. While it was effective thereafter in terms of cultural political and economic cooperation, without any of the three countries being hegemonic, as Denmark earlier had been.

Another, was the granting of self-governing Dominion status by Britain to its former colonies of Canada, Australia and New Zealand. Which was valued by them without breaking cultural and political links with Britain. To the point of sending troops to aid her in both the first and second world wars.

While also, if more complex, was the case with the policy of de-colonisation pursued by both the Labour and Conservative governments after WW2. Notably in recognising the independence of India, hitherto the jewel in the imperial crown. Clearly this was due in large part to nationalist pressure within India and notably the moral example of Gandhi and his success in mobilising non-violent protest. To which Churchill was totally opposed, yet which Attlee pursued as right even if in the case of seeking Indian independence this gave rise to the creation of Pakistan, with much bloodshed in the partition. Whereas, nonetheless, India since has been the largest democracy in the world.

While the struggle for independence for former British colonies, such as by the Boers at the height of the British imperial era, was opposed by force, and with atrocities on which Goebbels later drew in justifying concentration camps, or as in Kenya in the 1950s, British policy after WW2 was for independence. Unlike the opposition to it by France in Algeria and in Vietnam, by Belgium in the Congo and by Portugal in both Angola and Mozambique.

Or, more recently, nationalism has been benign as in the outcome of the 2014 general election in Scotland, where the Scottish National Party swept 56 out of 59 constituencies. Danny Alexander of the Liberals and Social Democrats, who lost his seat, claimed that his party had been 'swept aside by a tide of nationalism' (*Politics & Policy* 2015). Lord Mandelson, architect of 'New Labour and its 'business friendly' strategy claimed that: 'The Labour Party has been squeezed by two nationalisms. Obviously in Scotland with the SNP, very severely indeed, but also in England by the nationalist frenzy whipped up by David Cameron and the Conservative Party' (Turner & Boyle 2015), but which was not at all 'obvious'. It was the politics of austerity adopted by the Liberal Democrats in a coalition government with the Conservatives that had swept them out of their seats in both England and Scotland. The remarkable success of Jeremy Corbyn shortly thereafter in the election of a new Leader of the Labour Party, had been because New Labour hitherto had lost its traditional social values. Commitments in the SNP

manifesto were to provide ‘a real alternative’ to the pain of austerity, a higher minimum wage and financial boost for the Scottish National Health Service and vital public services and the abolition of student fees (Scottish National Party 2015).

## The Visegrad 4 Initiative

Following the Brexit vote in the UK, the Visegrad 4 of Poland, the Czech Republic, Slovakia and Hungary on 28 June 2016 published a remarkable joint statement stressing that the reasons underlying the Brexit vote concerned not only the UK but the whole of the European Union. Notably, its title was one word – Trust. But it not only stressed that this was lacking but also that:

1. There should be limits to supranationalism and that the voice of national parliaments needed to be heard
2. It was time to avoid polarisation of debate on ‘more’ or ‘less’ Europe and to focus on gaining a ‘better Europe’
3. There was a need to gain a recovery of Treaty commitments to convergence and cohesion, boosting investment, supporting innovation and achieving sustainable jobs’
4. An imperative not only to define challenges but also to relate them to existing policy instruments and their effective implementation.

Most of what was demanded in this document is entirely compatible with the case as argued both in A Modest Proposal by Varoufakis, myself and Galbraith, and in two recent volumes (Holland 2015, 2016). Its challenges the case for ‘ever closer union’ of Monnet and implicitly makes the case for a confederal union of consenting member states rather than a supranational union with only one prevailing ideology – austerity - and one hegemon, Germany.

What follows below relates key calls of the Visegrad 4 to how they could be achieved within the stress of its fourth point not only to define challenges – perennial, and as yet perennially unfulfilled – but also to relate them to existing policy instruments and their effective implementation.

### **1. ‘National parliaments need to be heard’**

Implications

1.1 To follow through the recommendation of Giuliano Amato when Vice President of the Giscard Convention on a Constitution for Europe to invert Qualified Majority Voting by an Enabling Majority Vote – votation par majorité habilitante - by which those member states wishing to proceed with a policy could gain it but this would not oblige other member states to adopt it. Giscard dismissed the proposal out of hand and did not even refer it to the relevant sub-committee of the Convention on a Constitution

1.2 To allow that the parliaments of all member state should be able to debate and vote on such an Enabling Majority voting procedure.

### **2. Avoiding debates on ‘more’ or ‘less’ Europe and focussing on a ‘better Europe’**

Implications

2.1 Restoring the central commitment of the 1986 Single European Act to both an internal market and economic and social cohesion

2.2 Recognising that the Stability and Growth Pact implies both stability and growth and that this has been traduced by insistence only on stability in the dealings of the Troika with member states in financial difficulties since salvaging banks

2.3 Recognising also that the Troikas and the Eurogroup of Eurozone finance ministers have no legal basis in any Treaty provisions and that any recognition of them in a revised TFEU should include their obligation to respect stability, sustainable growth and economic and social cohesion, as well as the commitment of article 3 of the TFEU to 'balanced growth and aiming at high levels of employment'.

2.4 Restoring and enhancing the 'Community Method', which was a commitment of Jean-Claude Juncker in his adoption address to the European Parliament in June 2014 and whose enhancement implies that proposals from the Commission should be submitted to all member states for debate by their governments and parliaments rather than only to the European Parliament.

2.4 Enhancing the power of the European Parliament by providing that it should be able to initiate proposals for policies and propose them simultaneously to the European Council and the Commission.

### **3. 'To focus on a practical restart of convergence, boosting investment, supporting innovation... strengthening a resilient labour market, bringing sustainable jobs'**

Implications

3.1 It has been overlooked but should be high lit that EIB investments do not count on national debt and that the Amsterdam Special Action Programme of 1997 remitted it to invest in health, education, urban regeneration, green technology and safeguarding the environment as well as support for SMEs.

3.2 It also has been overlooked that with this specific cohesion and convergence remit the EIB quadrupled investment finance from some 20 billion euro to near 80 billion by the time of the onset of the 2007-08 financial crisis and could do so again from its current base of some 60 billion, with co-finance from the European Investment Fund recycling global surpluses, and realise a 240 billion recovery programme.

3.3 Since the multiplier from EIB investments is up to 3, this could fund a New Deal for Europe without national guarantees, or fiscal transfers or revisions of the statutes of the EIB or the EIF or Treaty revisions, as was the case for the EU bonds recommended by Delors in his 1993 White Paper on Growth, Competitiveness, Employment (COM, 1993).

3.3 It should be recognised that the IMF (2014) has demonstrated that claims for 'structural reforms' reducing social protection of labour to increase efficiency have no basis in any OECD country and that the Lisbon 2000 European Council recommended Innovation Agreements by cooperation between management and labour to achieve process innovation in methods of work operation by flexible production rather than flexible labour markets, similar to that which, since WW2, has rendered leading Japanese firms some of the highest efficiency gains in the world.

3.3 It should recognise also that the 1994 Essen European Council following the 1993 Delors White Paper endorsed the principle of 'more labour intensive employment in the social sphere', i.e. more teachers and smaller class sizes, more health workers and shorter waiting lists and

more care workers to assist the elderly in an ageing population.

3.4 It should be recovered that while the primary responsibility of the European Central Bank is to preserve the internal and external stability of the currency it also is obliged to support the 'general economic policies' of the Union which can be defined by the European Council.

### **4. 'Defining challenges and linking them with existing instruments and their effective application'.**

Implications

4.1 One of the most effective links with existing instruments and their application is to recognise that EIB Group borrowing does not count on national debt and that this gives the EU now the equivalent of the US Treasury bonds by which Roosevelt recovered the US from The Depression.

4.2 This needs political profile, not least since, at a meeting at the European Policy Centre in Brussels in March 2014 neither the economic adviser to Donald Tusk, nor to Jyrki Katainen, nor to Marianne Thyssen, nor the senior economic adviser to the Commission, nor the no 2 representative of the IMF to the EU knew this, even though it was confirmed at the same meeting by the former President of the EIB Philippe Maystadt.

4.3 Emmanuel Macron has recognised that joint European Investment Bank and European Investment Fund bonds could wholly fulfil a major social investment led recovery, as in the Delors 1993 White Paper, if there were an increase in the subscribed capital of the EIF by the ESM which currently is only 4 billion. Wolfgang Schäuble opposed this on the grounds that it was not part of the ESM' original design. But the statutes of the ESM also enable it to 'undertake additional tasks' which can be defined by the European Council.

4.4 The proposal of a new Fund for Strategic Investments rather than the European Investment Fund came from a reading of its website rather than its statutes which already allow it, as I advised and as Jacques Delors intended, to issue Eurobonds. With its downgrading from a 300 billion EIB bond funded recovery to only 5 billion in the Juncker commitment of 2014 to the EP it is no more than a wish list.

### **The Need for a Democratic Constitution for Europe**

The recommendations ensuing from this paper should be provocative if the current deadlock of austerity and denial of national democracy is to be both challenged and changed. Not only in the sense stressed by Joschka Fischer that 'Europe died' following the increased austerity demanded by Schäuble after the No to Austerity referendum in July 2015 but also in the sense that, with it, regaining the moral authority that former chancellors such as Adenauer, Brandt, Schmidt and Kohl ardently sought for a democratic Germany, also died with it.

There are other issues arising which range wider related to political dynamics which that need to evolve. One is the question of the degree to which the excellent and implicitly confederal initiative of the Visegrad 4 gains resonance with other EU member states. Yet which it should in France, Italy, Spain and Portugal as well as its initial endorsement by Poland, the Czech Republic, Slovakia and Hungary. Another is that of the political dynamics of gaining thereby a change of the European project from the Monnet supranational design which, rather than,

giving directives to national governments which could constrain a hitherto hegemonic Germany now has empowered it. Another is how any Treaty revision could be achieved without a veto from Germany which, like any other member state, is its right under present treaties.

To which the answer is both lateral thinking and lateral action. This might not be dissimilar from the Diet of Worms which the Catholic Church felt obliged to convene to respond to the challenge of Luther and Lutherism. Such as a European Convention, convened by like-minded member states, to finally achieve a European Constitution which, rather than the Giscard draft constitution or the TFEU, could be a brief statement of principles, instruments and decision-making procedures.

But which then would be the benchmark for those EU member states endorsing it – with or without Germany – for rejection of any European Council decision that does not confirm with existing Treaty commitments. While recognising that the Constitution of the United States both was revised within a decade of its adoption and since has been subject to serial amendments

## Draft for a Constitution for Europe

### *Preamble*

1. A confirmation of the Charter of Fundamental Rights of the European Union, consistent with the United Nations Charter of Human Rights.
2. That member states of the Union are committed to democratic principles and practices including regular and free elections, independent national judiciaries and freedom of the press and other media.
3. That there should be no discrimination against citizens of the Union either in civil or employment rights on the grounds of gender, ethnicity or national origin.
4. That economic and social cohesion is the twin pillar of the Union with the internal market (1986 Single European Act) and should gain equal regard with the internal market in decisions by governments and EU institutions.
5. That the Union is committed to sustainable development, balanced growth, economic and social convergence and aiming at full employment (TFEU, article 3).
6. That this commitment obtains for all member states whether or not they are members of the single currency area of the euro.
7. That any derogation from these principles in decisions by European institutions is invalid and can be rejected either by the European Court of Justice.

### *Markets and Society*

8. Commitment of the Union and of its member states to the principle that markets should serve people rather than people serve markets.
9. That the free movement of people, goods, services and trade within the member states of the Union should be consistent with Treaty commitments to economic and social cohesion.
10. Recognition that it is innovation that raises peoples and societies to higher levels of wellbeing rather than only a reduction of costs.
11. Recognition that there is no basis for the claim that protection of the social rights of employees reduces economic efficiency (IMF 2015).
12. Adoption as a social right of both labour and management of the principle of innovation-by-agreement and flexibility-by-consent (Lisbon 2000 European Council).
13. Similar adoption of the principle of work-life balance as a social right of European citizens (Lisbon 2000 European Council).
14. Recognition that while economic efficiency increases output per employee, this is not the case in the domains of health, education and social services.
15. Parallel recognition that social efficiency implies more labour intensity in terms of more teachers and smaller classes, more health workers per patient and more personal care for those in need, including both the young, the elderly and the disabled (Essen European Council 1994).



### ***Finance and Fiscal Policy***

16. That the statutory responsibility of the ECB is to protect both the external and internal stability of the currency including therefore the stability of the Eurozone.
17. That without prejudice to this it is obliged to support the General Economic Policies of the Union which can be defined by the governments of the member states within European Council (Existing Treaty obligation).
18. Recognition that enterprise may abuse dominant positions since articles 85 and 86 of Rome Treaty should include both denial of monopolistic pricing and also of transfer pricing to avoid taxation.
19. The enforceable provision that if enterprise either produces or sells in the EU internal market it also should be liable for taxation to the relevant member states on the revenues that it makes within them.
20. The parallel enforceable provision that if enterprise avoids taxation on its sales within any member states in the EU internal market it forgoes access to it.

### ***Governance***

21. Recognition that adoption of policies can be on the basis of enhanced cooperation enabling those member states that wish to implement them to do so without obliging others to adopt them.
22. That policy proposals can be made not only by the Commission but also by individual member states [as has been the case since the proposal of a New Messina Conference by Greece in December 1983 which, then endorsed in the 1984 French European Council, resulted in the first revision of the Rome Treaty in the 1986 Single European Act and its commitment of the European project to both an internal market and to economic and social cohesion].
23. That no policy decision by the European Council, or Ecofin or the Eurogroup should contradict the TFEU Article 3 commitment to sustainable development, balanced growth, convergence and aiming at full employment.
24. That while the European Central Bank is the guardian of stability the European Investment Bank is the safeguard of sustainable growth.
25. That the 1997 Amsterdam Special Action Programme commits the European Investment Bank to contribute to economic convergence between member states and to economic and social cohesion.
26. Recognition that the bond finance of the European Investment Bank does not count on the debt of member states.
27. Recognition also that EIB bonds therefore do not imply national guarantees or fiscal transfers from member states.
28. That the European Investment Fund, established in 1994, should fulfil its statutory remit to complement EIB project finance by issuing bonds to recycle surpluses.

### ***Accountability***

29. That the Economic Policy Committee of the Union composed of representatives of national states should publish an annual report to be debated by the European Parliament and National Parliaments.
30. That the Eurogroup of euro finance ministers should fulfil of the commitment of the TFEU to sustainable development, balanced growth, convergence and aiming at full employment.
31. That the minutes of the European Council, Ecofin, the Eurogroup and the Economic Policy Committee should be published including both assenting and dissenting opinions of member states.
32. That dissenting views of member states should be referred both to the Commission and the European Parliament as well as independent bodies such as the Economic and Social Committee of the Union (trades union and employers' representatives and those of civil society).
33. That there is a statutory obligation to present the findings of the Economic and Social Committee to both the European Parliament and national parliaments for feedback to and a response from the European Council.

### ***International Cooperation***

34. There should be no support for regime changes by military force unless this is with the support of the United Nations.
35. That the EU, as one of the most advanced regions in the world, has an obligation to contribute to promoting global development.
36. That its economic and social cohesion, and ability to be an effective global actor, nonetheless implies frontiers.
37. That, with the successful emergence of major economies such as those of China and India from dependent underdevelopment its development assistance should be focussed on the lesser and least developed global economies.
38. That such assistance should not be based on 'structural adjustment' policies and 'financial conditionality' dependent on export led growth but on social development policies in health, education, rural and urban development and protection of the environment.
39. That such assistance should be based on 'social conditionality' with recipient countries demonstrating results in terms of social development and environment safeguarding policies and a parallel regard for human rights.
40. That the EU should work proactively within the G20 to promote such outcomes and a balanced and sustainable development of the global economy.

## Postscript

Adoption of such a Constitution not only should recognise that there have been many amendments to the Constitution of the United States, in adapting to new needs, and that a European Constitution also could be amended.

The draft Constitution, should be presented to all member states of the Union and of the European Economic Area by the Visegrad 4 and other member states for debate, before potential amendment and ratification.

With recognition that some member states may oppose such a Constitution, that its recommendation by others would constitute a political agenda that could be proposed by other national governments to their electorates and assist in promoting support for the case for a pluralist and democratic Europe embodying the case that democracy depends both on assent and the right to dissent.

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