GLU

Global Labour Column

http://column.global-labour-university.org/

Number 136, May 2013

CSID CORPORATE STRATEGY AND INDUSTRIAL DEVELOPMENT

A Marshall Plan for Europe

Proposal by the Confederation of German Trade Unions (DGB) for an economic stimulus, investment and development programme for Europe

by Michael Sommer

For historical reasons Germany has to be careful with giving advice to other countries. Even more so at the moment considering Germany's dominant position within the European Union (EU). A 'know-it-all' manner is particularly problematic when the advice given is bad - the German government's insistence on austerity measures as a response to the European crisis is not only unsuccessful in economic terms but socially unfair to a level that endangers democracy and the European integration process as a whole. This is a process for which Germany has a special historic responsibility. Despite some anti-European tendencies that have also evolved here and the media portraying the German population as being tired of rescue packages, the vast majority of the German population is in fact supportive of the Euro. This is a development that is remarkable but cannot be taken for granted. As German trade unionists we know from painful experience of the fascist destruction of the German trade union movement 80 years ago that an economic crisis that does not receive an adequate response has incalculable risks including political dislocations through to fascist dictatorship and war.

The DGB wants to propose an alternative strategy to our government's current strategy for Europe. Our proposal is to look at what has been proven to be successful in times of crisis: investment to stabilise but also modernise the economy. This strategy of economic stimulus packages has not only proved to be successful for Germany in the beginning of the crisis in 2008 but has also been the core element of a strategy once applied to several European countries called the 'European Recovery Plan' better known as the 'Marshall Plan'. The 'Marshall Plan' was implemented in 1948 to economically and politically stabilise Western European countries after World War II. The huge investment program not only had short term success but also led to modernisation and became a first step towards European integration. 65 years later European integration has undoubtedly moved on. But with an average youth unemployment rate of 24% in the EU) as a whole and even more than 50% in Spain and Greece[1], it has become clear that there is an urgent need to find a new direction. Furthermore social inequality and rising unemployment are not the only challenges Europe is facing. Like the rest of the world it has to develop strategies to react to demographic challenges, the increasing reliance on knowledge and technology in business and the scarcity of natural resources. Europe needs a long-term path towards growth and modernisation.

This is the background to our developing a draft for a new 'Marshall Plan' for Europe that, like its predecessor, is based on sustainable investment and cooperation instead of a race to the bottom on the back of the workers and at the cost of future generations. Although the Plan is focused on Europe we do believe that our approach is of interest for other regions as well and can also be seen as a contribution to the debate on globalising solidarity.

Core elements of our Marshall Plan[2]

Our 'Marshall Plan for Europe' is borne out of the understanding that we need a political strategy that takes both short and long term growth into account. Therefore it is designed as an investment and development programme for a 10-year period (from 2013 to 2022). For this period we propose a mix of institutional measures, direct public sector investment, investment grants for companies and incentives for consumer spending. The latter serve to combat the crisis in the short term. By contrast, public sector investment and investment grants take time to make an impact, but serve to safeguard long term growth and employment prospects by strengthening and promoting modern industries and services.

Beyond that, the 'Marshall Plan' will improve cooperation between European countries: Massive investments averaging €110 billion per year will be needed across Europe in order for the modernisation offensive to include the whole of the EU. This results in total annual financial requirements of, on average, €260 billion. This corresponds to just over 2% of Europe's Gross Domestic Product (GDP). Such an ambitious and long term investment programme cannot be shouldered by one country alone. To be precise, those countries currently in financial crisis will not be able to implement a modernisation initiative like this on their own. This is why we need joint efforts and new European institutions with stable and solid sources of finance.

Given the high investment required one could easily dismiss our plan as being unrealistic but it is important to keep in mind that the costs of stabilising the banking system have reached €2 000 billion. So why shouldn't it be realistic, and much more promising, to mobilise about the same sum to invest into education, innovation and decent work in Europe over a period of several years?

Funding the Marshall Plan

The DGB proposes to set up a 'European Future Fund' to fund the 'Marshall Plan'. In Western Europe, there is €27 000 billion in cash assets on the one hand and a shrinking

Corporate Strategy and Industrial Development (CSID)
University of the Witwatersrand

Nicolas Pons-Vignon
E-mail: Nicolas.Pons-Vignon@wits.ac.za

number of secure and profitable investment opportunities on the other. This situation poses a major opportunity to use Europe's available capital for investments in its future. To this end, the European Future Fund would issue interest-bearing bonds – like companies or governments. We refer to these bonds as 'New Deal' bonds.

The interest obligations, the cost of which the Future Fund itself would have to cover, could be funded from revenue from a Financial Transaction Tax (FTT) - a tax that will apply in particular to highly speculative financial transactions, thus burdening the very financial market players that were chiefly responsible for the biggest financial and economic crisis of the past 80 years.

The Future Fund would have to have sufficient equity when it is first set up. Up to now, it has been solely the taxpayers and workers who have borne the chief burden of overcoming the crisis. Now, therefore, it is time for the wealthy and rich to participate in once-off funding to provide capital for the Future Fund. For Germany, we propose a once-off wealth levy of 3% on all private assets in excess of €500,000 for single people and €1 million for married couples. The form that this levy would take has yet to be specified. The other EU countries should introduce comparable measures for the wealthy and rich.

As a new European institution, the European Future Fund should be under the strict control of the European Parliament. Following on from the proposals of nine Ministers for Foreign Affairs on the future of Europe, the European Parliament must approve all cash outflows from the Future Fund. The prerequisite for this is that the European Parliament is closely involved in all decision-making processes.

Macroeconomic effects of the Marshall Plan

The DGB's Marshall Plan contains decisive impetus for qualitative growth as well as decent jobs with a future. The proposed investments and investment subsidies of €260 billion annually comprise direct investment and investment grants of €160 billion and ten-year low-interest loans to private investors of €100 billion. This combination of long-term, low-interest loans and investment grants should kick-start additional private investment and thus promote wide-scale private modernisation measures. These in turn would lead to further private investment and annual additional growth impetus totalling €400 billion. This would correspond to additional growth impetus of more than 3% of the EU's GDP in 2011. This considerable growth dynamic would have positive spill-over effects for employment. Additionally an investment offensive in a fundamental overhaul of European national economies in terms of energy policy could yield between 9 and 11 million new full-time jobs in the long term. Our programme will benefit the EU countries significantly. The investments will not burden their budgets. Instead, they will receive additional impetus for growth and employment and can use this to generate significantly higher direct and indirect tax revenue from income tax, VAT, company and corporate taxes as well as social security contributions and to cut the cost of unemployment.

Europe's future hinges on investments made in the present. Europe has all the resources it needs for this: We have to work together to combine these strengths and use them to transform our societies and to create a social Europe that might become a role model for other regions. We should also contribute to the debate on a global transformation in the style of the 'Global Marshall Plan' that has been discussed since 2003[3] in order to transform our societies for a better future with all social groups having a fair share of the wealth being produced.

Table 1: Long-term average costs and benefits of the Marshall Plan per year for EU-27

Costs of the Marshall Plan			
	Average annual investments in European turnaround in energy policy	EUR 150	billion
	Further investments	EUR 110	billion
	Total annual investments	EUR 260	billion
Benefits of the Marshall Plan (growth, jobs, revenue, savings etc.)			
	Additional growth in Gross Domestic Product	3	per-cent
	Additional growth impetus	EUR 400	billion
	Additional full-time jobs	9 to 11	million
	Additional tax revenue for EU countries	EUR 104	billion
	Additional income from social security contributions	EUR 56	billion
	Additional savings in unemployment costs	EUR 20	billion
	Average annual savings on fuel imports	EUR 300	billion
Funding and repayment of the Marshall Plan			
	Average annual issue of New Deal bonds	EUR 180	billion
	Income from Financial Transaction Tax	EUR 75-100	billion
	Repayment of the loans to private and public-sector investors	EUR 100	billion

Our proposal for a 'European Marshall Plan' can be downloaded in English, French, Spanish, Italian and German: http://www.dgb.de/-/5Vx

1 *"Euro area unemployment rate at 11.8 %, EU 27 at 10.7 %"* Eurostat News release, 8th of January 2013; available at: (http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-08012013-BP/EN/3-08012013-BP-EN.PDF)

2 A more detailed explanation of how the individual figures were derived can be found in Table 1 at the end.

3 *"The Development of the Global Marshall Plan Initiative"*; available at: (http://www.globalmarshallplan.org/en/development-global-marshall-plan-initiative)

Michael Sommer is President of the German DGB and also President of the ITUC.