



SEMINAR WITH BILL MITCHELL AND THOMAS FAZI – RECLAIMING THE STATE

On March 2 Fundació Catalunya Europa and Ekona Centre d'Estudis organised a seminar about the book “Reclaiming the State”, recently published by the Australian economist Bill Mitchell and the Italian journalist Thomas Fazi. The seminar was moderated by the economist Jordi Angusto.

The book is based on three pillars; first, the Marxist concept of *class conflict*, second, the Keynesian focus on full employment, and finally, the modern monetary theory, represented in the concept that it's not savings that create the credit, but the inverse.

The book explains how neoliberalism has imposed its agenda by ripping off the competences that the state uses to protect its citizens and to maintain the welfare state. According to the authors, the European Union and the Euro are the best examples of this phenomenon, since belonging to the Economic and Monetary Union implies **giving up fiscal (deficit spending) and monetary capacity**. Therefore, the authors propose to reclaim the nation-state to guarantee social justice through the survival of the welfare state and full employment.



THE SEMINAR

According to the authors, there are two large obstacles to the creation of a fully functioning European Federal State:

1. Different National Identities:

According to **Thomas Fazi**, there is no common language at the European level, nor the same value system (values in northern countries related to debt and the economy are opposed to southern ones), and certainly not a shared narrative of history. Those are barriers to the creation of a common European State.

Moreover, a federal union needs democratic legitimacy and a shared culture, which does not exist yet in the European Union. Democratic capacities (fiscal and monetary sovereignty) have been transferred to the European Union before having a common political culture, following an opposite path as other Federations (United States, Germany or Australia).

In Mitchell's and Fazi's opinion, we are nowhere close to having a European identity, since European people still define themselves according to their **national identity**. This might seem trivial, but it's fundamental, since to make citizens really participants of the European Union they must feel it as their own. Even if a consensus was made to create a pan-European federal system, the building of an architecture to make it possible is very difficult, since that would require that all member states at the European Council simultaneously agree on a shared path for Europe, deciding to change the treaties accordingly.

As a matter of fact, if we observe the United States or Australia, the true federal institutions were created one hundred and twenty years after the union was formed, and observing the European Union in contrast, we can argue that the European Union does not have such a long history.

2. Rooted opposition to fiscal transfers:

Another clear issue on the construction of the European Union is that a fully functional federal system would require fiscal transfers, from rich regions to poor regions. It is well known that northern European countries (see for instance the [Joint Statement](#) by 8 finance ministers released on 6, March) are opposed to that, due to a rooted vision about economics that is shared through the entire political spectrum in such countries.

Such European fiscal federation should be democratic to be legitimate, which is not the case of the EMU. To create that, in the author's opinion, there should be a political loyalty towards the federation that does not exist.

In short, the idea that we can currently transform the European system into a functional system for all countries is totally delusional.

- **The Euro**

According to Fazi the Economic and Monetary Union has created an artificial scarcity of public resources because of the 3 per cent deficit limit in public budgets and the incapacity of exercising monetary and fiscal sovereignty. This sovereignty allows states to deficit spend or to finance through monetary expansion when needed to activate the idle resources of the economy. Nowadays, macroeconomic adjustments are made through internal devaluations, which impose a heavy burden on workers, increase inequality exacerbating social injustice. The authors advocate for a change on the aims of central banks in order to give them democratic legitimacy.



- **The construction of an undemocratic European Union.**

Bill Mitchell explained that the Werner Report (1970) and the MacDougall Report (1977) advised that a functioning monetary union in Europe could not be created without a scrupulous democratic process, adding that the conditions to accomplish such union would not exist in the near future. The Delors Report (1989), made by neoliberals handpicked by Delors, ignored the past two reports and stated that this integration would be effective. According to Mitchell, no federal government would tolerate the degree of economic disparity that has emerged since the currency integration.

In other words, as Fazi suggests, every step in the process of the construction of the European Union, from the creation of a monetary system, to the single market,

through the Maastricht treaty and the establishment of the Eurozone has essentially been aimed to separating democratic accountability from macroeconomic policy. According to Fazi believing that we can democratize this system under the current Treaties, is a delusion.

Mitchell and Fazi are not against international governance *per se*, because they believe that international cooperation is necessary to tackle global issues that cannot be solved in any other way, like for example climate change.

- **The role of the Nation-State today and the political conflict Catalonia / Spain**

To this question, Bill Mitchell answers that the major changes that have occurred work through the nation state. The only space where democracy has occurred is at state level. Globalization does not transcend the nation-state, but it happens through it. Furthermore, Thomas Fazi explained that the nation-state is crucial in the economic management, even in the neoliberal era, since for capitalism to survive, states have to intervene massively.

Fazi adds that before aiming for supra-nationalism, we should aim at internationalism (which is historically what the left has fought for). It's important to have independent sovereign nations, which come together and agree to integrate certain policies. This is very different from supra-nationalism, where the policies are imposed from above and in an undemocratic way.

In their opinion, to become a truly independent and democratic country, Catalonia should exit primarily EMU. According to Thomas Fazi, there has been an emergence of regional identity movements all over Europe. In his opinion, this is also related with the European architecture, which creates artificial scarcity through its institutional constraints. Deprived of their fiscal and monetary policy tools, countries cannot effectively redistribute across regions, since that requires fiscal sovereignty, and this creates regional tensions.

Paradoxically, the European Union, which had to bring countries together; has increased instead the tension between countries as well as the tensions within countries, and this is due to the architecture of the Eurozone.

The idea of going back to the nation-state was questioned in the seminar, affirming that the concept is becoming obsolete. On this issue Pere Almeda from Fundació Catalunya Europa, underlined that Spain cannot be considered a nation-state, but a multi-national state, and that today's conflict is about the struggle for self-governance, reinforcing democracy and creating a shared sovereignty framework with the recognition of plural identities and a multi-level governance. This would include the European Union and the implementation of the subsidiarity principle.

From the FCE, Augusto raises his doubts about the authors faith in currency issuing to ensure social justice. Firstly, because main trade imbalances today are among countries with their own currency: USA and UK as main deficit countries and China and UE as main surplus countries; therefore is not truth that having its own currecny countries like Greece or Spain had had the ability to avoid the trade deficit behind the external debt that made necessary their rescue. Secondly, because with or without its own currecny, any country in need or willing to attrack foreing capitals must assure the same rate of profits those capitals can get elsewhere, making necessary a wages' adjustment to productivity which could be as or even harder than that imposed by the creditors (EU + IMF).

World competition requires a global agreement to avoid a race to the bottom in salaries and taxes, as much as it's necessary a global agreement to fight against climate change. No single country can afford both challenges isolated.