The DGB's proposals for a new 'Marshall Plan' for Europe may mark the beginning of a discussion on the concrete alternatives to austerity.

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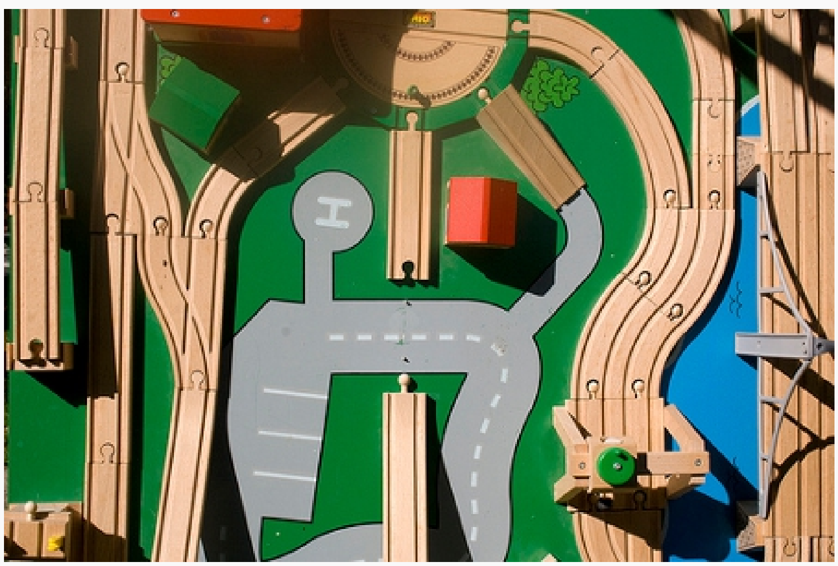
For nearly five years, austerity has been touted as the only way to tackle the effects of the Eurozone's financial crisis. **Steve Coulter** *profiles a new initiative from the German trade union confederation, the Deutsche Gewerkschaftsbund, which aims to leverage Europe's idle private capital via a 'European Future Fund'. This fund would focus on green investment, as well as training, R&D and transport. The Fund would be supported by bonds whose interest would be covered by the proposed Financial Transactions tax. While questions remain over how the initial finance can be raised and the plan's short term results, this new 'Marshall Plan' for Europe shows that there may yet be alternatives to austerity.*

Support for austerity policies in Europe may slowly be crumbling, but their proponents have at least been able to point the finger at critics on the Left and ask: 'so what would you do instead?' Now these critics have a firm answer. A plan drawn up by the German trade union confederation, the Deutsche Gewerkschaftsbund (DGB) is causing a fair amount of interest in centre-left and trade union circles. The DGB is proposing nothing less than a new 'Marshall Plan', by calling for an 'economic stimulus, investment and development programme for Europe'. The DGB's manifesto is a ten-year, €260 billion a year investment plan for the whole EU which uses private funding backed by public capital and could, it claims, provide a growth impetus of more than 3 per cent of the EU's GDP.



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The European left needs a coherent, economically literate policy alternative to tackle the growth crisis that doesn't simply revolve around either debt forgiveness or further fiscal transfers, and in many ways this plan fits the bill. But are its aims consistent, and will it produce the required economic boost? In early July the LSE hosted a workshop on this topic under the auspices of the European Institute's 'New European Trade Union Forum', funded by the HEIF5 Knowledge Exchange program. The meeting revealed a mix of excitement and caution about the plan, but also a determination to find a way out of the increasingly sterile debate about growth versus austerity.

The DGB's plan is a blend of the radical and the obvious. It hinges on the assertion that there is a huge pool of private capital – €27 trillion, the DGB estimates – that currently stands idle as it is unable to find a productive outlet. Meanwhile, Europe stagnates because cash-strapped governments have been forced to rein in spending to meet budget rules drawn up to satisfy ideologically-driven policymakers in Brussels and Frankfurt, the DGB argues. The way out of this conundrum is to get 'Europe' to stand behind a public and privately-financed investment splurge that will generate economic activity to boost growth rates and bring down unemployment.

The other side of the coin is that the DGB identifies numerous supply-side bottlenecks in Europe's creaking infrastructure. Expanding funding for training, R&D and transport would provide immediate, viable outlets for this investment capital and boost total factor productivity over the longer term. The DGB envisages that the main recipient of the capital injection would be the Green Economy. Re-equipping Europe's households and businesses to meet EU emission reduction targets would absorb €150 billion of the annual €260 billion total. But the switch to energy efficiency could produce €300 billion of savings on energy imports.

The vehicle for all this would be a 'European Future Fund', answerable to the European Parliament, which would issue 'New Deal' bonds to investors. The interest on these bonds would be covered by revenue from the proposed Financial Transactions Tax (FTT) on currency and derivatives trading together with a proposed one-off wealth tax of around 3 per cent on private assets.

A number of things still need to be thought through before the DGB can count on wide backing for this plan. Its GDP projections assume a reasonably large multiplier for the investment. But achieving this will depend in turn on creation of a mechanism able to identify a large number of productive investment opportunities, as well as the ability to vet and manage the projects and deal with the politics of what will inevitably be seen in some circles as a further transfer of wealth from the North to the impoverished South. No such institution currently exists, although there are suggestions that the European Investment Bank could assume the responsibility given appropriate changes to it remit.

There are also question marks over how the initial finance can be raised in order for the Fund to gain a sound credit rating on financial markets. The Plan envisages an annual issue of €180 billion of New Deal bonds financed by profit on the investments as well as €75-100 billion from the FTT. However some analysts dispute those projections, as EU modeling on which the DGB's analysis rests questionably assumes no loss of growth or tax revenues arising from banks shifting their activities to avoid the FTT. Unions in other countries are understood to favor financing the investment through Eurobonds, but this is obviously politically unacceptable to Germany in an election year.

A final, nagging doubt remains. What is the Marshall Plan for? It appears to aim at simultaneously tackling a number of problems that are related but not necessarily complementary over the immediate time period. Its broad objective is to kick-start growth in short order through a Keynesian investment boost. But many of its detailed proposals involve initial costs that may boost productivity over the long run but with little positive short term effect. Ultimately, it is unclear why the private sector would want to get involved in a wide range of projects that offer mainly public goods.

Ultimately, given its scale and ambition, the Marshall Plan implies a move to an EU-wide industrial policy – something not yet on the horizon as policymakers focus on dealing first with the growth and debt crisis. These issues may not be insurmountable, however. The DGB has thrown down the gauntlet and started a useful debate on Europe's future that is sure to continue.

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