

Debunking 10 'pseudo facts' about the crisis

By Steve Coulter, LSE

Thomas Piketty is not the only French economist opposing the prevailing economic orthodoxy. One group of France-based academics, 'les économistes atterrés' (economists against austerity) has been denouncing austerity policies, inequality and the financialisation of the European economy since its formation in 2010. They have mounted an appeal to voters in the coming European elections (read it [here](#)) and are organising lectures and debates on similar themes across Europe, including an interesting looking event with Dany Lang in London to be held at UCL, Roberts Building (Engineering), G08 Sir David Davies Lecture Theatre, 6.30-8.30pm.

Details of this can be found on their [website](#), as well as the group's manifesto, which lists ten 'obvious facts' about the current crisis that need to be confronted, together with policy proposals. The Manifesto sold 80,000 copies in France, 20,000 more in both Spain and Greece and more in other countries. They are worth listing here:

<i>Erroneous 'Pseudo Facts' that need to be confronted:</i>	<i>Measures to deal with the problem:</i>
1. 'Financial markets are efficient.'	1: To separate strictly financial markets and the activities of financial actors, prohibiting banks from speculating on their own account, in order to prevent the spread of bubbles and crashes. 2: To reduce liquidity and destabilizing speculation by controls on capital movements and taxation on financial transactions. 3: To restrict financial transactions to those meeting the needs of the real economy (e.g., CDS only to holders of insured securities, etc.). 4: Capping the earnings of traders.
2. 'Financial markets contribute to economic growth.'	5: To strengthen significantly counter-powers within firms, in order to force the management to take into account the interests of all the stakeholders. 6: To increase significantly the taxation of very high incomes to discourage the race towards unsustainable returns. 7: To reduce the dependency of firms vis-à-vis financial markets, and to develop a public policy of credit (preferential rates for priority activities on the social and environmental levels).
3. 'Markets assess correctly the solvency of states.'	8: Rating agencies should not be allowed to influence arbitrarily interest rates on bond markets by downgrading the rating of a State. The activities of agencies should be regulated in a way that requires that their ratings result from a transparent economic calculation. 8a: States should be freed from the threat of financial markets by guaranteeing the purchase of public securities by the European Central Bank (ECB).
4. 'The soar (sic) in public debt results from excessive spending.'	9 : To conduct a public audit of public debts, in order to determine their origin and to identify the main holders of debt securities, as well as the amounts held.
5. 'Public spending must be cut in order to reduce public debt.'	10: The level of social protections (unemployment benefits, housing...) must be maintained, or even improved. 11: Public spending on education, research, investment in environmental conversion, etc., must be increased, in order to set up the conditions for sustainable growth and to bring about a sharp fall in unemployment.



6. 'Public debt shifts the burden of our excesses onto our grandchildren.'	12 : To restore the strongly redistributive nature of direct taxation on income (suppressing tax breaks, creating new steps, and increasing the rates of income tax...) 13 : To suppress tax exemptions granted to companies, which have insufficient effects on employment.
7. 'We must reassure financial markets in order to keep funding public debt.'	14 : To authorize the European Central Bank to directly fund European states at low interest rates, thus loosening the straitjacket of financial markets (or to require commercial banks to subscribe to the issue of government bonds). 15 : If necessary, to restructure the public debt, for example by capping the service of public debt to a certain percentage of GDP, and by discriminating between creditors according to the volume of shares they hold. In fact, very large stockholders (individuals or institutions) must accept a substantial lengthening of the debt profile, and even partial or total cancellation. We must also renegotiate the exorbitant interest rates paid on bonds issued by countries in trouble since the crisis.
8. 'The EU protects the European Social Model.'	16: To call into question the free movement of capital and goods between the EU and the rest of the world, by negotiating bilateral or multilateral agreements if necessary. 17: To make "harmonization in progress" the guiding principle of European construction, instead of competition policy. To establish binding common goals in the social and macro-economic areas (with the creation of Broad Social Policy Guidelines, or BSPGs).
9. 'The Euro is a 'shield' against the crisis.'	18: To ensure effective coordination of macroeconomic policies and a concerted reduction of trade imbalances between European countries. 19: To offset payments imbalances in Europe by a Bank of Settlements (that would organize loans between European countries). 20 : If the Euro crisis leads to the end of the Euro, and pending the reviving of the EU budget (see below), to establish an intra-European monetary system (with a common currency such as the "Bancor") which would organize the unwinding of imbalances in trade balances in Europe.
10. 'The Greek crisis was a springboard towards an economic government of Europe and effective economic solidarity.'	NA

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