ROOSEVELT 2012

Give our States some room to breathe

Sharply decrease the interest rates of the standing debt

Is it legitimate that States pay an interest rate 600 times higher than private banks? It was recently disclosed that the US Federal Reserve secretly lent the huge amount of 1,200 billion dollars at the ridiculously low rate of 0.01% to banks in financial difficulty[1].
At the same time in many countries, people are feeling the full brunt of austerity plans imposed by their governments as a result of financial markets lending money to certain states at an imposed rate of 6, 7 or 11%. Asphyxiated by such rates, governments are forced to freeze pensions, family allowances and civil servants' salaries and to cut back on investments- thus increasing unemployment which will soon plunge us into an extremely severe recession.
Is is normal that, in crisis situations, private banks - which can usually obtain funding at 1% from Central Banks - can often benefit from rates as low as 0.01%, whereas states in the same situation have to pay rates 600 or 800 times higher?
"To be governed by organized money is as dangerous as to be governed by organized crime" stated Roosevelt. He was right. We cannot continue coddling the banks while the States and people are openly abused.
How can we immediately breathe some air into public finances? What can we do without modifying the European Treaties? At best, any modification will take months and at worst, may soon become completely impossible if the European Union continues to become increasingly unpopular with its citizens.
Most of the money borrowed by States on the financial markets is used to pay long-standing debts. In 2012, France will borrow about 400 billion -100 billion to cover the budget deficit (which would amount to almost nothing if the tax cuts granted over the past 10 years were cancelled) and 300 billion corresponding to the standing debt, expiring soon, but that we can only pay back by contracting new debts of the same amount often just hours ahead of the due date.
The past is the past. Obliging governments to pay huge interest rates for debts contracted 5 or 10 years ago does not help to develop their sense of responsibility, but leads only to asphyxiation of our economies to the exclusive benefit of a few private banks. Under the pretext they are taking a risk, banks lend only at very high interest rates. But they are, in fact, perfectly well aware that there is actually very little real risk, as the European Fund of Security guarantees the borrowers' solvability.
This "double standard" must come to an end! Following the example of the U.S. Central Bank and its strong moves to save the financial system, we suggest that our States' "long-standing debt" be refinanced at rates close to 0%.

There is no need to modify the European Treaties to implement this idea: it is true that the European Central Bank (ECB) is not allowed to lend to Member States, but it can proceed with unlimited lending to public credit institutions (Art.21.3 European System of Central Banks Statutes) and to international organizations (Art. 23 of the same text). It could then lend at 0.01% to the European Investment Bank (EIB), to the French Caisse des Dépôts or to any national public bank. These may then in turn lend at 0.02% to the indebted states crippled by old debts.
There is nothing to prevent us from implementing such funding as early as next month[2] ! This is of crucial importance: in the middle of this year 2012, many fear the Euro-zone might explode if Italy defaults on her debt. **But the Italian budget shows a clear surplus:** the budget would be balanced if Italy did not have to pay ever increasing financial costs. Shall we let Italy sink into a recession and risk a political crisis? Or shall we agree to put an end to the banks' annuities? The answer should be obvious to anyone interested in acting for the common good.
In Greece and in Portugal, one can witness first-hand how austerity policies that pretend to "treat the patient" actually foster recession, worsen public finance crises and instigate political crises. It is obvious that the multiplication of austerity policies leads to an explosive situation. It is vital

1. Cf. Michel Rocard and Pierre Larrouturou's column in Le Monde, January 3, 2012.
2. An ECB manager confirmed it in La Tribune, January 9, 2012. Michel Rocard and Pierre Larrouturou's analysis is right: there is no need to modify the Treaties. The solution is immediately applicable and would radically change the situation for Greece, Italy and Spain.

for our society to loosen the lid on the double-boiler and alleviate the pressure before it explodes.
"To impose austerity plans at a time of recession creates **an explosive political mix**", Jean-Jacques Mevel wrote in the December 29, 2011 edition of the French newspaper Le Figaro, "In Greece, in Spain and in Italy, no one would bet a penny on the life span of new governments in the face of social discontent, rise in unemployment and repeated austerity plans.". Is the preservation of bank annuities worth plunging Europe into political instability?
In Italy, it's not only the unions that question the austerity policies. On December 13, 2011, in the French financial newspaper La Tribune, the Italian "boss of the bosses" - Emma Marcegaglia herself denounced the excessive austerity imposed by the European Union. She urged the European leaders to abandon their "strict positions" as quickly as possible.
The Treaties give the European Central Bank the fundamental role of monitoring price stability. How can it sit with its arms crossed as some countries watch the cost of their bonds double or triple in a few months? The Central Bank must also monitor the stability of our savings. How can it turn its back when the cost of the debt threatens to plunge all of us into a recession "worse than the 1930's" according to the Governor of the Bank of England?
If we stick to the Treaties, there is no obstacle preventing the Central Bank from taking tough action to bring down the cost of the debt. **Not only is there nothing to keep it from doing so, but there's every argument in favour of it.**
No revision of the Treaties is required, just a political decision which 1. states that the old debts should be paid back at a rate of 0% (or almost 0%) 2. authorizes the ECB to provide the EIB, for instance, or the national public banks with as much liquidity as necessary if the rates applied by the markets exceed a certain level.

This proposal can be immediately implemented to alleviate the cost of the standing debt but also to "lower the temperature" on new debts as a protection in the face of speculative attacks on European States: "The ECB has to be freed from its chains and asked to intervene on the governments' bonds market, while maintaining pressure on countries that need to adjust", asserts[3] **François Bourguignon, former World Bank chief economist.**

A ECB compromise in order to contain the member States' spread[4] beyond a certain threshold - let's say 50%, for instance, of the actual levels – would durably break the spiral of rising debt." In plain language, if the banks or the markets are too greedy, the ECB intervenes to lower the temperature. The markets can no longer dictate their conditions.
In all our countries, citizens are angry at the exorbitant privileges of certain banks. "The banks must pay." constantly repeats the German Minister of Finances, Wolfgang Schäuble.
The French situation is less degraded than that of other countries but we refuse to let our schools, our hospitals, our research centres and our welfare system be destroyed to save the annuities of a small number of people. As concerned adult citizens, as fathers and mothers, we can no longer accept the triumph of greed and the dictates of the market.
The former France's Prime Minister Alain Juppé said in 2000 that it was necessary to provoke a "clarifying crisis with the English government" in order to know whether they wanted -or not- a democratic Europe. Likewise, it is now necessary to provoke a "clarifying crisis" with respect to the link between the banks and the European leaders: "none can serve two masters at the same time". Either the political leaders serve the people or they serve the banks. It is now urgent to make a choice and to do away with all ambiguity. If the European Union serves the people and not the bankers, it should immediately become obvious to all that the debt must be refinanced at a rate close to 0%.
An ECB manager and several legal experts confirmed it in the January 9, 2012 edition of the French newspaper La Tribune: our analysis is right -- there is no need to modify the Treaties! The solution is immediately applicable and would radically change the situation for Greece, Italy and Spain - and consequently for all of Europe.

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3. Les Echos, November 30, 2011.
4. The "spread" is the difference between the interest rates imposed by the markets to a country in financial difficulty (Greece or Italy) and the rates paid by a country that can borrow money at a lower rate (like Germany).