1. Ireland and Europe: the urgent need for a social, economic and ecologically just transformation.

Ann Pettifor

In an extraordinary speech - unexpected from a Federal Minister of Finance and Vice-Chancellor of the Federal Republic of Germany - Olaf Scholz argued on 3 September for a better, more sovereign Europe. Calling for “an ambitious, cohesive and transformative recovery programme” he acknowledged that the safety net and recovery programme put together to tackle the pandemic had elevated “Europe’s common financial policy to a completely new level, a level that moves us closer to a fiscal union.... with complete economic and monetary union”. Strengthening the EU, he argued “is a question of sovereignty, of holding our own with the US or with China who are forcefully asserting their national interests. Only together can we defend our European way of life”. Not for nothing, he explained, had Germany chosen the motto Together for Europe’s recovery for its 2020 EU council presidency. For Europe to be truly successful, he said “we must recover together and use this opportunity to transform our economy.”

This strikingly new approach can be traced back to the arrival of a global pandemic and the EU response: the launch of the European Recovery Fund in May, 2020 . That decision and Scholz’s speech have been widely welcomed, with one unfortunate side-effect: a strengthening of the euro. An over-valued euro is unwelcome just as Europe is predicted to plunge into a deep recession brought on by the pandemic and associated lockdowns. That is why there can be no question about the urgent need for “ambitious, cohesive and transformative” economic policies and for Europe’s need to face challenges collectively, and in solidarity. But Europe must do more. The upcoming challenges are daunting: not just the ecological and economic failure brought on by the coronavirus pandemic and the risk of a debt-deflationary downward economic spiral, but also the economic divergences that have led to the rise of anti-Europe sentiment, nationalism and populism; and the grave, even terrifying ecological risks that transcend borders.

Europe and financial globalisation in 2020

It is my contention that all these threats have their taproots in the increasingly corrupt, reckless and volatile system of international financial globalisation - a 'liberalised' system that demands and extracts extraordinary capital gains from the fictitious commodities that are money, land and labour, to cite Karl Polanyi. Exponential rates of extraction from what can broadly be described as the land, or ecosystem, has devastating impacts. For while the land is constrained by the laws of physics, and is subject to entropy, money is bound only by the laws of mathematics, as the chemist Frederick Soddy explained. Our biophysical stock of resources are finite, but rent-seeking money creation, that becomes debt compounding at a rate of interest, can grow effortlessly over time if 'liberalised'. That characteristic of the social construct that is money, together with globalisation, expands and intensifies the extraction and stripping of finite assets like the forests of the Amazon, the fish in our seas and the world's fossil fuels. As the environmentalist, Bill McKibben has argued, "money is the oxygen on which the fire of global warming is burning".

To add to these dangers, deregulated financial globalisation fosters criminality worldwide. The recent Wirecard scandal is but the latest evidence of how the international system protects the interests of gamblers, drug dealers, human traffickers and pornographers, "encasing" them (to quote Quinn Slobodian in his book The Globalists) from democratic regulation and oversight. Only the persistent five-year efforts of investigative journalists at the Financial Times exposed Wirecard as a criminal enterprise – one of the biggest corporate frauds of the modern era. Regulators at the EU's Federal Financial Supervisory Authority were asleep at the wheel, as were Ernst and Young, the firm's highly paid auditors. The truth is official regulators lack the regulatory and theoretical (economic) tools needed to manage criminal, tax-avoiding but also legitimate flows of capital across borders. The General Court's rejection in September, 2020 of the European Commission's attempt to recover €13 billion in back taxes from Apple Inc – a company whose profits are protected by the tax haven that is Ireland, is yet another example of the regulatory powerlessness of Europe's democratic institutions.

Protecting globalised capital – not society or the ecosystem

The 2020 Covid-19 crisis made utterly transparent the power and protection granted above all to private, globalised capital markets, creditors, investors and speculators. It is wtriking that world leaders proved unable to convene an international summit to prevent the spread of the pandemic and to collaborate on a vaccine for the world's people. Some leaders deliberately attacked the system of multilateral coordination to defeat pandemics, organised under the umbrella of the World Health Organisation. And for decades, world leaders have failed woefully to tackle a threat to the very survival of humanity, brought on by what ecologists define as 'earth systems breakdown' – climate change, the collapse of biodiversity, and a dramatic rise in the rate of extinctions.

In the spring of 2020, central bank governors, led by the Federal Reserve under a very different approach. They coordinated their actions internationally to save globalised capital markets from the economic consequences of the pandemic. Even while the governments of Trump, Bolsonaro, Modi and Johnson divided the world, clowned around, and grievously mishandled the crisis, causing thousands to die unnecessarily, technocrats at the Federal Reserve, the Bank of England and the ECB engaged in decisive, expansive and internationally coordinated action to save rentier capitalism. Big Wall St. and City of London financial institutions, corporations like Apple and the world's airlines quickly became beneficiaries of central bank largesse.

Such internationally coordinated protection was not granted to the world's people or to the world's threatened ecosystems. Instead world leaders effectively abandoned nature and their citizens, delegating leadership of the global economy to central bank technocrats and their clients in capital markets.

An 'ambitious, cohesive and transformative' programme

To reverse this form of political defeatism, to undertake what Olaf Scholz called a "transformative programme" that would address both the economic and ecological threats facing European politicians need to exercise leadership in the world. They must take the lead in making or re-making the global economic system and altering the balance of power within that system – based as it currently is on the internationalism of capital. They should substitute it with a new form of internationalism, as Geoff Tily, senior economist at the British TUC has argued. Instead of "globalisation amounting to an internationalism on the terms of capital, internationalism should be conducted on the terms of labour."[1]

That is the kind of economic transformation EU Ministers and politicians should be advocating and leading. What is needed – given the dire ecological and economic threats facing Europe – is an economic transformation on the scale of the President Roosevelt's New Deal of the 1930s. His was a programme

[1] Geoff Tily, forthcoming in Spring, 20201. *Return of the State: Restructuring Britain for the Common Good,* published by the Progressive Economy Forum in conjunction with Agenda.

of transformation that simultaneously tackled a) the power of Wall St., the liberalised international financial system defined as the gold standard, b) the aftermath of the 1929 financial crisis, high levels of unemployment and an c) environmental crisis that took the form of the Dust Bowl.

Roosevelt's transformation of the US financial and exchange rate system removed Wall St. and the City of London from the driving seat of the American economy and instead placed a democratically elected government in the driving seat. As his Treasury Secretary Henry Morgenthau once remarked:

> "We moved the financial capital from London and Wall Street right to my desk at the Treasury".[2]

European governments and institutions need, through stronger management of capital mobility, to do the same. To restore democratic oversight and adjust and end the power of technocrats working closely with private capital markets to determine and shape key economic levers central to the health and recovery of the European economy and its ecosystem. Introducing such regulation will be tough, given the coming deep recession. But times and economies were both failing and unstable and advocating change was dangerously tough back in 1933 too. Nevertheless, as I explain in my book, The Case for the Green New Deal, political will and informed leadership under Roosevelt's New Deal combined to successfully lower unemployment, raise incomes and restore soil fertility to the desertified Great Plains of the United States.

Challenges for the European economy in 2020

At the height of the 2020 crisis triggered by a human-induced pandemic, the OECD predicted the deepest post-war recession in 2020, with GDP in the Euro area set to be nearly 12 per cent lower than in 2019.[3] Recession amplifies the risk of a debt-deflationary spiral for an EU-wide economy already characterised by falling real prices – (inflation turned negative in 12 of 19 eurozone countries in May, 2020) output gaps and an over-valued currency that will depress exports and hurt exporters. Deflation poses a real threat to highly leveraged corporates and to the private non-bank financial sector burdened by debt as well as to the Eurozone's sovereign debtors - because deflation inflates the value of assets,

---

[2] Henry Morgenthau, cited in p. 227, Rauchway, *The Money Makers: How Roosevelt and Keynes Ended the Depression, Defeated Fascism, and Secured a Prosperous Peace*. Basic Books, 2017.

[3] OECD Economic Outlook, June 2020, p. 25

including debt and therefore both the burden of debt, and the cost of debt servicing.

The forthcoming recession will strike a catastrophic hit to Europe's labour market. While 60 million Europeans were being shielded by government furlough schemes, Eurostat estimates that already in May 2020, 14.366 million men and women, or 7.9% of the Euro area labour force were unemployed in the EU, of whom 12.146 million were in the euro area. In May 2020, the youth unemployment rate was 15.7% in the EU and 16.0% in the euro area. (Eurostat News, 2 July, 2020). These high levels of unemployment will very likely escalate as the "deepest postwar recession" hits over the winter of 2020/21.

High levels of EU unemployment are exacerbated by a secular downward trend in labour's share of EU income, worsened by the deliberate weakening of employment protection, trade unionism and unemployment benefits. According to official figures analysed by the ETUC, workers in two thirds of EU member states are receiving a smaller share of their country's GDP than they were at the beginning of the decade. Real wages are still below their pre-crisis peaks in Portugal, Spain and Italy. This has macroeconomic impacts on output, productivity and consumption, but also on government budgets. Lower tax revenues from low-paid, temporary or insecure work, coupled with corporate tax avoidance leads to a shrinking of the tax revenues governments need to balance budgets and stabilise the public finances. Added to this, imbalances generated by an over-valued Euro (driven by global, private capital markets, not domestic policy) exacerbate wider economic imbalances both within and between countries.

Policy-led economic failures

As noted above, Europe's dysfunctional economic outcomes (to which we add ecological outcomes) are rooted in the deliberate construction of a global economy that has created severe imbalances between class interests. The imbalances in the interests of the 1% vs the 99% has led to an ongoing contraction in aggregate demand and purchasing power across the world; but also in both 'frugal' and southern European economies. These imbalances have powered an unsustainable worldwide private debt inflation. Simultaneously policies for the repression of purchasing power and aggregate demand at domestic levels has, predictably, escalated exports and led to the rise of surpluses and gluts at an international level.

These imbalances are not, and were not, inevitable. They were the direct consequence of deliberate economic policy-making at European level. As Matthew C. Klein and Michael Pettis argue (in Trade Wars are Class Wars, 2020) the ECB refusal to support euro area governments when they came under speculative attack in 2011 was a failure that led to the ensuing sovereign debt crisis and then the widespread, and deliberate policy embrace of austerity.

Pressured by Wall St. the City of London and Frankfurt, European leaders and policy-makers made a fateful decision to force sovereign debtors, not global private creditors, to adjust by squeezing domestic spending and investment. These policies raised inequality within countries, increased the saving levels of the rich, but made it more difficult for Europeans with falling incomes to consume what their economy produced – a situation known in economics as 'under-consumption'. At the same time production ran too far ahead of purchasing power. As a consequence, European economies – ranging from Germany to Spain - could not use up all they was produced. Instead the surplus production was exported – a system known as 'beggaring thy neighbour'. Exports provided the outlet for the increasingly excessive supply of goods and services for which there was diminishing demand at home. As Klein and Pettis argue, policy decisions forced Europe's crisis countries to push " the euro area as a whole into a massive external surplus relative to the rest of the world, currently worth about 4 percent of the bloc's GDP".[4] The rest of the world, mainly emerging markets in Africa, the Middle East, India, Indonesia and Latin America as well as the UK and US "ended up being forced to absorb the resulting financial outflows through rising trade deficits and rising debt."

Under-consumption and rising exports - the ecological consequences

Consider the Netherlands, an extraordinary, but not unusual example of the detrimental consequences of policies built on the globalisation model of elevating financial markets while repressing incomes and domestic consumption (aggregate demand).

According to the IMF the Dutch economy is one of the most internationally integrated in the world. While living standards are high, the gap between rich and poor is large. According to the OECD there is a considerable gap between the richest and poorest – the top 20% of the population earn more than four times as much as the bottom 20%. Dutch exports of goods and services are very high

---

[4] *Europe Becomes Like Germany*, p.171

(over 60 percent of GDP in 2019) and have been growing in importance in the last decade. The Netherlands has one of the highest external current account surpluses in the world: 11 percent of GDP in 2019. It runs surpluses with every major economy in Europe. “This interdependence” noted the IMF in May, 2020 “makes the country especially vulnerable to a global crisis ...this will likely mean a somewhat slower recovery for the Netherlands”.

Remarkably, and despite being smaller than Ireland or Switzerland, the country, according to the Dutch national statistics office, is the world’s second largest food exporter by value after the US. In this ‘frugal’ country the over-production of, in particular dairy products, has led to imbalances that have ecological as well as economic consequences. Holland’s 1.8 million cows produce so much manure they generate harmful nitrogen and ammonia, as well as excessive phosphates in the soil. As ScienceMag explains:

> Nitrogen, a key nutrient for plants, is also an insidious pollutant. Fertilizer washing off fields ends up in lakes and coastal areas, causing algal blooms that kill marine life. Airborne nitrogen can also harm ecosystems. One source is nitrogen oxides, mostly from power plants and engine exhaust. In the Netherlands, even more comes from the ammonia vapors from livestock urine and manure. Both kinds of nitrogen react to form aerosols that cause smog, damage foliage, and acidify the soil, hindering roots’ absorption of nutrients.

This environmental crisis led to a Dutch high court decision in May 2019 that suspended permits for construction projects that pollute the atmosphere with nitrogen compounds and harm nature reserves. Politicians also called for a cull of dairy cattle. That freeze has stalled the expansion of dairy, pig, and poultry farms—major sources of nitrogen in the form of ammonia from animal waste.

A recent report in the Irish Times *‘Dairy and livestock farms in Ireland can be compared to oil production’* suggests that Ireland too faces environmental challenges from its heavy emphasis on boosting exports as an outlet for the increasingly excessive supply of dairy products for which there is diminishing demand at home. Data from Ireland’s Environmental Protection Agency (EPA) shows dairy cow numbers have increased by 32 per cent since 2011, with fertiliser imports increasing by 38 per cent in a similar time period.

As the Irish Times report notes: “Synthetic nitrogen fertiliser is a keystone of intensive dairy.” The expansion in cow numbers increases slurry volumes and the amount of ammonia gas – a nitrogen-based compound – released during slurry spreading. According to the Irish Times, the EPA's most recent water quality in Ireland report shows the highest concentration of inland water sites with nitrate levels of 8mg-25mg of nitrate per litre are in the south, east and southeast of the country which correlates with a map showing the greatest concentration of dairy cows in 2019 in the same regions.

Overall, Irish agri-food exports have grown by over 70% from 2009 to 2017 when they reached €13.6 billion, according to the Irish Government's Nitrates Derogation Review, 2019.

> The Review notes that with the backdrop of the abolition of dairy quotas in 2015, Food Wise 2025 was published setting out the current ten-year plan for the industry. This strategy sets targets for further development and intensification in primary production and value added processing. The plan aims for an 85% increase in exports, the creation of 23,000 additional jobs, a 70% increase in value added and a 60% increase in primary production by 2025. It acknowledges that economic competitiveness and environmental sustainability are equal pillars in the delivery of the strategic vision.

This ambitious strategy poses challenges specifically relating to water quality standards and Ireland's climate change commitments. But the economic imperative of boosting exports as a substitute for boosting domestic demand, also raises social justice issues. Pippa Hackett, Minister of State with responsibility for land use and biodiversity, made this point explicit in the Irish Times story, by explaining that while Ireland has this ambitious export target, the country is unable to feed itself.

> Citing figures from 2017 as an example, she says Ireland imported more than 72,000 tonnes of potatoes, 47,000 tonnes of onions, 62,000 tonnes of apples, 23,000 tonnes of cabbage and 15,000 tonnes of lettuce – all food that could be grown in Ireland. "Although dairy farming is economically viable, the sector needs to deal with a range of issues including environmental damage and animal welfare concerns", she added.

In other words, as Dr Michael Williams from the Centre for the Environment at Trinity College Dublin explained, that means that Ireland is "exporting cheap meat and dairy and living with the pollution that causes, especially from reactive nitrogen," but also with deficits in the vital production of food. Becoming more self-sufficient in food production would boost Irish employment as well as improving soil health and increasing food security.

For countries like Holland and Ireland to recover the health of their respective ecosystems, while at the same time restoring balance to very skewed economies, will require a re-orientation away from exports, towards the raising of domestic aggregate demand and purchasing power. Just as the United States had to transform its economy to recover the health of its soil across a vast area of the Great Plains, so Ireland, but also Europe will have to transform to recover the health of both its economy but also its soils and ecosystem.

As an important report, *Milking the Planet* notes,

> The UN Framework Convention on Climate Change (UNFCC) is currently discussing agriculture in one of its scientific bodies and at the next climate COP could decide to include agricultural GHGs in the climate negotiations. As governments ratchet up their climate goals for 2030 and 2050, the rise of large-scale dairy and public incentives (like the Common Agriculture Policy) that further expand exports and increase corporate dairy power, production and emissions will likely be stopped.
>
> Rural livelihoods and our planet's future depend on it."

The Green Deal

The European Commission's commitment to tackling the threat of climate breakdown is commendable. The Green Deal – "striving to be the first climate-neutral continent" is a roadmap that can rightly be described as a 'European man on the moon' moment. The September 2020 vote by the European Parliament's environment committee to raise the EU-wide target, and reduce carbon emissions by 60% by 2030, is welcome political pressure for even greater ambition.

These are first steps towards the transformation needed by a powerful Union of 27 states. But they are just that: first steps. The financing proposed for the Green Deal economic programme is inadequate to the tasks that lie ahead and is hobbled by its reliance on the private sector.

Europe, as the Green Deal recognises, has to revolutionize three broad economic categories: its energy, transport and land use – i.e. agricultural systems. It has to substitute systems that use fossil fuels, generate toxic emissions, and accelerate biodiversity decline – with ecologically safe systems. To do so, it will have to revolutionise and transform the globalised financial system that currently shapes European economies, demands higher exports and wields power over key economic levers. It will have to do what Roosevelt achieved: the subordination of the private finance sector to the interests of society as a whole. It will have to strive for an internationalism of the interests of people and planet – and dismantle a system that prioritises the internationalism of capital.

In other words, Minister Scholz's proposal for an "ambitious, cohesive and transformative" EU-wide programme needs much greater ambition and political courage.