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The macro-economic and financial framework of the Green New Deal

Setting the scene

The European Greens believe that human activity should take into consideration that we are part of a rich yet finite, interdependent and fragile ecosystem. Within this context we view the economy as a tool and not as an objective in itself. The ultimate goal of economic activity is to meet the basic needs and to contribute to a better quality of life for all, now and in the future.

We can only have a healthy economy when the earth is healthy. Present generations do not own the earth, but use it and hold it in trust for of future generations. Sustainable development[1] meets the needs of the present generation without compromising the needs of the future generations.

A green economic vision places social and environmental justice and equity within nations and between nations at the centre. This includes a just use of the earth's resources and reversing the trend of the widening gap between rich and poor. We seek to reduce inequalities in the distribution of power and access to resources. Every person has the right to meet their basic needs: clean air, water, food, shelter, energy, health, freedom, education. Every human being has the right to solidarity, democracy, self determination, autonomy, responsibility, dignity and self-fulfillment. The economy should enhance wellbeing rather than detract from it.

The Green New Deal is the endeavour that will bring about this transformation.

Why a new course is needed

We are living in a paradoxical situation. Before our economies began to shrink in the present crisis, we had never been wealthier, in the sense of Gross Domestic Product. But millions of Europeans still live in poverty or are on the verge of it. Since the mid-70s and the end of the 'long boom', European economies had to face rising and persistent mass unemployment. At the end of each cycle the level of unemployment would be higher than in the cycle before. Macro-economic policies did not succeed in solving this problem. Keynesian 'stop and go' policies revealed their limits, especially in a context of financial deregulation and the expansion of open economies. Indeed, since the end of the Bretton-Woods financial system, sanctioned by the the

[1] Brundtland report (Oxford University, 1987)

decision by US president Nixon in 1971 to abandon the convertibility of the US Dollar into gold, macro-economic policy has been implemented within the context of financial deregulation.

Floating rates and the ever more free circulation of capital was considered to be the only possible financial system for our economies. The economic and financial system is characterised by its instability and imbalances, where repeated crises seem to be the only form of corrective mechanism.

The current economic crisis is a perfect example of the basic instability of the system. At the start we had major imbalances - broad economic imbalances in global trade, the increasingly negative balance of payments of the U.S. plus real-estate bubbles in several countries and the excessive growth of private debt in several OECD countries. In the end, we saw an unprecedented recession with millions of job losses worldwide. Meanwhile, the entire global financial system was shaken to the point of needing a massive injection of public capital into the major banking institutions. This crisis reveals that high growth rates based on excessive debt and over-spending are not sustainable in any way. The dire situation of Iceland, but also Ireland and the Baltic States, until recently showcased as model economies, illustrate the unsustainable character of these growth models based on debt and financial deregulation. This crisis therefore reveals the failure of policies driven by what can be defined as neoliberal thinking.

Macro-economic policy aims, namely through monetary and budgetary policy, to steer the principal economic indicators such as GDP, inflation, employment rate and the current account. First, the implementation of the Green New Deal thus calls for a new direction of economic policy aimed at reducing our carbon footprint and improving our quality of life. Redefining objectives of economic policy requires new economic indicators to steer and evaluate policies. Second, the implementation of the Green New Deal will force a redefinition of budgetary and monetary policy at European level in order for them to serve these social and environmental objectives. Ultimately, the Green New Deal will hold even more promise in the context of a globally organised monetary system that helps guarantee the stability of industrialized and developing economies.

Putting the economy at the service of people and the planet

New objectives for economic policy...

The green answer starts with a redefinition of the goals of macro-economic policy. New objectives entail major changes to our economic model. The GND has two objectives: reducing the pressure that our economy exerts on the environment and improving the quality of life of the inhabitants of our planet. Macro-economic policy must therefore aim to achieve both of these objectives, which are linked, since human well-being depends strongly on the reduction of our ecological footprint.

In order to reach the first objective, macro-economic policy must favour financing investments necessary for a sustainable economy. In order to reach these objectives, macro-economic policy must abandon its aim of maximising production in the monetary sense, measured by GDP, and rather aim for the creation of social wealth and income distribution. The proposed policy therefore marks a break with the traditional growth logic which has implied over-consumption in the developed economies. In our model, GDP must be redefined and GDP growth as it is currently defined can no longer be a policy objective. What really matters are decent living standards and quality of life for all, which has different implications in developing or industrialized countries and regions. In the rich economies, issues such as inequalities and consumption patterns are the most important as, in spite of a high level of material wealth, a significant part of the population are experiencing a poor standard of living.

...which imply new indicators…

The implementation of an economic policy entails having the relevant indicators.

The first objective of the GND is to decrease the pressure our economies are exerting on the environment. The effectiveness of economic policy to reach this first objective must therefore be measured using an indicator focusing on the physical limits of human use of and impact on nature, such as the ecological footprint. The environmental objective cannot ultimately be valued in purely monetary terms as natural capital is not entirely substitutable by man-made capital. The ecological footprint is a good guideline as it combines both aspects of the relationship between economic systems and the environment, i.e. the use of finite natural resources for economic production, and the impacts of economic activity on the environment (carbon emissions, pollution, loss of biodiversity, etc).

Keeping monetary indicators will be necessary even in a green new deal economy as the economic field is still based on monetary exchanges. Nevertheless, current indicators such as total GDP and GDP per capita should no longer play predominant role. GDP has been criticised for decades by environmentalists as it treats social and environmental impacts as externalities, not reflected in overall economic measurements. Moreover, instead of measuring the flow of income or consumption, sustainability obliges us to focus on stock. In that way, the use of the adjusted net savings indicator appears to be a good basis. This indicator follows the same principle as corrected GDP but is expressed in terms of level of wealth instead of flow of income or consumption. The idea is that sustainability requires the maintenance of a constant stock of "extended wealth" i.e. natural + productive + physical + human capital, which are all seen as the ingredients necessary to provide opportunities equivalent to those that we have enjoyed to future generations.

The calculation of this indicator is made by adding to net savings (gross national savings minus consumption of fixed capital) education expenditures (considered as investment in human capital) minus an estimation of the depletion of natural resources (reflecting the decline in asset values associated with their extraction and harvest) and a monetary evaluation of global pollution damages resulting from CO2 emissions. The advantage of that indicator is that it is already available for 140 countries and data are validated by the World Bank. It draws attention to investments in human capital and good governance that have emerged as important factors as part of a nation’s capital. This indicator has to be used in complement of a non-monetary indicator as it can lead to inconsistencies. Developed countries may be seen as being “on a sustainable path” because high levels of human and man-made capital compensate for poor natural stock, while some developing countries, especially natural-resources exporting countries are “on a non-sustainable path”. In addition other indicators could also be useful in order to measure the resource efficiency of any exchange.

The second objective of the GND is a better quality of life for all on the planet, which implies using two sets of indicators.

On the one hand, an indicator of human and social well-being is needed and must encompass simultaneously several dimensions such as employment and personal activity, access to health and education, material living standard, poverty, political voice and participation, subjective happiness, social connections and relationships, etc. These dimensions can be summarised in one synthetic indicator (on the model of the Index of Social Health) or presented as a dashboard, depending on the use one wants to make of it. On the other hand, inequalities should be evaluated by an indicator summarising the various societal and geographical inequalities including gender inequality. Since, at this stage, no such indicator exists, GINI might provide a suitable proxy. Besides, the ecological footprint is also useful to assess global inequalities regarding the use of natural resources and the global distribution of wealth.

It is crucial that all above mentioned indicators are satisfied simultaneously. Significant thresholds have to be defined for each indicator and to be set as binding and non-substitutable goals. This is because the objectives of the GND make sense only if they go hand in hand: a high level of human development and a low level of inequalities have to be reached within the limits of the planet. Reaching one objective (e.g. achieving a high level of human development) doesn't compensate for the other (e.g. still increasing the ecological footprint). Finally, it is important that the indicators serve not only as guideline for the elaboration and evaluation of policies but also as popular symbols of the cultural change inherent in the GND. Therefore, the new indicators need to be simple enough to be understood by everyone and to be straightforward communication tools. Restricting to four the number of indicators also follows this logic. However, this doesn't prevent a higher degree of complexity and disaggregation when using the indicators in policy making.

Therefore, we Greens propose:

- Eurostat should expand the collection of data supporting the alternative indicators both on a national and sub-national level and publish a dashboard presenting both classical economic indicators and alternative ones.

... but also a re-regulation of our economies…

Economic policy must aim for stability. Cycles of boom and bust, repeating periods of crisis, with peaks in unemployment and job insecurity, are profoundly undermining the cohesion of our societies and create a feeling of lasting insecurity for a large part of the population. Not being able to promise the complete eradication of crises in market economies, we must strive for regulatory frameworks that allow us to greatly reduce the destructive impacts of possible crises. This is why we strictly oppose too-big-to-fail or too-interconnected-to-fail structures, for instance. Trust in a sound economic future is a factor of well-being for European citizens. Moreover, economic stability is a key factor for long-term investment, essential for the introduction of a green economy.

… and an optimization of the localisation of our economies

A sustainable economy will optimize the localisation of production where that helps to minimize the ecological footprint. The organisation of international trade will have to change in order to take into account this new aim. There is no "one size fits all": neither full globalization nor full localisation can be consistent with our overall goals of reducing our environmental impact and increasing social justice. Local economic activity should be favoured wherever it makes the most ecological and social sense. Including the real costs of all externalities (transport, energy) is therefore required in order for prices to reflect real impact[2].

The localisation of our economies must also be looked at in terms of land and structural management and regional policies. In order to create regions with converging standards of wellbeing and low ecological footprint, the transfer of economic activity may be required. This will make sense providing that the concerned sectors respect the potential and the genuine character of a region and the voice of citizens in its re-organisation. Criteria of landscape protection may be necessary to maintain sustainable forms of agriculture even in areas where productivity is low.

The location of economic sectors and the choices made should also take into account social factors and aim to meet the basic needs of the local population, an aspect that is important in rural areas in the industrialised countries and especially in developing countries, where cash-crops replace food production and lead to further impoverishment and food crisis. To reach this objective, a real policy of carbon taxation must be implemented, this could be done via systems, such as tax-and-dividend.

[2] A study will be financed by the Green Group in the European Parliament in order to evaluate the impact on the localisation of the production depending on the price of carbon. The place of international trade within a Sustainable economy will be at the centre of a specific debate within the Greens. Its conclusions will have consequences for the macro-economic framework of the Green New Deal. In any case, the Green New Deal working group can, in future contributions, propose tools towards the localisation of our economies.

Putting finance at the service of the economy

If the economy has to serve the needs of the people and the planet, it cannot do so if finance remains disconnected from—or rather keeps working against—the real economy. To put it bluntly, putting finance back at the service of the economy implies closing down the global finance "casino" where huge losses are compensated by the general public. New speculative instruments and practices are likely to appear in the near future. Therefore, a green alternative must emerge under a new paradigm of analysis. If we cannot stop capital accumulation and the unlimited growth objective of this economic system, we will be unable to implement a green policy that is sustainable and fair for people, future generations and the environment.

A united Europe must play its role in solving the financial crisis. Once equipped with the instruments of the macro-economic framework: economical governance, budget coordination and solidarity and fiscal consolidation, it will be able to play this role on a global level.

Since 2007 financial markets have entered into a period of repeated crisis that in the end may contribute to the failure of key businesses, a decline in consumer wealth, substantial financial commitments of governments that would have to be taken from other sectors and a significant decline in economic activity.

It should be pointed out that Europe did not stay away from the global casino: European financial institutions that amassed 'toxic' assets linked to US sub-primes revealed their lack of understanding of the complicated products of the interconnected financial system which is not enough nor adequately regulated. It is striking that the first European banking company to fail was in Germany, a country spared, up to that point, the real estate bubble. IKB Bank, specialising in loans to SMEs, thought it wise to invest in American subprime mortgage credits. One of the consequences of the long-term, worldwide economic breakdown is the 2010 European sovereign debt crisis.

In this situation both market-based and regulatory solutions have been implemented or are under consideration. In 2008 and 2009 governments and central banks responded to the slowing down of the economies with unprecedented fiscal stimulus and monetary policy expansion. In 2010 austerity programs are on the agenda, especially in Europe, where the euro zone is at risk because of the pressure on the financial markets, which led to the Greek crisis and could destabilize other member states as well.

The control of the financial market is urgently needed, because the regulatory framework has not kept pace with the rapidly developing financial sector, which invented new high risk products. The financial markets have also reached a degree of complexity and globalization which causes a lack of transparency and difficulty in controlling them. Specifically, it increased the importance of the shadow banking system, investment banks, hedge-funds, derivatives, off-balance sheet financing, subprime lending. At this stage only global governance can effectively and rapidly influence the situation, which nowadays rapidly leads to global contagion and global economic shock. Europe must be united in order to push through the necessary measures.

Preserving financial stability in the EU requires a three step approach consisting of: i) a strong prevention framework based on the fight against speculation and the internalization of negative externalities created by financial markets on the basis of the principle 'polluter pays'; ii) early intervention mechanisms through the reinforcement of control and intervention powers of future European Supervisory Authorities including the possibility of temporarily forbidding products and limiting potentially dangerous practices; iii) a single European framework for cross-border crisis resolution based on a fair burden sharing mechanisms and requiring that stockholders and creditors contribute to the resolution burden before taxpayers.

Reduce systemic risk

Deregulated globalised finance is a factor in financial contagion. European banks must serve to finance the European real economy, to the benefit of the people and must be aware of their responsibility to avoid the negative economic and social effects caused by financial instability. The division of the ING corporation into two separate entities, one for banking activities and one for insurance activities, as imposed by the Commission, marks a positive evolution towards the reduction of the size of financial actors in the EU.

Therefore, we Greens propose:

- Breaking up banking groups considered "too big or too interconnected to fail", whose bankruptcy would be a systemic risk. This breaking up should be done via a separation of the public utility function of banks from the investment bank activities. This could significantly lower costs in case of a financial crisis when the public functions will have to be saved;
- A set of stringent capital requirements rules that would strongly discourage excessive risk-taking by financial institutions while favouring those that focus on narrow banking – i.e. collecting savings and issuing loans to the real economy;
- That the compensation of executives and financial traders must be drastically reined in. These were effectively one of the root causes of the current crisis as large banks tried at all costs to artificially inflate the performance of their funds in order to justify the outrageous salaries of their traders. This encouraged executives to take ill-considered risks when trading credits. From now on, their extravagant salaries and bonuses must be controlled in order to be in line with real, sustainable performance. This could be done by limiting variable income to at most 50% of total remuneration, paying bonuses only after some years after the performance and taking risks and costs into account when setting the targets to be met to acquire a bonus.
- The implementation of a global financial transaction tax in order to discourage high-frequency trading and speculation and provide governments with a new source of income; If not possible at global level, the financial transaction tax should be implemented at regional level and in particular in the euro-zone.
- That naked short-selling as well as leveraged short-selling, that is, speculating on the loss of value of assets without having a corresponding business exposure and owning any such assets, be permanently banned;

- That the valuation of stocks by the fair value principle (market to market), which has proven to be feeding the crisis, should be reformed; similarly, accounting rules must ensure that the balance sheets and corporate accounts reflect the economic reality, e.g. by drastically restricting the ability of financial institutions to remove key risks from their balance sheets and by moving away from rules that are exclusively based on short-term market value;
- That initiatives be taken at European level to effectively tackle the accreditation, transparency and control of hedge funds;
- Similarly, that increased action be taken to prevent tax fraud and tax evasion, effectively closing the tax havens within the EU and putting pressure on those outside the EU. Moreover, EU Member States should no longer have the option to levy an ‘EU withholding tax’ instead of lifting their bank secrecy;
- That consideration be given to measures effectively preventing speculative shareholders to exert control on enterprises (e.g. by imposing delays before their voting rights become effective)
- That institutions that "act like banks" should be regulated similarly to banks, and that the shadow banking sector should be better and stringently controlled
- That an early-warning system to help detect systemic risk should be established
- When governments make use of banks, e.g. in public procurement, in public-private projects or local authorities arranging their financial affairs, these banks should conform to top criteria for corporate social responsibility, for example such as set in the Global Alliance for Banking on Values.

Simplify the financial system

The financial sector developed thanks to financial instability and made it its day-to-day business. In this way, the Credit Default Swap (CDS), which increased tenfold in the four years between 2004 and 2007, exceeded by a factor of 12 the amount of risk receivables that these new instruments were supposed to cover. The financial sector thus self-maintains a system where new financial instrument become vehicles of instability.

Creating a regulated international monetary system should reduce the need for hedging instruments. But the simplification of finance must also involve getting rid of financial innovations whose harmful consequences only came to light during the financial crisis. Their control or abolition is necessary.

Therefore, we Greens propose:

- Putting an end to complex securitisation, which only takes responsibility away from lending organisations, making them unaccountable for the consequences of a rash and reckless group of borrowers; therefore all financial instruments currently marketed and sold by financial institutions, especially those which enable securitization of loans, must be scrutinized by a Financial Services Testing Foundation, set up at European level. Those whose harmlessness and added value to the economy are in serious doubt should be banned.

- Banning the marketing of structured products to local authorities and private individuals. Namely, this means preventing the sale of loans in foreign currencies, such as loans in Euros in Eastern European countries.
- That current examples of ethical banks and alternative finance networks should be supported and encouraged as they represent concrete ways of putting the financial sector at the service of a green economy and society.

These proposals would not prevent banks from financing the economy. They would not lead to an increase in the cost of credit, but rather to a better evaluation of risks. Indeed, banks will still be able to refinance each other. They will also always be able to issue shares and bonds on financial markets if they wish to increase their own resources.

No player, no market, no instrument without supervision

As finance has become global, global supervision is required. However, as two years of G20 governance demonstrates, this is still a (very) long term perspective. Therefore, Europe should not delay the implementation of an EU supervisory structure that can tackle trans-national, multirole financial players, instruments and markets effectively. All the rules defined above should be duly enforced by a European finance watchdog, enjoying appropriate powers and resources.

Therefore, we Greens propose:

- The implementation of the EU financial supervisory structure as advocated by the European Parliament, combining the European Systemic Risk Board and the three European Supervisory Agencies, operating as an integrated structure with a common set of rules;

These new regulations should lead to a reduction of the share the financial sector hold in the economy. This share has never been so great as it is now: 5% of gross added value of the EU 27 in 2008, or 10% more than 10 ten years ago. However, banks, whose primary focus is financing the economy, have absolutely no reason for such a high share in added value. The end of complex products should bring about a significant decrease of the size and profitability of banks. This drop in profitability would also be emphasised by the break up of large banking groups, which should allow for greater competitive intensity in this sector. The consequences of this profitability drop would be the end of extravagant salaries and a decrease in the banking sector's workforce. Banks will no longer have the means for such munificence.

Building an effective economic governance for the EU[3]

A Europe of knowledge and innovation cannot be built on a deregulated economic model. The European Union must acknowledge the incapacity of a free market to optimally allocate

[3] One should keep in mind that in terms of monetary policy, the European Union is divided between countries belonging to the Euro zone (16 Member States) and the others (11 Member States).

resources. The EU has been constructed as a single market which promotes free movement of capital, but beyond the Monetary union it lacks two intrinsic dimensions, which are necessary conditions in order to avoid fiscal and social dumping: a significant European budget (now it is only 1% of the EU GDP) and strong European regulation agencies. Therefore, we must not only strive towards the enlargement of the Euro Area but also towards a much stronger economic integration. Such a project involves a proper EU fiscal policy and treasury as well as proper transfer mechanisms based on the principles of solidarity, responsibility, subsidiarity and transparency. It must also recognise the unstable character of deregulated financial markets. Europe does not need "effective and integrated financial markets", to use the words of the Lisbon Strategy. It needs regulated financial markets at the service of a Europe of knowledge, innovation and ecological transformation.

Keep the Euro zone open to all Member States

The integration of European economies and the ensuing interdependence make exchange rates stability a mandatory condition for stability of European economies. The development of a single monetary zone appears desirable for countries already part of the Economic and Monetary Union (EMU). This would avoid monetary dumping by competitive devaluation from non-Euro countries of the European Union outside the Euro zone. Such an evolution would be desirable for the very open economies of most eastern countries also because their integration into the Euro zone would be a factor of stability for such countries. However, this integration can only be possible following a stronger economic convergence process, better addressing internal imbalances than has been the case for the integration of every Euro zone member until now. This convergence process cannot be forced and no integration to the Euro-zone should be done without the clear support of citizens. The prospect of enlargement of the Euro zone, politically and economically desirable, must be seen in a more or less long-term perspective, depending on the state of these countries' economies and the citizens´ will.

Redefining the objectives of the European Central Bank (ECB)...

Today, the ECB formulates its monetary policy with price stability as its principal objective. Furthermore, the ECB's operational definition of price stability must be redefined all the more because it currently limits itself to inflation of consumer prices in the medium term. Indeed, controlling inflation should, in a GND strategy, serve the primary goals of this economic policy, which are, after all: reducing pressure exerted by our economies on the environment and increasing quality of life for as many people as possible. Monetary policy must ultimately be at the service of these two objectives. Indeed, the Treaty on the Functioning of the European Union (Lisbon Treaty) requires the ECB, without prejudice to its primary objective of price stability, to support the general economic policies in the EU, contributing to the achievement of the objectives of the EU, which include sustainable development, full employment, social progress, and a high level of protection of the environment, as well as social justice and protection. Fighting against inflation is a goal, but it must not be considered an end in itself for the ECB.

The concept of low inflation protecting non-active citizens with fixed incomes (like pensioners) to the detriment of working persons is a debatable one. Nevertheless, control of inflation can be justified as for example an instrument to keep low long-term interest rates, necessary to finance the Green New Deal. Today, the rigorous monetary policy of the ECB and the credibility acquired from the Bundesbank ensure low long-term interest rates for all countries of the Euro zone. Maintaining low long-term interest rates (defined by the market following inflation perspectives and economic agents' preference for immediate consumption**)** must therefore remain an important intermediary objective for the ECB.

... which implies broadening the ECB's scope of action

The ECB must also strive to limit fluctuations of the economic cycle. To do so, the Central Bank's policy must help prevent and counter the development of speculative bubbles on asset prices. The notion of price stability must therefore not be limited to the price of consumer goods and services but also incorporate the evolution of patrimonial assets prices (financial products, real estate...). Because it is perfectly feasible to have a high inflation of asset prices and low inflation of consumer prices simultaneously. This is the pre-crisis situation and the one that appears to be occurring again, with a quasi deflation in the real economy and the formation of another bubble on the markets. By ignoring this situation, the ECB contributed to the excessive debt of European households (gross and often net debt) and companies. As a consequence, the rate of debt of households in the Euro zone reached 93% of their income in 2007. A record which can be explained for the most part by the boom in real estate prices in several Euro zone countries (Spain, France, Italy and Ireland). A situation which weakens the financial position of the working classes who, in the case of a drop in income, often become overwhelmed by this unsustainable debt.

The ECB should also play an institutional role in the management of the European government debt. In periods of recession it must have the ability to purchase government bonds directly, thus supporting the currency and controlling debt. In periods of expansion it would take the opposite action**,** namely to gradually eliminate the portfolio of government bonds it has in its possession thus helping to curb the currency and financial policies. This institutional role of ECB in terms of debt management will make it more efficient as a regulator of monetary circulation in the Eurozone. As the result of its intervention it will depend less on interest rate policy. The Stability and Growth Pact should be adjusted so that the institutional interventions of the ECB can be added to the European framework of financial control.

Central banks cannot simply observe and take note of the "irrational exuberance of markets", to use the words of Alan Greenspan in 1996. They owe it to the citizens to act and find solutions where markets are incapable of rationally allocating resources.

The redefinition and enlargement of the objectives and mandate of the ECB should encompass a strong reinforcement of accountability and transparency. A stronger accountability could be achieved through a compulsory confirmation vote after nomination by the European Council as well as revocation powers for the European Parliament as it is the case for the Commission and the FED in the USA. Such reinforcement involves also a broader transparency policy (e.g. publications of minutes and disclosure of financial operations accompanied with appropriate confidentiality measures and delays for ex post disclosure in order to preserve financial stability if required)

A long-term green monetary policy requires answering the question of who should be entitled to create money, how and why. If money creation and supply is to be understood as a service of general interest it is therefore crucial to promote a strong regulation and democratic ownership of such a process. Experiences aiming at de-privatizing money supply and developing local monetary systems have helped deprived regions to stage their economic self-defence and could also play a role for broader localisation and diversification strategies i.e. for efforts to set up smaller, more local economic channels[4]. Policies should be designed with the aim of supporting existing grassroots initiatives (Systems of Local Exchange, Transition Towns, solidarity purchase groups, time banks etc) and encouraging the development of new ones.

Therefore, we Greens propose:

- That the ECB's definition of price stability and its analysis should be broadened so as to encompass the oversight and the fight against speculative bubbles. This monitoring will be done in particular by the analysis of the evolution of outstanding loans. In the event speculative bubbles appear, the Central Bank must reduce available liquidity. Mortgage loans should have been rationed as early as 2005, which would have avoided bubbles in Spain, Ireland or France.
- To do so, the Central Bank could adjust the compulsory reserve requirements with national central banks with respect to the volume of some types of outstanding loans, including real estate loans. This policy would allow regulation in one of the Euro zone countries without penalising the entire zone. National regulators could also take measures (e.g. imposing loan-to-value limits and leverage ratios) to fight against speculative bubbles.
- To 'green' ECB refinancing policy: The European Central Bank reserves the right to refinance credit and inject liquidity into the economy through re-discount rates and open market operations**.** This way, the Central Bank ensures liquidity of the banking sector. However, the ECB actions must encourage that liquidity put at banks' disposal actually results in financing the real economy (lending / credit to companies and private individuals) and not in financial operations aiming at achieving short term capital gains (financing investment funds, hedge funds, trading for own account).
- Access to banking liquidity must not depend solely on a "best payer policy". The Central Bank must make its refinancing rates more selective by imposing differentiated or split rates, taking into account the profile and policies of financial intermediaries. This will require close cooperation with supervisory authorities, which possess information on individual banks

[4] 4. Several empirical studies have highlighted the current and potential role of local and alternative currencies such as : *Monnaies régionales, de nouvelles voies vers une prospérité durable*de Bernard Lietaer et Margrit Kennedy - Editions Charles-Léopold Mayer ; Robert Costanza et al., "*Complementary Currencies as a Method to Improve Local Sustainable Economic Welfare*", University of Vermont, Draft, Dec. 12th, 2003 ; B. Rietaer, "*Global Complementally Currency: Making Money Sustainable*", *Environmental Research Quarterly*, Vol. 125, pp. 53-59, 2002; Lietaer, B., Ulanowicz, R., and Goerner, S. (2008) "Options for Managing a Systemic Bank Crisis". S.A.P.I.EN.S. 1 (2); Jeremy Faludi, "*Complementary Currency: For Bootstrapping, But Not For Everything*", *Worldchanging*, Oct. 4th, 2005.

Adopt a sustainable budgetary policy

Regain structural budgetary balances

Budgetary policy is mainly driven by structural spending. Indeed, the State's budget is essentially made up of recurring spending (education, health, defence, security) which aims to ensure the production of public goods. Beyond current crisis deficits, the high debt level of the main Member States (61,5% of GDP in 2008 for the EU 27) can be explained by an increase in structural public spending and a continuous trend toward reducing taxation for the wealthiest individuals and for corporations.

The increase in public spending is to a considerable degree being driven by structural trends. Industrialized economies strongly depend on the production of public goods (education, physical and digital infrastructures, etc...). Spending on health increases faster than GDP due to increased demand for health care and greater technical skill they require. Furthermore, most European countries are faced with an ageing population. Contributory Pension schemes will therefore see their costs increase distinctly.

The increase of public debt limits the margins of manoeuvre in public policy. Interest charges are reducing the possibilities for discretionary spending. Moreover, public debt leads to an inverted redistribution from the poorest to the richest. Instead of raising sufficient taxes, the State indebts itself to the middle and upper classes and pays them interest on bonds. This interest has to be financed by all tax payers and increasingly governments rely on indirect taxes (VAT, Fuel tax, ...) to close the gap.

In order to fight against this unsustainable debt which increases inequalities, it is necessary to reconcile fiscal revenue with the spending that is necessary to achieve the GND objectives.

Therefore, we Greens propose:

- Increasing the progressivity of income taxes and ensuring that all forms of income are taken into consideration, including capital income, inheritances, in order to reduce the tax burden on labour income and to achieve a more fair income taxation;
- The creation of new indirect taxes namely on financial transactions and on balance sheets of financial institutions (bank levy).
- Abolishing environmentally destructive subsidies and introduce sunset legislation.
- Use a carbon tax to bring the price of fossil fuel closer to its social cost, thereby rationalising the relative prices of fossil and renewable energy and contributing toward fiscal sustainability.
- With regards to taxing company profits, the EU needs a common consolidated tax base at European level. Further coordination of corporate taxation in EU Member States should be ensured, including the establishment of a minimum tax rate with a corridor option in the medium term;
- Increase the efforts against tax fraud and tax evasion, that are estimated at 300 Bn € annually in the EU;

- Effectively fight against tax havens, starting with abolishing those within the confines of the EU:
- Focusing also on the spending side: shifts to government spending that supports sustainable sectors; reduce spending on sectors like armament and subsidies for nuclear power and other pharaonic projects.

Regain margins of manoeuvre to finance the GND

The reduction of public deficits is all the more necessary as the transition towards a sustainable economy will require major investment in infrastructure. Financing these infrastructure investments cannot rely on governments alone and will have to include mobilizing private investment through different tools including incentives and penalties, regulation…. Whatever investment capability is left to Governments must be focused on Green New Deal projects.

In order to finance the GND, banks need access to privileged financing through the European Investment Bank (EIB). The EIB could borrow on financial markets at preferential rates thanks to State guarantee and funding from the European Budget. The EIB will also offer preferential rates to finance projects with a high social and environmental value. The United Nations or a European agency would give labels to projects (i.e.: Investments in building insulation, development of public transport, etc...) that could benefit from these low interest rates, which would strengthen their profitability. Financing the GND will also be done through existing instrument provided by the EU as structural funds. We should give the structural policy an orientation towards green development and avoid the support of unsustainable projects. Having a coherent strategy like the GND can also help to elaborate a coherent funding policy.

Therefore, we Greens propose:

- The creation of new and progressive eco-taxation in order to fund the transformation of our economies and to limit the tax burden on labour.
- Increase of environmental taxes should be compensated for lower income classes, e.g. by government subsidies or tax cuts.
- Investment into GND initiatives should be taken properly into account on a case-by-case basis, when assessing whether a Member State should be subject to an excessive deficit procedure
- Capital invested in sustainable funds that exclusively finance sustainable companies and projects could be granted tax benefits or exemptions in the Member States

A new EU framework for fiscal and macroeconomic sustainability

The recent economic and financial turmoil have clearly illustrated the fragility and vulnerability of the Eurozone and more broadly, of the EU as a whole. Given the current emergency situation and the threat of a deflationary trap if aggressive and uncoordinated measures of fiscal consolidation are implemented across the EU, it appears crucial to go beyond the temporary measures aiming at stabilising the euro area. The current crisis in the EU is a solvency crisis that initially manifested itself as a liquidity crisis. This cannot be resolved in the long term by simply pouring new debt into highly indebted countries in combination with accelerated and uncoordinated plans for fiscal consolidation. The current strategy of securing credit lines to vulnerable countries coupled with high real interest rates under conditions of deflationary shock therapies basically amounts to buying time. Therefore, state insolvency can be a first step to allow these countries to regain a balance of public finances if it is made under an internationally coordinated process. A longer-term perspective requires tackling the problem of underlying insolvency and therefore the structural roots of the current situation. Contrary to the past conventional doctrine of European policy makers, the economical stability of the Union depends on a far wider set of conditions than compliance with budgetary discipline; A longer-term vision involves therefore the correction of a broader set of internal macroeconomic imbalances within the Eurozone and the EU. In this perspective it is urgently needed to define a new EU framework for fiscal and macroeconomic sustainability and therefore economic governance of the euro-zone and more broadly of the EU. Such new framework will require the reform of the Growth and Stability Pact.

A coordinated approach for macroeconomic rebalancing as a necessary reform to the Stability and Growth Pact

The current crisis made it obvious that the fiscal position is unsustainable if the financing of the private sector is unsustainable. One can not help noticing that the Growth and Stability Pact ignores that problem. Spain and Ireland were amongst the star pupils in the Eurozone before the crisis in terms of public deficit. However, these countries were in economic overheat and had amassed huge and unsustainable amounts of private debt (both companies and households). In the short run they had few levers but deflation, with all its harmful social consequences, to regain competitiveness, since exchange rate policies are no longer an adjustment factor. In addition, low workforce mobility in Europe does not allow for a rebalancing between economic zones showing differentiated growth and inflation performances.

In the current context it is crucial to enhance surveillance and strengthen economic policy coordination beyond the budgetary dimension to address other macroeconomic imbalances.

At the level of surveillance the EU should adopt a scoreboard that will indicate the need for action reflecting both internal and external developments. It would encompass a relevant set of indicators and reflect, inter alia, developments in current accounts, net foreign asset positions, productivity, unit labour costs, employment, and real effective exchange rates, as well as public debt and private sector credit growth and asset prices. It would appear particularly important to detect asset price booms and excessive credit growth at an early stage to avert costly corrections of fiscal and external imbalances at a later stage. Following an in-depth joint diagnosis based on this scoreboard (which would contain some specific provisions for Eurozone Member States), EU Member States would coordinate and decide about their national efforts together. All Member States should aim to make progress, but those with larger gaps should generally contribute more towards meeting targets of debt stock and deficits. Decisions should include a concrete course to cut non-cyclical government expenditure, as well as measures related to the correction of other macroeconomic imbalances. As members would decide together the path to rebalancing, the overall applicability and the spill-over effects would need to be addressed and taken care of. For example, it might be to the benefit of all Member States to allow some of them to postpone a full-speed consolidation if the resulting relative growth effect is positive for the sum. Such a joint decision and coordination process would require countries with current account surpluses to stimulate employment and internal demand *inter alia* by increasing investment for a sustainable recovery, while countries with current account deficits would adopt specific measures intending to rebalance public budgets and current accounts taking proper consideration of the need to preserve social protection and cohesion. In any case, such a procedure would require a proper articulation with Member States' budgetary process as well as with the EU budgetary process in order to guarantee a full participation of Member States National Parliaments and the European Parliament to the decision making process (see point 3 below).

Eurobonds for sovereign debt financing in line with agreed joint paths for macroeconomic rebalancing

After the adoption of joint and coordinated rebalancing mechanisms, a Eurobond issue should then cover a substantial proportion of the sovereign debt. The soundness of fiscal policies has to be carefully monitored and scrutinized and this requires a stronger role for Eurostat.

In case of non-compliance with the decided joint rebalancing path, incremental correcting measures based on early warning alerts for individual Member States, for a group of members or for the EU as a whole (in close coordination with the forthcoming European Systemic Risk Board) as well as appropriate and proportionate sanctions and incentives should be foreseen[5].

A EU financial facility and an enhanced coordination and articulation between EU and Member States budgets as a counter-cyclical complement for a sustainable fiscal consolidation

An adjustment procedure allows ~~a~~ vulnerable Member States to redress their public finances at a lower cost. We could fund investment expenditures (through the Structural Funds and the European Investment Bank) in exchange for a national commitment to adjust through an EU financial facility. Explicit and objective eligibility and conditionality criteria and an instalment procedure should be therefore defined in the new framework.

This enhanced coordination and articulation between EU and Member States budgets as a counter-cyclical complement for a sustainable fiscal consolidation could be sought in order to reduce the dependence of fossil energy imports through substantial investment programs in the field of resource efficiency as well as in the field of renewable energies. These programmes would not only guarantee a long term return on investment but would also help to correct current account deficits as long as all highly indebted EU countries—and more broadly most EU Member States—are net importers of fossil sources of energy at an average of 8% of their GDP. Last but not least, even within the current framework of the EU budget, margins available under the EU own resources ceiling for payments provide a potential amount going well beyond the 60 billion Euro package adopted by the Council in its European financial stabilisation mechanism.

[5] Sanctions could include *inter alia* a smaller eligibility to eurobonds as well as enhanced conditionality of Cohesion Fund and other EU expenditure.

The EU budget therefore provides an important potential leverage for financing an EU facility as a counter-cyclical complement for a sustainable fiscal consolidation.

A permanent EU sovereign debt resolution mechanism

The special purpose vehicle created the 10th May on a purely intergovernmental and temporary basis should be developed into a proper new EU permanent mechanism which would define the rules and the authorities involved in the management of EU and Eurozone's contribution to rescue packages. This permanent mechanism should encompass the organisation of an orderly resolution of a Member State should a rebalancing programme fail. It should also foresee *ex ante* rules for burden sharing for an orderly resolution intending to avoid contagion and ring-fence insolvency, including debt swaps for sovereign debt with appropriate haircuts and a set of incremental conditionalities. The flights to safety provoked by waves of panic experienced during the current financial crisis have had massive distorting effects and create costly negative externalities. In order to internalize these panic induced externalities and distortions and therefore protect financial stability (which is one of its key objectives), the European Central Bank should continue, when required, to take responsibility for the operation of open markets started on 10th May 2010, which entailed buying sovereign debt of vulnerable Member States in secondary markets, and in the future, debt swaps with the EU guarantee foreseen above if required. In doing so, it would contribute to a decrease in the yields of these bonds and reduce the spreads with stronger bonds. Sterilization measures should be implemented if core inflation increases and if the output gap is therefore reduced.

Therefore, we Greens propose:

- Beyond the current objectives concerning solely public debt a reformed pact should include a broader objective concerning the sustainability of the whole debt of Member States, public and private. Therefore the reformed pact should add an objective for the stability of current accounts which includes specific targets and indicators. A new alert system (the scoreboard mentioned above) has to be based on a broad perspective of the evolution of whole debt of MS and should therefore provide a joint assessment of growth rates, current accounts as well as fiscal, firms and household balances.
- A new framework for fiscal and macroeconomic sustainability should encompass, as proposed above the joint issuance of Eurobonds for sovereign debt financing in line with agreed joint paths for macroeconomic rebalancing; A EU financial facility and an enhanced coordination and articulation between EU and Member States budgets as a counter-cyclical complement for a sustainable fiscal consolidation and a permanent EU sovereign debt resolution mechanism.
- States can also be given objectives of medium-term progression of minimum real wages, at least equal to the increase in productivity. This norm would avoid wage deflation without freezing distribution of added value between wages and profits. At the same time this norm (which should stabilize labour unit costs) would create the necessary conditions for the long term convergence of inflation rates which are historically correlated with the evolution of labour unit costs.

- In the long run, the EU must advance to a model of fiscal integration that allows a diverse spectrum of economic policies. The creation of European regulation agencies and a real European budget is crucial. Therefore a high level representative democratically elected by the European Parliament has to be the head of the European economic institutions, which have to coordinate the Euro group and Ecofin group.

An economic governance for the planet

Restoring international balances by returning to an organised monetary system

Stability and sustainability objectives on the macro-economic level also imply a decrease in global imbalances**.** Financial deregulation has been accompanied by chronic financial instability. Floating exchange rates proved their incapacity to rebalance imbalances in current accounts. Since the beginning of the 90's, the current balance of the United States never ceased to be in deficit - a situation that led to massive debt of the US to the rest of the world, in particular China. Financial markets showed their incapacity to allocate resources in an optimal way when faced with 'bubbles' (Internet bubble, raw materials bubble, real estate bubble, a new speculative bubble currently in the making). Financial deregulation does not keep its promises. It mostly helped its over-zealous supporters to become rich by creating an enlarged financial sector. Worse, this financial deregulation led to a succession of crises with dreadful social consequences for the people living in poverty, be it in our societies or in the global south. The Green New Deal's macro-economic policy therefore outlines a strategy to create a regulated system not only at European but also at global level. This regulated system calls for a decrease in the global debt of our economies and to restore as much as possible a balance of current accounts between the EU and the rest of the world.

Restore exchange rates stability and supervise the flow of capital

The EU 27's current balance was just under 244 billion Euros in 2008 - 2% of the EU's GDP. This deficit is largely linked to the deficit of the trade balance of goods: a situation which only goes from bad to worse as oil prices soar. It seems likely that this situation will remain with us for at least the next few years. The International Energy Agency foresees the price of oil to rapidly (2011) reach its record high of 2008. Such a situation would lead to imported inflation and could, in time, mean a possible rise in interest rates in the Euro zone to avoid any second round effects. In order to avoid a brutal economic shock as occurred in 1974, Europe must seek to regain commercial balances with oil producing countries. This entails a strategy to decrease our energy dependency, which is both of environmental and economic importance.

Yet, in the financial system, there are no short or medium term counter weight forces to redress these imbalances. The evolution of exchange rates is too erratic to act as a regulatory force. The United States is thus able to finance an ever-growing deficit of their current balance without harming the dollar. At the same time, China unilaterally maintains a fixed parity for its currency which exacerbates the scope of its current balance excess. This situation leads to over-consumption by the American consumer to the detriment of Chinese consumption. As the current crisis reveals, these imbalances are not sustainable on the long term. Reducing financial instability therefore implies to limit these imbalances.

In this perspective we call for a new Bretton Woods, which would allow resetting the rules of the international economic and monetary governance towards the GND objectives.

Therefore, we Greens propose:

- Exchange rates between main regions should be stabilised. The central banks should set limits to short term exchange rate fluctuations. Central banks should act on a coordinated basis in order to insure that the exchange rate remains in the corridor previously defined. In the case of an inflation-differential, the upper and lower bound would be adapted. All participating countries should agree that competition shall take place at the micro level only and not between nations. The aim of this new multilateral regime should be the prevention of fundamental and long lasting trade and current account imbalances.
- Free flow of capital cannot contribute to a stable economy. Short term flows of capital are not desirable in particular for developing countries if unregulated. There should be economic incentives for long term investment of capital and disincentives to extreme short term investment.
- Free circulation of capital, which allows speculative attacks on currency and massive withdrawals of capital from an economy, must be regulated through multilateral mechanisms granting support to threatened countries including swaps and other monetary arrangements.

Re-establishing a global economic governance in the framework of a more democratic IMF

Global economic governance needs democratic institutions in order to set up the stability and sustainability pact worldwide. The de-regulated monetary system needs new structures in order to stabilize the financial markets. The creation of monetary zones worldwide with countries that set up common objectives in order to develop converging economies would contribute to facilitate the global control of financial markets and create a greater stability of exchange rates. Short term economic and monetary objectives should be adapted to the actual starting point of the economies of its members. Long term objectives are given by the GND.

A transformed IMF could act again as guarantor of the international monetary system

Therefore, we Greens propose:

- Voting rights allocated to countries can no longer be tied solely to GNP. Demographic weight must be considered.
- The European Union / The Euro zone countries must designate a single representative to the IMF, in charge of defending European economy's interest as a whole / the economy of Euro zone Member States.

Establish new price setting systems of raw materials

In addition to the objective of achieving more exchange rate stability, the price of raw material must also be set in a more stable way. Setting oil prices daily is a non-sense for a non-renewable resource whose use is set in a long term perspective. As is the case with price setting of iron-ore, main raw material prices should be set on an quarter/annual basis, between the main producers and consumers. This price setting would thus give manufacturers and consumers greater visibility on their expenses. The gradual increase in energy costs could therefore be anticipated more easily and integrated in economic agent's investment decisions. Additionally, speculation on food commodities should be banned.

Therefore, we Greens propose:

- More broadly a large set of multilateral and regional arrangements aimed at creating price and supply management systems should be implemented.
- Increasing the strategic stocking capacity of the European Union in order to give the EU the ability to smooth price volatility.

New economic relationship with the developing countries

All these changes towards a more regulated economic world will have a positive impact on developing countries' economies.

A supervision of the flow of capital would prevent massive withdrawals of capital from developing economies. It would also prevent local capital being invested in developed economies instead of being reinvested in local development. Moreover, more democratic financial institutions (IMF and World Bank) will give more power to the developing countries in these institutions. The European Union should support a change in the policies of these institutions.

Having said in the beginning that growth does not necessarily create development and even less sustainable development, it becomes clear that an evaluation of the consequences, which a globalized economy imposes on non-industrialised (developing countries), is needed.

The European Union must recognize its ecological debt to developing countries, which results from exploitation of natural and human resources and climate change due to global warming. Even nowadays the extraction of natural resources is often destroying the environment and the basis of survival of the people. Forced by globalization onto the path of copying on industrialised countries and the victims of unequal terms of trade, developing countries are caught in the debt trap. IMF and World Bank claimed to come to their rescue, imposing austerity programs on them in order to streamline their economies according to the criteria of neo liberal growth standards. Since European states have been aware of the problem of greenhouses gases since the beginning of the 90s (Rio summit), it would be consistent to consider that European economies have accumulated an ecological debt starting that time.

Having said as well that the ecological transformation of the economy (GND) is a global project, the European Union and other global players must rethink their relationship with developing countries in order to promote a sustainable development model for future relations and in order to compensate and to repair damage done in the past.

Therefore, we Greens propose:

- That conditionality for IMF support will be oriented on sustainable development goals and ownership as a prime condition and should no longer be based on deregulation and privatization. In the medium run, conditionality must be phased out. The Bretton Woods Institutions must be integrated in the UN System and must be linked to the various UN conventions.
- The recognition of the ecological debt of industrialised nations (amongst them the European Union) and the set up of a compensation mechanism and a body charged with control and surveillance

We need an international debt arbitration panel because the money flowing out of developing countries to the "developed" world exceeds ODA. The money transfers of transnational and other companies operating in developing countries have to be made transparent in order to guarantee a better taxation of their economic activity in these countries. In its various Free Trade and other international agreements being negotiated at the moment, the EU should not push for the deregulation of other countries' economic and financial sectors. Urgent action must be taken on the rising food prices. In order to prevent a new food crisis, speculation on food must be stopped. We need more policy coherence for development thus the EU must bring to an end policies that harm developing countries.

With the stalemate of the Doha round negotiation, the EU is seeking for further trade liberalisation on the bilateral level, its agenda often going beyond the existing WTO provisions. Instead of pushing the developing countries to open their markets for EU products, it should foster regional trade, the development of the local economy and an agricultural production that is not concentrated on monoculture and export but on serving the needs of the countries' population. Fair trade requires the EU to open its market for imports on a fair basis and to phase out harmful subsidies, for example in the agricultural sector, that destroy the markets in developing countries.