Economics at the service of society

Seminar report

March 2019

All information about the seminar on "Economics at the service of society" can be found here:

http://www.coface-eu.org/consumers/save-the-date-expert-seminar-economics-at-the-service-of-society/

Introduction

On the 22nd and 23rd of November 2018, COFACE-Families Europe held a seminar entitled "Economics at the service of society".[1] The statement "Economics is too important to be left to economists" encapsulated the rationale behind this seminar. Indeed, it would seem that economic considerations and arguments carry more weight than any other when it comes to move the dial in any policy discussion. While everyone nods and pats each other on the back on the mention of the respect of international human rights treaties, the implementation of the European Pillar of Social Rights, the transformative 2030 Sustainable Development Goals, and other laudable principles, there always comes a time when someone says "fine, but who will pay for it?", signaling the end of the party, the cold shower bringing idealists back to "reality" and number crunching. If 1+1 doesn't add up to 2, then we cannot have citizens living in dignity.

While civil society organisations thrive when it comes to defending high moral and ethical principles and defending the general interest, discussing economics directly takes the wind out of their sails. The seminar aimed at learning to sail against the wind, navigating in the murky and obscure economics waters in order to increase the odds of translating ideals into practice and make a difference in the lives of European citizens.

COFACE-Families Europe's starting point for its reflections about economics stems from the triangle of basic family needs: all families require **resources, services and time.**[2]

Economic considerations falls under the "resources" heading. Indeed, all families need not only access to employment and income support, but also access to basic financial services such as insurance products, mortgage credit, a basic bank account etc.

This led COFACE-Families Europe to develop a strong voice at the European level, advocating for **financial inclusion and tackling over-indebtedness.** Among the topics covered by COFACE-Families Europe, we find:

- Creditworthiness and responsible lending: ensuring that the creditworthiness process helps prevent over-indebtedness and that it does not lead to discrimination (examining the data used for assessing creditworthiness);[3]
- Interest rates caps and product intervention: setting up strong regulation which bans toxic financial products or prevents toxic financial products from emerging;[4]
- Socialisation of risk in insurance: preventing discrimination and fostering socialisation of risk in insurance by

[1] Link to Economics seminar webpage : http://www.coface-eu.org/consumers/save-the-date-expert-seminar-economics-at-the-service-of-society/

[2] Reference to Families on the Edge: http://www.coface-eu.org/europe/families-on-the-edge-the-eu-urgently-needs-to-address-the-work-life-balance-needs-of-women-and-men/

[3] http://www.coface-eu.org/wp-content/uploads/2017/01/Policy-Briefing-Finance.pdf

[4] http://www.coface-eu.org/campaigns-2/finservices4all/

restricting the data that insurers can use to assess risk[5];

- Personal insolvency rights: setting up a personal insolvency scheme across all EU countries to allow for over-indebted families to have a fresh start.[6]

During the seminar, a wide variety of speakers went into great depth in examining the shortcomings of the current financial and economic system and issuing recommendations in order to address these. Here below, is a summary of the key findings discussed and presented during the conference.

II. Context

For over 70 years mainstream Economics has been fixated on GDP (gross domestic product) as its primary measure of progress, the GDP was the leading indicator of economic health. The obsession for the necessity of growth at all costs became a myth and is used to justify inequalities of income/wealth and the destruction of our living world. The world has become extraordinary unequal, the world's richest 1% today own more wealth than all the other 99% put together, while in the EU many families are suffering from poverty, exclusion, burnout.

The most salient point is that all of the policy positions of COFACE-Families Europe, cited above, are tied to the current financial and economic system and cannot be implemented without addressing some key roadblocks stemming from the way the financial and economic system functions. One of the main roadblocks is the emergence of a plethora of **too big to fail financial institutions,** which lead to a focus by policy makers on **prudential regulation** (ensuring global financial stability) rather than on consumer protection. Thus financial institutions can more or less get away with abusive behaviours, arguing that any regulation would set off a financial crisis which would be detrimental to all. The list of abuses includes: tax avoidance/evasion, money laundering, abusive mortgage loans (such as the swiss frank denominated loans), abusive fees (especially overdraft fees).[7]

More importantly, it is crucial not to underestimate how dependent we are on the present financial and economic system. None of the policies advocated by COFACE-Families Europe could be implemented under a catastrophic financial and economic collapse. Our entire society, all of the rights, benefits and services, depend on the stability and functioning of the financial and economic system. Thus the argument of financial and economic stability is frequently used to overturn or ignore certain policies and regulations, especially strengthening the social welfare state or anything which gives more prerogatives to the public sector.

Unfortunately, despite a roll-back in a number of social policies, privatisations, the financial and economic system is nevertheless in a dire and critical situation:

-The **level of inequalities** in wages between the top earners and other workers has increased over

[5] http://www.coface-eu.org/wp-content/uploads/2017/01/Policy-Briefing-CreditInsurance.pdf

[6] http://www.coface-eu.org/consumers/insolvency-businesses-consumers/

[7] https://www.unaf.fr/spip.php?article23547

the last few decades. Given that our economies rely on sustained and continuous growth in consumption, a **stagnation of the wages of the middle class**, adjusted to inflation, leads to resorting to credit in order to maintain a similar consumption level, which leads to **over-indebtedness and financial instability** when the debt level reaches unsustainable heights (as was the case with the sub-prime mortgage lending).[8]

-The monetary policy of **quantitative easing,** leading to a wider availability of money, has not led to productive investments by banks (funding the "real economy" in order to secure economic growth). Instead, this money has directly fuelled the stock markets and real estate, leading to an artificial inflation in the value of the stock market and real estate (a phenomenon called a "bubble").[9]

-The growing number of so called "**zombie corporations**", or companies whose earnings (from the sale of goods/services) do not allow them to service existing debt, and the only way they can survive is to borrow money in order to pay for existing loans. In other words, these companies only survive thanks to continued access to credit, and could lead to massive bankruptcies in the future.[10]

-The **tax rate of corporations has fallen steadily** over the last four decades, while VAT has risen, shifting the burden of taxation on citizens. This led to a **starving of the public sector** and either the privatization or restructuring of many public services (for instance, lowering the staff in schools and public hospitals).[11]

-The **deregulation of the financial industry** has led to an increase in the number of financial and economic crisis since the 1970s, culminating in the 2008 crisis, whose repercussions are far from over.[12]

-Following the 2008 crisis, many key policies which could have stabilized the financial system have not been implemented. Among these, we find the separation of retail and investment banks, a resolution mechanism allowing for letting a bank default should it act irresponsibly without triggering a financial crisis, regulating sectors like shadow banking, etc. [13]

-Given the fragile situation of the financial and economic system, any form of "shock" could trigger the next crisis. Such a shock could come from: Brexit, Trump's trade wars, the unsustainable and mounting level of public and private debt, the slowdown of economic growth, the increase in interest rates by central banks etc.

III. Key messages emerging from COFACE seminar

Given this reality, COFACE-Families Europe invited experts to explore two main scenarios:

Plan A, in which the current financial and economic system should be salvaged and where a number of policies could help make it more stable yet working in the interest of the people;

[8] https://wid.world/

[9] https://heinonline.org/HOL/LandingPage?handle=hein.journals/catoj37&div=31&id=&page=

[10] https://www.bis.org/publ/qtrpdf/r_qt1809g.htm

[11] https://taxfoundation.org/corporate-tax-rates-around-world-2018/

[12] http://www.finance-watch.org/ifile/Publications/Reports/10YA-FW-report.pdf

[13] https://www.finance-watch.org/publication/the-importance-of-being-separated/

Plan B, where the current financial and economic system would fail, and a major rethink of traditional economic and financial theories should be initiated.

In **Plan A,** a great wealth of ambitious ideas and policy measures were presented:

-Increase the **oversight of the State over financial institutions**: introduce a "public interest" test for all new financial products, more intervention on allocation of credit (credit guidance towards lending money into the real economy, especially sustainable development compatible projects), democratic oversight over the payments system.

-**Strengthen the ESA** (European Supervisory Authorities) **consumer protection** remit by implementing the "twin peak" model.[14]

-**Separation of retail and investment banks** (re-enact the Glass-Steagall act[15] and its equivalent in Europe).

-Rules and regulations for hedge funds and private equity: include **sustainable development goals (SDGs)** in the investment decisions[16].

-**Reign in bonuses and compensation schemes** which distort the actions of the sales personnel in financial institutions.

-**Finalize the CMU (capital markets union) and deepen the EMU (European Monetary Union)** to remove the barriers to a true single market for financial services and allow for a competition between financial service providers across the EU.

-Leverage the **European Pillar of Social Rights** to promote progressive policies strengthening the economic resilience of EU countries.

-Harmonize **corporate taxation** in order to avoid the race to the bottom and ensure proper funding of States.

The take-up of these recommendations by policy makers is subject to many conditions including a **shift in ideology** away from neo-liberalism and the idea that markets, especially the financial sector, are best left unregulated. For instance, the holistic approach of economist **Kate Raworth and her "donut economics"** covers most of the recommendations above and aims at balancing basic human needs (access to water, food, energy, housing…), with the limitations of our planet (climate change, air pollution, depletion of resources…), putting the economy and the financial sector at the service of society.

As an associate member of Finance Watch, a European NGO whose core mandate is to ensure that the financial system serves society, COFACE-Families Europe will continue to promote several of the recommendations above. However, given the lack of appetite for major economic reforms and a strong regulation of the financial system in the current political context, it is equally important to

[14] "Twin peaks" refers to a supervisory regime whereby consumer protection and prudential policy are dealt with separately by two dedicated authorities. In the present ESA model, the three supervisory authorities' mandate is based on topical or sectoral separations (EBA for the banking sector, ESMA for markets and securities, and EIOPA for pensions and insurance). Arguably, the twin peaks model strengthens consumer protection since there is a dedicated institution/authority, rather than the current arrangement.

[15] A US legislation which separated investment banks from retail banks. This measure was to ensure that irresponsible behaviour in investments (for instance, via risky speculation) did not put the savings of regular individuals in jeopardy.

[16] This recommendation includes various measures such as information and disclosure about how financial service providers invest money from their clients (sustainability indicators) or targets for investing in sustainable projects.

reflect on alternatives, should the current economic and financial system fail altogether.

In **Plan B**, two major ideas dealing with monetary policy were presented. Before sharing these ideas, it is important to understand how the current monetary system works and examine its short-comings in order to put them in context. At present, most of the money supply available in the economy has been created in the form of **debt by private banks.** The current system relies on the continuous creation (when a loan is issued) and destruction (when a loan is repaid) of money. Economic and financial stability is achieved when economic growth matches the growth in the money supply (the level of debt) which also creates a stable **debt to GDP ratio** and ensures a stability of prices (neither inflation nor deflation). However, the system is extremely complex and subject to financial crisis as the tools necessary to ensure such stability are widely inadequate. Fiscal measures (increasing/decreasing taxes) and monetary policy (increasing/decreasing interest rates by central banks) are the two main "levers" to help stabilize the economic and financial system, but they have not been able to prevent the formation of bubbles (over-heating or speculation in one "area" of the economy, like in the real estate or in the stock market) and the onset of financial crisis.[17]

The first idea presented was **quantitative easing for the people**, also referred to as "helicopter money". It consists in extending the "powers" of the central bank and allowing it to create money which is directly distributed to citizens in the economy. The main objective is to "jump start" the economy by boosting consumption in a depressed or stagnant economy. In a situation where banks are not ready to issue new loans, where businesses do not want to take on new loans or invest to produce more, and where consumers are unwilling to spend, in short, where all actors in the economy have lost **confidence** in the economy, an external intervention, in this case, by the central banks, can help restart the economy. If consumers are granted a certain amount of money, consumption might increase, which will send a positive "market signal" to businesses to increase production, hire new people and take on new loans (invest), which will in turn increase the revenue of workers/consumers, setting off a positive self-reinforcing spiral[18]. The main criticism of such a policy measure is that it may have adverse effects in terms of inflation. However, given the current state of the economy (over-production and stagnating consumption), it is doubtful this would materialise. The other objection has to do with finding a way to remove or recover this "excess" money injected into the economy. While in the initial phase, the injection of "new" money into the economy might not cause inflation, if this money keeps circulating in the economy, it might create inflation in the longer term. It is nevertheless an idea to consider given the poor performance of the economy.

The second idea presented was a **blockchain based voluntarily adopted Universal Basic Income ,** based on a new monetary theory called the "[Relative Theory of Money](#)" and which would run parallel to the current financial system. In the event of a collapse of the current financial system, the most important problem would be the **interruption of payments** which

[17] https://positivemoney.org/how-money-%20works/how-banks-%20create-money/

[18] https://positivemoney.org/what-we-do/qe-for-people/

would bring the economy to a halt. Alternative or parallel payments systems could help ensure that exchanges continue. **Local currencies** and other innovative solutions like **time based currencies** can assist in this regard, but they often lack scaling and only work for limited exchanges between individuals. By harnessing blockchain technology, it is possible to create an alternative financial system allowing for payments on a larger scale. The crypto-currency Duniter is open to anyone wishing to join the network, and is based on a philosophy of equal distribution of the monetary base, co-produced daily by all participants inside the network. The stability of the currency, despite a seemingly high **demurrage** [19] due to the exponential periodic addition of new money, is made possible via a method for displaying prices in relative terms. Instead of counting in individual units of currency, prices are displayed in **universal dividend.** For instance, a car would not cost 600 units of currency, but 20 UD (Universal Dividends) where 1 UD = 30 units of currency. Each year, the value of the UD is updated to account for the amount of extra money injected into the monetary system. For instance, on year two, a UD = 33 units of currency, on year three, a UD = 37 units of currency, etc. This system also ensures a "natural" redistribution of wealth without having to resort to taxation.

COFACE-Families Europe will continue to explore innovative ideas, as mentioned above, which could help bring about a fairer, stable and more democratic financial and economic system, and advocate for policy measures allowing for all families to have access to the necessary resources to live in dignity.

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[19] Demurrage refers to the cost of holding or owning a currency for a period of time. In the example above, as new money is generated periodically without any form of destruction, the currency should loose much of it's value over time.

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