“After the Brits Have Gone? Turning a Drama into A Crisis That Will Not Go to Waste.”

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Why Didn't More People See this Coming?

It’s not as if its the only example of something going awry with the political foundations of Europe

And its not just on the right that there is trouble for the center parties

Brexit is rather obviously part of a bigger trend, but we want to treat it in isolation

Isolating Brexit turns it into a Goldilocks Problem for the EU

The Exit is too Hot – Punish the UK as deterrent

- UK still an Important part of Union and (still) growing faster than much of the EZ
- UK banking is TBTF
- Hurt the UK and you hurt the EU, especially the EZ economies that trade with the UK

Or…

The Exit is too cold – let them go too easily

- UK gets its ‘Hard Brexit’ and other states demand same limits on labor mobility
- This undermines the single market
- Further erodes faith in EU
- And Invites more exits

And once you get the Brits out…

Its back to EU politics as normal…

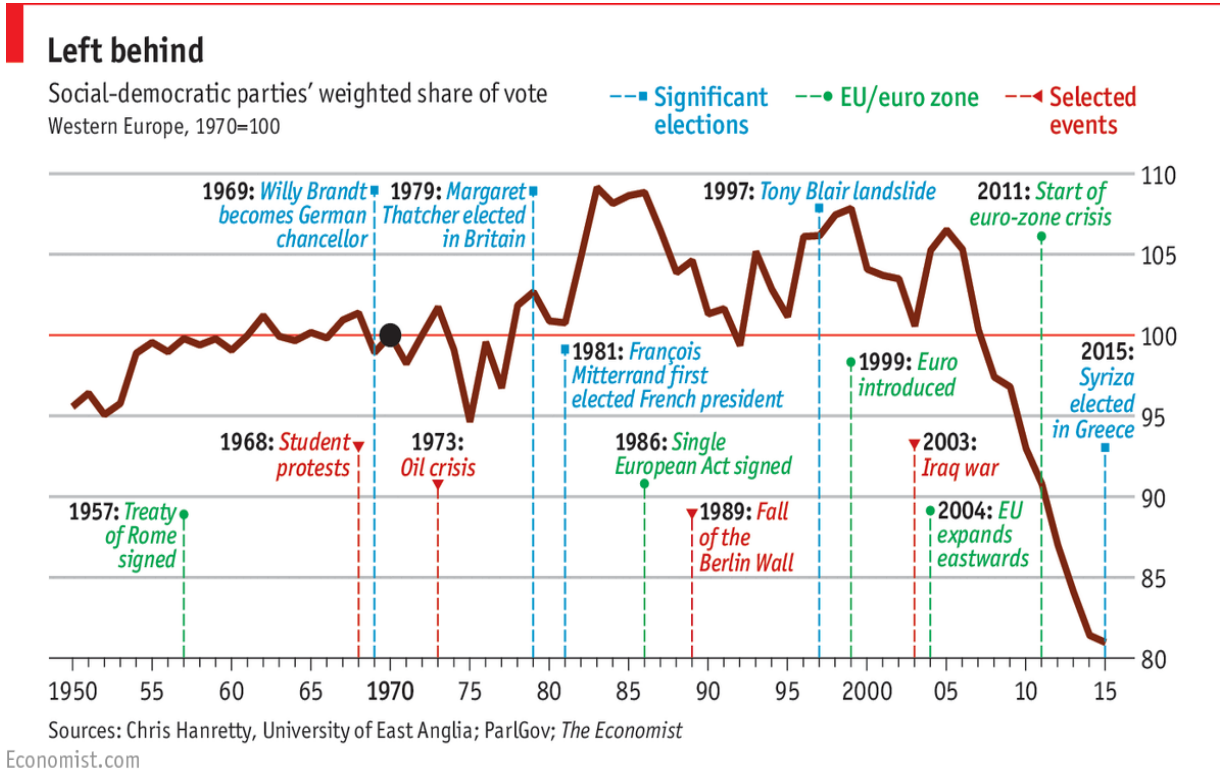
- More ‘Competitiveness’ for Greece

- More ‘Flexibility’ for Spain

This is probably how not to think about the problem

- ***In isolation, and as unconnected to…***

- The rise of the new right
- Especially, the collapse of the old left
- The hollowing out of domestic party systems
- The collapse in support for center parties



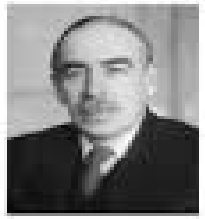
So What's the Alternative Frame that connects Brexit to Trump to Bernie Sanders to Die Linke…and to Solving the EU's Perma-Crisis?

It too has been a long time in the making…

Keynes' software and Kalecki's bug

J.M. Keynes

"The long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us when the storm is long past, the ocean will be flat."



The General Theory of Employment, Interest and Money

POLITICAL ASPECTS OF FULL EMPLOYMENT[1]

By M. KALECKI

I

A SOLID majority of economists is now of the opinion that, even in a capitalist system, full employment may be secured by a Government spending programme, provided there is in existence adequate plant to employ all existing labour power, and provided adequate supplies of necessary foreign raw materials may be obtained in exchange for exports.

If the Government undertakes public investment (e.g. builds schools, hospitals, and highways) or subsidises mass consumption (by family allowances, reduction of indirect taxation, or subsidies to keep down the prices of necessities), if, moreover, this expenditure is financed by borrowing and not by taxation (which could affect adversely private investment and consumption), the effective demand for goods and services may be increased up to a point where full employment is achieved. Such Government expenditure increases employment, be it noted, not only directly but indirectly as well, since the higher incomes caused by it result in a secondary increase in demand for consumption and investment goods.

2.—It may be asked where the public will get the money to lend to the Government if they do not curtail their investment and consumption. To understand this process it is best, I think, to imagine for a moment that the Government pays its suppliers in Government securities. The suppliers will, in general, not retain these securities but put them into circulation while buying other goods and services, and so on until finally these securities will reach persons or firms which retain them as interest-yielding assets. In any period of time the total increase in Government securities in the possession (transitory or final) of persons and firms will be equal to the goods and services sold to the Government. Thus what the economy lends to the Government are goods and services whose production is "financed" by Government securities. In reality the Government pays for the services not in securities but in cash, but it simultaneously issues securities and so drains the cash

[1] This article corresponds roughly to a lecture given to the Marshall Society in Cambridge in the Spring of 1942.

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Kalecki's Problem with Keynes World of Full Employment

Labor can move costlessly from Job to Job and can strike at will

Business can only restore profits by raising prices, which eats into wages, and provokes more strikes

The result is inflation and a collapse in investment that will show up as unemployment

Kalecki then asked, “What is Business going to do in such a world?”

Fund a market-friendly political revolution
Discipline Organized Labor
Hand policy over to technocrats

And what he did not foresee…

Globalize Production, Deregulate Finance, make internal devaluation the mechanism of adjustment again…

So if the post war order undermined itself, is it possible that the current moment marks the ‘end of the post 1980s regime?’

Where were were – and where we are now

Inflation: The Debtor's Paradise of the 1970s

Sustained Inflation
Labor's share of national income at all time high
Corporate profits at all time low
Unions Strong
Low Inequality
National Markets
Finance Weak, Central Banks Weak, Parliaments strong

Deflation: The Creditor's Paradise of today

Secular disinflation
Capital's share of Income at all time high
Wage Share at All Time Low
Unions Weak
Inequality high
Globalized Markets
Finance Strong, Central Banks Strong, Parliaments Weak

So if the current regime is endogenously unstable, why does that produce reactions from Brexit to Podemos that undermine the Center?

Deflation and Democracy: Who Wins and Who Loses in a Low Growth World?

Losers

Creditors: Highly Financialized economies where the real value of debt goes up but ability to collect goes down

Results: Death of Neo-liberal-friendly Center Left Parties that helped build this order. Their vote share collapses but policy stagnates

New left parties to be excluded at all costs (*SYRIZA* bashing by *SPD*, Corbyn Phobia within *Labour*, Isolation of *Die Linke*, No deal with *Podemos* etc.)

Winners

Debtors: Can't pay - Won't pay – will vote

Results: Rise of Populist and Right-Nationalist Parties and Leaders (Trump, Le Penn, Brexit Leaders, Orban etc.) with *common narratives:*
"Taking back Control"
Renationalizing Markets

Anti-Global/Trade and Anti-Austerity coalitions

So if this is a plausible macro story, how can we begin to address this?

That depends on how you define this particular moment

- ***Option One – Its all Racism – even in Europe***

- Brexit Vote as anti-Immigrant
- Rich Areas and poor Areas both vote for Brexit
- Old Voted More and Old More Racist
- Anti-Immigrant and Anti-Muslim sentiment rising
- The Rise of the Authoritarians
- Positive Association between Grievance/Loss of Status and Right Vote

- ***Option Two – Its all Economics***

- Economics is not just about income
- New Right support correlates just as well with Chinese Import competition.
- Correlates with Health Inequalities
- Correlates with Job Insecurity
- Correlates with Low income over time
- Correlates with Exposure to Technological Disruption

What happens in terms of possible policy if you choose each frame?

- **Option One – its all Racism**

- Turn the EU into Canada?
- Halt the free movement of labor?

- ***Eh? Mmm?***

- **Option Two – *Stress* the Economics**

- Acknowledge that the past 20 years has created a ‘left behind’ class across Europe
- Stop pro-cyclical squeezing of budgets
- Change the numbers on deficits and debts to allow more fiscal room
- Stop disbursing EIB cash to states that don’t need it and amplify the flows to those that do
- Get real wage growth going at the bottom of the distribution

In short, change the definition of what’s going on

But who can do this? The Policy Paradox of EU action

- Member states are locked into a fiscal framework that prevents more active pro-growth measures and generates a subterranean banking crisis
- Having authored these rules (or signed on to them) its impossible for states to break these rules openly
- So the only part of the system that can break the rules is the part charged with enforcing them – **the Commission** (Sandbu in FT)

- **Problem**: ***This is explicitly political action by a technocratic institution and that is an issue…***

But here's your bigger issue…they are coming to eat your lunch

And here’s the folks that might help, if the mainstream were not so determined to destroy them, are left out of the policy process so that the new right prosper

The Take Home: *Time May be Running Out for the EU faster then we think*

- The EU is at risk more then the Euro
- The ‘double bind’ on policy action is eating away at center left, and now center right, support
- Spain can’t form a government, Italy’s will fall, France may go the way of Spain, the UK will go for Hard Brexit, and the German SPD is one election away from extinction.

- **Result: Either the Institutions ‘get political’ to save themselves and the Union or we ‘fiddle while Rome burns…”**