25 February 2011

“Europe is in the wrong hands”

A progressive alternative strategy for jobs, social progress and fair growth

Draft PES Background Paper

Europe is in the wrong hands. The conservatives are in a majority in all EU institutions and member states. They have been exploiting this situation, by trying to impose austerity as the only solution to the challenges Europe currently faces. But austerity is not the only way. The Party of European Socialists (PES) is committed to show that a better alternative exist, and that European citizens have the choice between austerity and fair growth.

We have an alternative strategy to tackle the social and employment crisis, while also addressing the debt crisis and preserving the future of both the eurozone and the European Union as a whole. This paper presents what European policies would entail if socialists and social democrats would be in majority. We believe that European citizens do not have to choose between a better economy and a better social model: with the proper choices being made, and the proper policies implemented, we can and we will deliver both. A progressive future lays ahead for Europe with the PES at its helm, one in which the progress of the many prevails over the profit of the few.

* * *

1. Europe is in the wrong hands

As the financial and economic crisis moves into its fourth year, signs of a real and sustainable recovery are nowhere to be found. The 7 million jobs that were destroyed during the crisis have not been recreated. Yet, nothing is being done by conservative leaders to tackle unemployment and putting a check on financial markets.

In the current political context, the only prospect for the EU is sluggish growth and a jobless recovery. The new investments we would desperately need to renew the European economy are dismissed. Moreover, the vital existing programmes that have been providing a lifeline to our economy are being cut by conservative and liberal governments for the sake of austerity.

Public deficit will remain well above the Maastricht limits in the foreseeable future, despite the harshest spending cuts experienced for a generation all across Europe. As a result of high unemployment and low growth, public debt is set to increase further in all but three EU member states. Debt is the indicator on which the rightwing in Europe is asking citizens to judge their austerity policies: it has failed, and with it the rightwing has failed too.

We are caught in a storm. Looking at the tiller, we can only see Europe’s conservative captains quarrelling about what is the best way to hit an iceberg. The EU citizens are long due responsible leadership. Real problems require real answers. We need urgent solutions for jobs, growth, deficit and debt. We need urgent solutions to restore our social model.

The crisis is not over, despite what the rightwing has been clamouring. The roots of the financial crisis have to date not been addressed properly. Instead, the conservative and liberal majority of Europe has substituted the reality of the financial crisis with the myth of the inadequacy of welfare and social services. They have proven to be unfit for the task. Cuts will not solve our problems. They will only make the situation worse. Most importantly, cuts are not our only options: a progressive alternative is possible.

2. Making reality our priority

Because we put people first, the social reality in Europe is our priority. Already before the crisis, more than 80 million Europeans were at risk of poverty, a figure which has even increased since then. Unemployment is now solidly anchored at unacceptable levels, with 23 million citizens out of work. The crisis has destroyed over 7 million jobs, amongst which 1.4 million jobs of person aged under 24. The number of people that have been unemployed for over a year have increased by over 50%. Young unemployment has reached 20% for Europe as a whole. It is nearly at 30% in Italy and well above 40% in Spain. For people that have managed to stay in employment, the situation is also intolerable: the proportion of people that have just a part time job – often a situation imposed by the employer – has jumped to nearly a fifth of all employees.

This reality can and will change with the PES in power: we have solutions to **create more and better jobs, for both women and men, and fair growth** so that the European Union – which remains the richest economy in the world, despite the crisis – truly benefits all Europeans. Jobs cannot be created without growth. But our prospects in that respect are sluggish at best, depressing in the worst case scenario. We have lost €1,000 billion worth of economic wealth in this crisis, a growth deficit that we have not even started to recoup. The official forecasts are below 2% in the foreseeable future. This is far from being enough for a European economy that was already asleep for most of the 2000's. We must reinvent economic development in Europe. We have solutions to find new sources of a fair growth so that globalisation and climate change are turned from threats to opportunities.

We have solutions to **managing public debts in the eurozone** and **balancing public budgets**. Because EU member states had to rescue the banks and the economy with taxpayers' money, what was once the private sector's debt is now public liability. This massive stock of debt – amounting to 84.1% of GDP, nearly 20 points higher than three years ago – weights on governments' ability to borrow funds on the market. Interest rates go up, and with them the price of servicing the debt. Not a single member state has real solvency issue, but some have found themselves in difficult corners to make ends meet. In the short run, financial markets exploit the difficulties of the states that rescued them, and speculation worsens an already difficult situation. In the long run, public debt must be controlled because it has a depressing impact on the economy and increases inequality, including gender inequality. Our solutions to balance the books and lower public debt in the long run leave our social models and growth prospects unharmed.

European welfare too is in crisis. Years of neoliberal policies and an ageing society have put increasing stress on our social models. Despite increased expenditures, the quality of social services and public goods paid for with taxpayers' money is decreasing. But the answer is not to slash welfare. The answer is to make it better. More than ever, we need strong social protection and strong social integration mechanisms to buffer the crisis. Fair and sustainable growth requires strong national social security systems. We have the right solutions for **social progress**, for better social services and for renewed and strengthened welfare states.

Our priorities are commended by the complex social and economic reality in Europe. On the other side of the political spectrum, conservatives and liberals care about one thing and one thing only: fiscal consolidation, a euphemism for austerity. The rightwing has elevated social cuts to the rank of ideology. Underlying it is their strong desire to down-size the welfare states and to disengage them

Party of European Socialists
Parti Socialiste Européen
98 Rue du Trône, B-1050 Brussels
T+ 32 2 548 90 80 F+ 32 2 230 17 66
AISBL – BBCE – n°0897.208.032
info@pes.org www.pes.org

from their redistributive role. They also believe that consolidated public finances linked with structural reforms, will naturally lead to higher growth and jobs creation. We know that this is untrue: spending cuts only lead to more unemployment and reduced growth rates, which in turn further deteriorates public finances. This is basics economics, and even the IMF has been cautious about the negative impact of cuts. We believe that tackling the job crisis and generate growth in a way which is fiscally responsible is the best consolidation policy available to us.

3. Our real answers to Europe's real problems

3.1 New fair growth with a real European industrial policy

Europe cannot cut its way out of the crisis, but it needs to "produce" its way out of the crisis. The industrial output and exports of Europe's economies need to be stepped up and employment in the manufacturing sector increased. One of the preconditions for this is improving competitiveness. To this end, a real European industrial policy must be developed. Framework conditions for all industrial sectors must be increased, by boosting innovativeness, by improving education, by strengthening infrastructure and by increasing energy and resource efficiency. The Internal Market Act proposed by the European Commission is not sufficient in this regard. The conservative Commission has so far ignored the need to ensure decent working conditions and to involve employees in the development of their companies, in order to support innovation. Only workers who have a secure and decent job are willing to contribute to the development of new ideas and new products. Developing a European legislative framework on decent work and precariousness would be an important contribution in this regard. Restructuring processes should be better monitored and in case they are inevitable, binding and financially supported social plans for all workers must be implemented. The European Globalisation Adjustment Fund must be better used and its funding increased. The responsibility of companies to create jobs must be strengthened. Companies that receive state aid should be made to reimburse it in cases where they have laid off staff while at the same time using their financial resources to pay dividends to shareholders or buy other companies shares.

3.2 New jobs and true social progress with a European Employment and Social Progress Pact for Fair Growth[1]

To overcome the crisis Europe needs active policies for job creation and bridging the social divide in Europe. The Member States and the European institutions, together with social partners, must therefore adopt a European Employment and Social Progress Pact for fair growth, consisting of a package of concrete political measures, initiatives and programmes to strengthen the labour market and to fight inequalities. The foundation of such a pact must be a new growth model, which is not solely based on the objective to increase GDP, but also respects social and environmental criteria. Enshrining a social progress clause in the European treaties in the mid-term and better mainstreaming social concerns in all European and national policies and programmes is essential to implement such a new growth model. To ensure that fundamental social rights are prioritised over economic freedoms, the Posted Workers Directive must be revised.

Creating new jobs must become a top priority for the European Union. With new financial breathing space resulting from the policies presented above (see 3.1), member states will be able to increase labour-market related investments. Public investments in the labour intensive health sector, care sector, education and public services need to be increased. Direct support and subsidised loans for refurbish buildings and making them more energy-efficient will increase employment in the construction sector and allow low-income households to increase consumption. Financial support for

---

[1] Based on the PES Policy Paper adopted by the PES Council in Warsaw, 2nd of December 2010 (http://www.pes.org/sites/www.pes.org/files/adopted_pes_council_policy_paper_1_en.pdf)

job-creation should also be based on a mapping of future job losses and the potential for job creation in the coming years. Specific attention must be paid to also create more jobs for young people.

Essential for the future success of Europe's economy and more social cohesion is to improve education in Europe. Europe does not only need more Nobel Prize winners and PhD-holders, but the education levels of all Europeans must be increased. Schools, training institutes, universities and other education service providers need to receive further support. Unpaid internships must be replaced with real jobs and with real, enumerated apprenticeships and traineeships.

Increased investments for job creation must be accompanied by active labour market policies. Workers need to receive active support in changing employers and advancing in the labour market. Specific policies must be put in place to tackle youth unemployment and discrimination of young people on the labour market. Furthermore, the integration of women in the labour market must be improved. Child care facilities need to be stepped up and the introduction of female employment quotas, at least for management positions, should be considered. Programmes and measures to reintegrate long-term unemployed and to provide decent work for young people need to be developed. European funding, especially from the European Social Fund, should be used for such measures and where necessary stepped up.

However, providing every European who is able and willing to work with a job will not be sufficient to overcome the social divide in Europe. In order to overcome inequality, the gap between rich and poor needs to be overcome. Decent wages which allow for a good living quality should be guaranteed to all workers and employees, either through a minimum wage or through decent wages negotiated by social partners. In order to reduce the discrepancy between woman's and man's salaries, specific European targets to reduce the gender pay gap need to be agreed and the non-compliance sanctioned. Also those who are not working must be provided with some form of income. Therefore, we demand the introduction of a European framework directive on minimum income schemes, stipulating that such schemes be established in all Member States and defining minimum criteria on adequacy and accessibility. To increase the quality of life throughout Europe, every European should have access to high-quality and affordable public services. A European framework directive on public services should be implemented in this regard and all European legislation weakening public services adapted.

National social security systems will continue to play the key role in overcoming inequalities and improving social inclusion. National social security systems need to be safeguarded and strengthened. In some cases, this requires the adoption of common European minimum standards, for example on working time and working conditions. Additionally, the European level needs to support Member States in strengthening the main pillars of their social security systems, such as health, social benefits, pensions and care. The conservative approach on reforming pension systems – by increasing the legal retirement age and privatising pension schemes - is not only economically counter-productive, but also socially unjust. Making pension systems sustainable and ensuring adequate pension payments is only possible by stepping up the employment which is subject to social insurance contributions, by reducing early retirement, by providing tailor made jobs for elderly and by encouraging a voluntary extension of retirement age. The public pensions must remain the back bone of pension schemes. The reform of health systems must not follow the conservative path of only looking at health as a new market for private profit, but should rather aim at ensuring high quality health services and equality.

3.3 A comprehensive set of policies to provide more revenue[2]

In today's context, spending cuts are the last thing we need. Generating new fair growth, tackling the job crisis and creating new sustainable jobs in Europe requires on the contrary adequate funding. But this needs not be done at the expense of the necessary long term sustainability of public finances.

Automatic stabilisers play at full in a virtual cycle from growth and jobs to fiscal consolidation: higher growth mechanically leads to higher tax revenue, the same way that higher employment leads to lower spending for the state. To this respect, a temporary increase in public spending can prove to be much better for long term consolidation than hasty cuts, which lead to less growth and more unemployment. For this reason, we must ensure that the rules put in place for consolidating public finances at EU level leaves sufficient room for those investments which are the most beneficial to growth and jobs. Furthermore, isolating governments from excessive market pressure also create new room for manoeuvre (see part 3.4).

In this respect also, it is very important to explore possibilities of **reorienting public spending** within national budgets. This does not require raising new taxes, neither does it require cuts across the board. Yet, by targeting spending where it is the most useful, it can prove to have extremely positive consequences for the economy. Shifting spending from non productive or less productive sectors to innovation and high added value sectors is one such commendable measure. Clamping down corruption and improving the efficiency of public spending is another.

Following the same logic, a lot more can be done within the current context of stressed public finances by using the European level to its full potential. There is a strong added-value in **EU level spending**. Because of economies of scale and positive spillovers, it is cheaper to fund transnational investments at a supranational level. Hence, huge economies can be made by shifting these investments where they are the most efficient. This too can be counterintuitive, because it implies raising the resources of the EU. But any extra transfer from national capitals to Brussels will be more than compensated by savings at national level. In this process, it is absolutely crucial that the EU budget is granted an in-depth democratic oversight and control, involving both the European and National Parliaments.

Another form of investment, which does not affect the pace of consolidation, consists of **EU funds** that have been pre-allocated to member states but remain undisbursed. These represent huge sums in some cases (about 7% of GDP in Greece, 9.3% for Portugal and 15% on average in the new member states for the period 2011-2013). Speeding up the disbursement of these funds, which could imply some reforms in the recipient countries, would allow for large scale investments in growth enhancing and job creating projects.

Eurobonds tied to investment would also benefit the European economy, and in generating additional job creation and growth would help all EU member states return to balanced budgets.

On top of all these measures, which imply neither cuts in spending nor new taxes, it is however cardinal to find additional fiscal sources of revenue so as to provide relief to already stressed public budgets. The PES is a long-time advocate of a **European tax on financial transactions**, which could raise €200bn while not affecting ordinary citizens, as well as a **fair European carbon tax**.

---

[2] Cf. "Let's get Europe Working Again", PES Prime Ministers' and Leaders' Declaration adopted on 16 June 2010 (http://www.pes.org/en/system/files/adopted_pes_leaders_declaration_with_annexes.pdf)

3.4 Managing public debt in the eurozone and developing its economic pillar[3]

Central to our strategy is to tackle the public debt crisis in the eurozone. There is an urgent need to loosen the market pressure on eurozone member states. Without it, there will be no improvement in public finances, no growth and no jobs.

Today, all eurozone member states are paying a huge premium in interest rate, simply because they stepped in and rescued the financial system in 2008. This pressure is unjust and unjustifiable. Eurozone countries can lower their cost of borrowing and protect themselves against speculation by standing together. The PES has proposed both short term and long term solutions for the eurozone via the use of Eurobonds, which are collective instruments of borrowing. In the short run, these instruments can be used to make loans to a member state, and by doing so substitute a distorted market rate with a much lower rate, which represents the true value of the eurozone. In the long run, Eurobonds can be used as a much cheaper tool to manage part of all eurozone public debt together.

But financial speculation is not the only cause of the eurozone crisis. If speculators are able to put wedges between eurozone members, singling out one country after another, it is because the eurozone is still incomplete. Previous waves of integration have laid down the trade foundations of the European Union. In the eurozone, member states have added strong monetary walls. But we are still lacking an economic roof to turn our common home into a true shelter to protect us against financial storm. With the rescue mechanism we are calling for, the eurozone will get itself a tarpaulin. Sooner or later, we will have to replace it with proper tiles. And to prevent our cohabitation from breaking down, we will also need some social and fiscal house rules.

A degree of convergence of eurozone member states' economies and economic policies must be ensured, but not at the detriment of national social models or the role of social partners. For this to work, less competitive countries must boost their economy through structural changes and more targeted investments for better education, more innovation, a stronger infrastructure and increase resource and energy efficiency. The most competitive countries must boost their internal demands via higher wages. Macroeconomic imbalances within the eurozone must be monitored and corrected according to this principle. The monitoring must also apply to non Euro-zone Member States. In this monitoring, social and employment market indicators must be given the same importance as economic indicators in order to assess whether more support or flexibility in reducing deficits and/or debt is needed. Equally as important, the social impact of the reform of economic governance needs to be evaluated closely.

The task ahead of us is enormous, but rushing reforms will do no good. As we are in the midst of a crisis, the priority is to calm markets down before we can open the debate on the long term architecture of the eurozone.

3.5 Using the European Union for what it is for

In the current crisis, European cooperation and solidarity can offer real and lasting solutions. The EU budget is also a tremendous opportunity for creating jobs and generating fair growth. Europe can be more than a zero-sum game, where some can only win when others loose. This uncooperative approach favoured by conservatives and liberals can be overcome by progressive policies. European solidarity does not cost anything in the long term. On the contrary, it will make all member states gain. The first priority is to put in place a truly efficient rescue mechanism for the eurozone (see 3.4). But if we want to make sure that the crisis does not repeat itself in 10 or 20 years time, the economic governance of the European Union must be transformed and the financial reform completed.

---

[3] Based on the PES General Resolution adopted by the PES Council in Warsaw, 2nd of December 2010 (http://www.pes.org/sites/www.pes.org/files/adopted_pes_council_resolution_1_en.pdf)

Party of European Socialists
Parti Socialiste Européen
98 Rue du Trône, B-1050 Brussels
T+ 32 2 548 90 80 F+ 32 2 230 17 66
AISBL – BBCE – n°0897.208.032
info@pes.org www.pes.org

In this debate, it is crucial that EU financial regulation is properly addressed. The global financial reform that was initiated in 2007/2008 has come to a halt. Sadly, a number of key issues have to date not been tackled. To name but a few: the banking sector is still not properly integrated at EU level; derivative products, and in particular the commodity derivatives that are responsible for the global surge in foodstuff have not been covered at all by the reform; over-the counter transaction, that make up most of the shadow banking system, got away with minimal oversight; credit rating agencies still operate in a way that increase risk and volatility, instead of mitigating it; speculation and retail banking are still not properly disconnected from each other; bonuses are still at record high levels. The PES is committed to take on the fight, achieve the financial reform and close down the finance casino.

A degree of competition between EU member states needs not be harmful. But when internal competitiveness becomes the strategy of one country, this put at risk the entire EU. Divergences in terms of employment and social standards must also be reduced, so that social progress for all can contribute to a more stable EU. National budgetary and fiscal policies must be compatible with each other. With respect to the latter, national reform programmes must be established in line with the Europe 2020 strategy, and promote a balances approach for job, growth and fiscal responsibility. With respect to the former, smart numerical fiscal rules that leave room for countries to invest in future growth while guarantying responsible public budgets, are also an element of a progressive reform of European economic governance.

All these elements of a better functioning EU constitute a key part of our alternative strategy to emerge stronger from the crisis.