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A FAIR WAY OUT OF THE CRISIS
High quality full employment, sustainable growth and fiscal responsibility

The crisis we are in at European and global levels was not caused by budget deficits or public debt, nor are we remaining in it because of them. To prevent the crisis from devastating our economies even more than it has, vast amounts of public money were indeed necessary. However, while recovery measures have eventually pulled most of our economies out of negative growth by now, they did not prevent a massive rise in the number of jobless (over 7 million so far). The full magnitude of the social consequences of the crisis are yet to be seen in statistics, but are striking on the ground in many parts of Europe.

With more than 23 million people out of work, and more to come due to anaemic growth in most member states and in other key regions in the world, the crisis is far from over. An overly drastic reduction of public deficits and debt, as forced upon people by the right-wing majority in the European Council, is - at this point in time - both socially unacceptable and economically risky.

In pursuing this type of policy agenda, the European Union is the only major economic region in the world with such an over-focus on budget rigour at the detriment of jobs and social cohesion.

Fiscal responsibility is a necessary ingredient of economic policy. This is not were the debate lies between conservative and progressive forces. It is clear that deficit and debt levels are not sustainable and must be significantly reduced in the foreseeable future. However, the timing, and the nature of such consolidation should not be so as to undermine the recovery and Europe's future growth potential. Likewise, consolidation should not be achieved on the back of those out of work and those most in need of public support and solidarity. Necessary consolidation must be socially fair. Nor should consolidation lead to short-sighted budget cuts which undermine vital public financing of human and capital investment, and thereby jeopardize growth and jobs. On the contrary, stronger growth and lower unemployment will in turn improve public accounts in a socially and economically preferable way.

The European Union needs to pursue an alternative economic policy agenda in order to exit the crisis in a fair way - by jointly pursuing the interrelated objectives of high quality full employment, sustainable growth and fiscal responsibility within the context of a well balanced Europe 2020 strategy, which must combine ambitious policy agendas in the economic, social and environmental fields. In this policy paper, the S&D Group in the European Parliament provides a blueprint for such an economic agenda as a clear alternative to the dogmatic and anti-social economic policy strategy forced upon the European Union by right-wing forces.

Our alternative agenda combines actively coordinated macroeconomic policies geared towards strong sustainable growth and full high quality employment with a major quality leap in

economic governance and tough new financial regulation and supervision. These changes must be embedded in a truly ambitious and jobs-centred Europe 2020 strategy to guide macroeconomic policy over time, and are set within the possibilities of the existing Treaty.

Our alternative focuses on the economic dimension of a new policy agenda, articulated along five key policy alternatives:

Policy alternative 1: An Economic Union for stability, growth and jobs
Policy alternative 2: A balanced fiscal consolidation strategy
Policy alternative 3: A European debt agency
Policy alternative 4: A budget revenue package
Policy alternative 5: An anti-crisis agenda

Policy alternative 1: An Economic Union for stability, growth and jobs

The crisis has made clear that the excessive macro-economic divergences within the EU are untenable. First of all, progress must be made, as envisaged by the taskforce on economic governance and by the recent communication of the European Commission and by the positions expressed by the European Central Bank, towards a **stricter supervision of long-term macro-economic developments within the EU** (and particularly of the eurozone), closer co-ordination of the national budgetary frameworks and strengthened mechanisms for the implementation of the stability and growth Pact.

However, additional innovations in Europe's economic governance system are necessary in order to achieve an effective and balanced economic policy mix. The Lisbon Treaty provides the legal base to develop today's inadequate economic governance arrangements into a fully-fledged economic union, thereby completing the monetary union set in the Maastricht Treaty; this should not lead to a "euro wall" artificially separating euro and non-euro member states. The European Commission must play its full role in organising economic policy coordination in an open and pro-active way, both among eurozone countries as such, and at EU level as a whole. This can be done by defining a truly common economic policy agenda, while fully respecting the need for national policies adapted to each national economic context. To achieve this, the EU needs to reform its legal arsenal in this field, and strengthen its economic coordination procedures. Most importantly, the policy bias induced by the stability and growth pact since 1997, which reduces economic policy coordination to the nominal surveillance of national budgets, must be overcome in order to give job creation equal importance to the control of public deficit and debt levels.

We propose to complete the existing stability and growth pact with a new "**growth and employment pact**", equally designed in the form of a legal instrument and based on article 121 to be defined by regulation under the co-decision procedure (article 121,6). This would provide the Commission, under the democratic scrutiny of the European Parliament (article 121,5) with a new capacity to assist the Council and member states in formulating a properly coordinated economic policy agenda, which would take economic governance well beyond its current budget surveillance function. In order to introduce a proper policy balance into this new system of governance, real economic objectives should be formulated within this new pact, in particular on employment and on investment. Most importantly, alongside the public deficit objective (below 3% or in surplus), an unemployment target (as a numerical expression of a full employment target) could be introduced into the new pact, at least as a policy goal at European level. In this new framework, member states would submit annual "stability, growth and employment programmes", including national unemployment targets as a contribution to moving towards the EU-wide full employment target, and defined annually within the context of their national

economic situation. This would also give the existing annual employment guidelines far greater relevance than today. In the absence of such a new pact, an absolute minimum requirement would

be to include the rate of unemployment as a key indicator into the planned alert system scoreboard for macroeconomic surveillance, whose role will be to detect and address macroeconomic imbalances at national levels.

Finally, on the basis of the recently created European Financial Stability Mechanism, the EU must establish a permanent and effective instrument for the prevention and resolution of excessive debt situations (or European Monetary Fund) for the whole of the EU. As a necessary complement to the stability mechanism - which needs to be made permanent - such a fund would serve as a financial support of last resort for those countries exposed to serious difficulties in accessing market financing in a crisis period. Together with a European debt agency, as proposed hereafter, this would provide the necessary solidity to monetary and economic union, whose absence seriously endangered its very existence during the worst of the crisis.

Policy alternative 2: A balanced fiscal consolidation strategy

The EU cannot escape the crisis through a collective stampede towards austerity. This will result in prolonged sluggish growth and even higher unemployment, much of which will transform into long term unemployment, more social exclusion and poverty. Instead, the EU needs a more intelligent and innovative economic policy strategy for the coming years, one that will likewise improve public accounts and restore employment, while ensuring social fairness, securing adequate levels of public investment and maintaining finance for national welfare systems and quality public services. The European Council and the Commission are wrong in imposing on all member states a one-size-fits-all deadline for reintegrating the stability pact by 2013, thereby ignoring the diversity of national economic and social situations, which will further increase already highly problematic economic divergences across the EU. This simplistic and stubborn austerity plan must be replaced with a **differentiated fiscal consolidation strategy** by which member states will bring public deficits down to 3% or less within timeframes adapted to each national situation, with a final common deadline set for 2015. It is important to achieve a sufficient degree of fiscal consolidation over time, but whether this takes 2, 3 or 4 years is less important than the assurance that it will be achieved within a clear timeframe. This would not only provide room for manoeuvre for strengthening growth and improving labour markets. It would also provide a needed opportunity to demonstrate European solidarity between stronger and weaker national economies. Furthermore, the EU should resist the temptation to impose an arbitrary 60% debt-to-GDP ratio within a strengthened stability pact, as already suggested by the Commission in May.

Equally, the EU should collectively monitor the **quality of its consolidation** efforts at national levels, and set certain standards in this respect, notably within the Europe 2020 strategy goals. Cutting spending and raising taxes may result in very different policy outcomes, depending on the inherent choices to be made. This is a matter of major common concern among member states. The European Commission should promote economically efficient and socially just consolidation across the EU and monitor member states' policies accordingly on that basis. Most importantly, public spending in human and capital investment, including research and transfers to vulnerable population groups should be maintained at adequate levels as far as possible. On the revenue side, the European Commission should conduct an objective assessment of national tax policies and make recommendations as to how they can better support the recovery, including job creation, and the necessary restoration of sound public finances, including via a strengthening of private demand.

Policy alternative 3: A European debt agency

A major innovation with enormous political and economic benefits for the EU would be the creation of a European debt agency. While there could be variations in terms of defining its precise elements, the basic idea is that by pooling at least part of member states' national public debt into a common system (with a mutual guarantee), the financial and economic gains in terms of reduced debt charges would be extremely high as interest rates would on average be much lower. At least new debt issued by such an agency would be so at a single interest rate, thereby also reducing the risk of speculative attacks. Via such an agency, collective public debt, or **Eurobonds**, could then also be issued to finance specific European investment projects, ideally via the EU budget. Such an agency should be created rapidly, as it would provide important new room for manoeuvre to public finances in lowering the cost of public debt and in providing adequate and cost-effective financing for public investment. In order to connect the advantages provided by this approach with necessary fiscal discipline, member states' debt may only be financed by European bonds up to a certain threshold. Above that figure countries would need to finance their additional debt directly on the market.

Policy alternative 4: A budget revenue package

In order to pull their economies out of recession, European governments had to massively increase public spending, in addition to the budgetary impact of automatic stabilisers. Instead of compensating this spending with excessive austerity, necessary fiscal consolidation should be partly achieved via a European-wide budget revenue package. This should include new progress in tax coordination (including a common corporate tax base), a European (and preferably global) financial transactions tax, a common and effective European strategy against tax fraud with annual national targets, an EU-led initiative at global level (G20 and OECD) to step up the fight against tax heavens within a clear timeframe, EU-wide CO2 tax, and the promotion of fair income tax systems across the EU, especially for low-income families. Such a package should also help to shift some of the tax burden on labour to other sources. This approach must ensure that fiscal consolidation is socially fair.

Policy alternative 5: An anti-crisis agenda

We cannot rule out future crises unless we are ready to deal with its root causes. These are mainly an insufficiently regulated and supervised financial sector, macroeconomic imbalances between member states, and increasingly polarised income distribution patterns in most member states. The political agenda is a very different one on each of these. Progress is being made on financial regulation and supervision, but the joint responsibility of all institutions and member states in achieving a solid new regulatory framework for the financial sector must be vigorously re-affirmed and the S&D Group will continue to fight hard for the strongest possible rules. Some progress has been made at the June European Council on recognising the problem of macroeconomic imbalances and on trying to introduce this element in future economic policy coordination (scoreboard for macroeconomic surveillance). However, the issue of fair and economically sound income distribution has so far been ignored by Council and Commission, despite its close link to significant EU internal trade imbalances and its negative role in fuelling private debt. At least, the EU should define common guidelines for member states towards a more redistributive fiscal policy at national levels, as part of its macroeconomic strategy.

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