SOCIAL JUSTICE

EQUALITY

GROWTH

FAIRNESS

JOBS

BASTA!

AN END TO AUSTERITY

Democratic and economic renewal in the EU

S&D
Group of the Progressive Alliance of
Socialists & Democrats
in the European Parliament

CO - AUTHORS

HANNES SWOBODA, S&D Group president
DAVID GOW, Independent journalist & former European business editor, *The Guardian*

PREFACE

This book has been jointly written by Hannes Swoboda, the S&D Group's president, and David Gow, freelance journalist and ex-European business editor, *The Guardian*.

The book comes after the Progressive Economy conference that we held in Brussels in early March 2013. We are now organising a series of follow-up conferences all over Europe in the run-up to the European Parliament elections in 2014.

It analyses in detail the iAGS (independent annual growth survey) which our Group produced in response to the European Commission's AGS (annual growth survey), published in late 2012. The overall objective is to highlight our vision of a different economic model for Europe and our long-term aim of an alternative, more socially just future for the people of Europe.

We would like to thank all those who have worked on and contributed to this book in a variety of ways. This includes especially the economic team headed by Derek Reed and the press & communications team headed by Utta Tuttlies with the support of Solange Helin-Villes and others.

With 195 MEPs the S&D Group works long and hard for an alternative vision and reality for Europe through its intensive work in both plenary and committee sessions.

Together we can make this happen and change the lives of the millions of people who are suffering from the harsh measures of the current crisis.

It is time for a change; let us make it happen together.

Hannes Swoboda **David Gow**

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HANNES SWOBODA, THE SOCIALISTS AND DEMOCRATS GROUP'S PRESIDENT, SETS OUT ITS ANALYSIS AND VISION

The Right, historically, is pessimistic about the ability of people and societies to overcome their deficiencies without coercive punishment. The Left is, inherently, optimistic about humans' capacity to work together to improve society.

For the past five years the Right has set a narrow, self-defeating agenda to resolve Europe's crisis by focusing only on reducing sovereign debt at the cost of widespread pain. The Left, on the contrary, has consistently argued for a twin track solution. Co-ordinated measures to improve Europe's competitiveness, promote social integration and extend democratic controls are vital if its citizens are to accept structural reforms and spending cuts. First, co-ordinated measures to boost investment, restore growth and create jobs. Second, far-reaching reforms to tackle weaknesses in Europe's economic model and extend democratic accountability.

Ambitious plans to make Europe the most competitive economy and greenest society in the world have been abandoned in recent years under Right-wing majority control. But the time has come to reinvent Europe as a source of hope for its 500 million citizens and to give them, especially the young, a sense of a better future. This is all the more urgent when distrust and disenchantment with the European Union and its institutions are at dangerously high levels and political extremists of Right and Left are spreading the poisons of xenophobia, religious hatred and violence. Europe cannot be allowed to repeat the experiences of the late 1920s and 1930s.

It is against this background that Hannes Swoboda discussed ways out of the crisis with David Gow, who began by asking:

Q: Why do people feel that the crisis – which has been going on for several years – is getting worse every day rather than better?

A: There are several reasons and it would be naïve and simplistic to say there's only one. There's, of course, the question of the extreme liberalization of markets, especially financial markets; more competition, with China and India adding a billion more workers to a more or less common market. There's the really restrictive, neo-liberal reaction to that kind of development and this is the basic reason for the prolongation of the crisis.

Q: So, it's not that there's an endemic crisis in Europe or that Europe is in permanent decline?

A: No. There is a rebalancing between the different continents. If you look back 150, 200 years ago China had a much bigger share of the global economy and then the US and Europe made extraordinary advances in the 19th and 20th centuries. Now, of course, with the new growth of China and the BRICs there's a rebalancing but that is not the problem. The real reason is the neo-conservative view that we can only compete if we reduce labour costs, wages, salaries, workers' rights. We, the European left, insist it is also a matter of public policy: our competitive edge is guaranteed through investment and quality skills. We cannot win if we downgrade to Chinese labour relations and salaries. We can only win this competition or be able to sustain our position in the world if we aim for qualifications and quality – and that means investment, both public and private.

Q: Each day brings more bad news, especially for countries "in the programme", so is there any sense of light at the end of the tunnel?

A: I see not enough light at the end of the tunnel. We have to put back steam and power into the economy but the economic policy championed by the right today is wrong. There's no country taking the lead or helping to turn the situation around. Germany and some other smaller countries are satisfied they're in a better position but are not trying to create any stimulus or incentive for increased economic activity. But this is exactly what would lead other countries out of the crisis. Quite apart from the fact that it would be good for Germany, which has got its own social problems and still needs to modernise its infrastructure and spur its faltering growth.

Q: So, the surplus countries, especially Germany, are not doing enough, not showing enough solidarity?

A: Of course we need more solidarity but, equally, we need more reforms in the countries with bigger problems. The Germans, especially Angela Merkel, hold the position that you have to beat the people, make them obey, punish them into reforming. It's a moralistic way of dealing with them, a Calvinistic view that the people we're punishing are lazy, especially in the south…You have to whip them into reforms - and that's the philosophy you see every day in the German media. There's no sense of incentives, of transfers of know-how or technology…The policies of investment-led growth we'd like Germany to pursue are not a simple act of solidarity but in the country's own interests. This way, it can both address its pressing problems such as the rise in inequality at home and secure its economic future by boosting growth and jobs among its euro area partners.

Q: So, how does the Left pull people together when there's disarray in countries like France, where they're in power, or, even worse, Italy?

A: The political ground is finally starting to shift. Governments of the Left in Europe – in a minority during the crisis – have had their difficulties but now, in closely interconnected economies, the opportunity to achieve real change is acquiring critical mass. First, citizens are becoming more and more desperate and demand changes in policy. The question for us right now is whether the current policy has democratic legitimacy. People are raising their voices but don't feel they're being heard; what they notice above all is that this is an austerity policy undemocratically imposed by the European Commission and the troikas.

People can see that austerity is not working but cannot yet see the alternative. For the moment, there's opposition, revolt, going on the streets in Bulgaria and Spain, and there's disappointment: these are the issues the democratic Left has to take up, as the new Italian government is trying to do. We must ensure that this growing demand for change is heard in Brussels and Berlin. We should be at the forefront of directing that protest and providing answers and that's what we want to do in this book: produce some compelling arguments.

Q: Given that there are almost six million young people who are out of work (it's nearly as high as 60% in Greece and Spain, almost on the scale of the 20s and 30s) how does the democratic Left offer hope?

A: First of all, the democratic Left must offer comprehensive policies of reform. States like Greece and Italy need a lot of reforms, of modernisation in the sense of restructuring the state to make it more efficient, more responsible – and more responsive to the citizen…Advancing society, producing an alternative to austerity, means public investment in education, research and development, infrastructure and other sectors. We're not saying we're against reducing debt but it must take place over a longer period.

Saying we're in favour of higher debt is nonsense because debt recklessly incurred is a heavy burden on the state; we don't want taxpayers' money to feed bondholders but, like a well-run business, borrow only to invest, to create growth and jobs. Let's reduce debt by all means but without destroying our future at the same time. Slashing spending on education, research and vital infrastructure, as we've been doing, will leave a terrible legacy for future generations. And no one country can make this good it on its own.

We have a concept of reshaping the economy by bringing in new resources, giving new chances to the younger generation, creating new start-ups, promoting innovation. Current policy is so simplistic, so narrow-minded, it amounts to: let's cut wages, salaries, pensions, public spending and things will go well.

Q: What would be the difference if the Left's alternative were in place? After all, Rehn and co are now talking about slowing down consolidation, making it more 'growth-friendly'?

A: The decisive thing is not declarations but action which gives citizens the hope that things will get better. If they see unemployment going down, if young people see new jobs being created, and more new companies being created by young people, this brings the optimism that wider society needs and citizens begin to feel that there is indeed an upswing.

The Right is slowly but reluctantly being forced to change its rhetoric, to talk about growth and jobs, but they're still stuck in a 1990s time warp of free-market economic thinking – just when the bulk of economists has moved on. You cannot just tack a few job-creating measures on to the same old deficit-cutting strategy. That doesn't work. Europe needs a radical change of direction, not tinkering around the edges.

If prime ministers only talk about cuts there's no one field in which we can say, "we made it". There's no light at the end of the tunnel because the tunnel simply gets longer and longer and this is the current disastrous policy, it's a misuse of resources. We now have a generation of more educated young people but they have no jobs: it's a disaster.

Q: So, the difference is the will to act, to change things?

A: Well, the current ideology is: less state, less public intervention, liberalization giving the market a dominant role. But we all – even the Right - know that this model produced the excesses of financial markets and the global crisis from which we are still suffering. Yet, instead of learning from the crisis and changing models, the Right is heading straight back to the future and the same tired old economic nostrums. They seem incapable of self-critical change, of realizing that we have been living through a systemic crisis. Instead, they treat the recession as if it were caused by feckless individuals rather than by bankers or blinkered politicians. And, if governments don't carry out reforms, their people will be punished or at least their wages will be cut.

Q: So, what role should be played by the EU institutions, the Commission, the European Central Bank? Where does the impetus come from?

A: The real culprit in the current impasse is the Troika, where all three – Commission, European Central Bank (ECB) and International Monetary Fund (IMF) – are mistaken and doing a lousy job. We demand that the Troika be stopped and the Commission as a quasi-European government takes full responsibility and co-ordinates with the ECB. It's like a national government where the finance minister has to co-ordinate policies with the central bank and the same should happen at the European level. The IMF's role should be phased out because the whole construction lacks democratic legitimacy and you don't know who is responsible. The Troika is a failed construct without public accountability and it should be dismantled.

On many issues, however, we share the IMF's criticisms of the EU authorities – such as the view of Olivier Blanchard, IMF chief economist, who has told the Commission time and time again they should allow more time for countries to reduce their deficits. What Olli Rehn has just done with Portugal, France and Spain (giving them more time to reduce the budget deficit) is too little, too late and much more has to be done.

Q: So, what would replace the Troika? And what would be the quid pro quo?

A: Here it is the Commission which has to do the job and the commissioner has responsibility to the Parliament, to the Council, made up of the national governments which provide the money. We created a vice-president for that; she/he should have a strong position and we even want her/him in the long run to chair the Ecofin and Eurogroup, whether we like her/him or not. We will have the European Stability Mechanism (ESM), hopefully soon: it is a eurozone instrument and it is the eurozone which has to deal with this problem and not leave it up to the IMF. We cannot build a strong Europe and a strong eurozone but ask the IMF for support and intervention. That's not up to European standards.

Q: Would you like to see the European Stability Mechanism become the EMF (European Monetary Fund)?

A: Finally, after ratification, and starting to work in the medium term, perhaps with a new European constitution, it should become the EMF. We have to do our own job and cannot ask others to do it for us. It's up to us to solve our problems with economic self-consciousness and pride.

Q: You've called for a social pact in the context of the move towards a full EMU and the June 2013 summit. How would this work?

A: Austerity policy is seen as a method to diminish the importance of the welfare state. The welfare state had a social element, an economic element, it was part of the economic success story after World War II and you can't uncouple it from that and competition with the East, with communist dictatorship. We're against uncoupling economic and social policies.

Of course reforms are necessary if people are getting older and older and we have a higher percentage of citizens dependent on a shrinking working population. Our position is not that we don't have to change anything, but EMU, as a strong core of Europe, has to look not only to growth but to jobs, to a certain level of job participation, especially for women. Public services are an important measure of economic stability - they're part of the fight against poverty, and reducing the rising gap between lower and higher incomes.

This rising inequality gap inside each country is also an economic problem because it means less purchasing power for people and that in turn reduces demand and growth, spurring recession. Europeans relied more and more on credit to fill the gap so inequality lay at the heart of the debt-fuelled economy that crashed in 2008.

Our social pact also calls for social partnership labour reforms and that's a positive element, decided by collective agreement. Another important element is minimum wages or incomes, minimum pensions, not a uniform minimum wage across Europe but an EU-wide agreement so that member state governments will set up systems in each country. Social investment in education means training and retraining, a certain percentage of national income going into retraining the jobless. In northern countries you see a big difference in the percentage of GDP or the budget going into retraining compared with the south.

These are some of the elements which should be included in the social pact. So we need reform: not at the cost of destroying the social fabric, but rather, to support it. That includes a higher participation rate of women who have immense potential but, unfortunately, still often carry the greater burden of raising children, so we have to invest in child-care. Economic growth and the full participation of the workforce and potential workforce are not possible without social expenditure.

A social pact within EMU is not just a moral imperative but an economic necessity. Fairness is a core element of the best-functioning economies; it goes hand in hand with competitiveness. Economic success and social progress are wedded together.

Q: But critics will say, this is just the same old stuff, it's as if the crisis never happened, you cannot spend your way out of the crisis and Europe's welfare spending is simply unsustainable.

A: It may be old stuff, but it was also successful stuff for many years. Again, the nonsense of the ideology behind such comments is that social spending is bad for the economy and somehow crowds out private investment. It's not social spending versus economic growth, it's social spending to support economic growth. Nobody is saying, "concentrate on social spending and all will go well". It's clear there will have to be pension reforms and a pension today cannot be what it was 20 years ago. The demographic evolution in Europe forces us to revisit the current pension systems.

You cannot bring a lot more people into the workforce and create jobs if there's not a certain amount of social spending…If you think about migration, there are many migrants who are discriminated against, and badly treated, when in fact they could contribute to economic growth. I'm absolutely sure that if we had a better integration policy more migrants could have important and responsible jobs and contribute more to economic growth. So we have to demonstrate the relationship between social spending, integration policy and economic growth.

Q: You're suggesting that this can be self-funding in a way? That the current way is simply no growth and higher debt, with disastrous results?

A: The current way is a dead-end street and we are about to hit the wall. A sustainable pension system, in a solid growth environment could indeed become largely self-funded. But for this, we must overcome the unemployment crisis and get people into jobs.

There certainly is a limit to spending: you cannot say the more you spend the better but you have to concentrate on that spending which makes a positive economic contribution. Consider the growing housing shortage in the EU, for instance.

30 million people in the EU are badly housed.[1] Almost half a million are homeless.[2] We call for the EU to promote and coordinate a large-scale house building programme across the Union, meeting the highest environmental standards. This is an initiative which would address an urgent social need and at the same time create hundreds of thousands of jobs in construction, where unemployment is at its worst.

Q: So, the alternative would be investment-led – whether private or public?

A: It must be investment-led growth. We're talking about social investment and how that can contribute to growth. It's less about individual benefits given to citizens and more about social investment in housing, education and more jobs.

Q: You say there must be structural reforms but which ones and how would they come about?

A: The first element is public investment which is a powerful tool to rebalance our economy, raise competitiveness and help spur the industries of the future. But the rate of investment is going down enormously, even in richer countries like Germany, the infrastructure is deteriorating to the point where bridges may have to be closed because they are dangerous to cross. So we back investment in necessary infrastructure and in broadband investment to help create modern jobs, education, training, housing.

Slowing down the pace of debt repayment makes room for reasonable investment at the national and European scale, to modernise the economy and make it more competitive at the international level. Structural reforms to repair the weaknesses that, emerging in the past two or three decades, have created the deepest and longest recession since the 1930s are urgently required. To do so demands not just stricter, smarter regulation of the financial sector but also a reform of corporate governance. Europe must end the culture of short-termism in business and encourage companies with incentives to invest for the long-term, through innovation and R&D.

Labour market reform is certainly necessary but, for us, its purpose must be to create a well-trained, adaptable workforce and promote partnership between management and employees. We can agree to more flexibility on the labour market if it is combined with more security, the famous "flexicurity" in Nordic countries, where a higher percentage of public spending goes into training and retraining. That can be self-sustaining in the long run because now we would have less money being spent on unemployment benefits and more on training and retraining. The ratio between spending on benefits and on retraining has to change and employers and unions must agree on developments such as short-time working, to keep people working in a crisis and then enabling them to go back to full time work, again with advantages for both sides. People keep their jobs and the employer keeps good people, retaining skilled labour. There are many opportunities for both sides to agree upon measures and especially to combat youth unemployment.

[1] Eurostat figures 2009
[2] European Commission estimate

Q: After five years of "capitalist" crisis this should be the time for the democratic Left and yet it is woefully underperforming. Why and what can be done to reverse this?

A: The Left traditionally does not benefit from increased support during a crisis, at least not at the beginning of a crisis. Between the first and the second world wars for instance, support for the Left decreased. Why? Because in a crisis, people instinctively become more self-protective, more nationalistic and narrow-minded. The result is that in an attempt to defend oneself, the 'others' are blamed. Between the wars in Germany, it was the Jews, today foreigners or Muslims are often singled out. But people are seeing that such right-wing nationalistic rhetoric and policies do not get them out of the crisis, on the contrary.

The democratic Left, Tony Blair and Gerhard Schröder, had a concept which I don't want to say was totally wrong - to modernise social democratic attitudes - but they overdid it and did not see the deficiencies of the market or of the labour market (Hartz) reforms. Not all of this was bad but one should have seen the deficiencies of these reforms and taken time to correct them and the liberalisation of financial markets. Especially after the breakdown of communism, the philosophy was: now we have to cut out whatever is connected to socialism and modernise. That's led to the difficulty, which still exists in some countries, in taking a balanced social democratic approach. Thirty years of effective consensus on economic policy have come to an end. The differences between social democrats and conservatives are much stronger now. Our visions of Europe are very divergent.

Q: Is greater fairness for all one way to prevent the rise of extremists?

A: To prevent extremism, we have to deliver. And for this, we need to first return to sound economic policy. With the hope of an economic recovery, people will also become more open-minded to the added value of migration and diversity. We cannot have an open door policy for everybody, but in a healthy economy, additional workers and employees from outside Europe, will be required. It is also the only way to counterbalance the demographic developments which will otherwise lead towards instability.

If people can see the benefits of reasonable migration and integration, you can counter the Right-wing extremists who very often are xenophobic and diametrically opposed to the fundamental European values of non-discrimination, inclusion and diversity.

Q: What kind of society do you envisage?

A: If, for example, we take just 20% of the tax currently evaded and stashed away in tax havens (estimated to amount to a total of €1 trillion every year), we could have investment, public and private, to create jobs and to green our economies, for the ecological reconstruction of our society. The wrong turn Europe has taken in this long period of conservative ascendancy is to put the economic bottom line ahead of everything else. That is a poor, impoverished vision of life, and even as an economic philosophy - as we have seen - it is fragile and self-defeating.

There is a major chance that the next recovery will not take place on the old terms – putting the bottom line ahead of everything else - but will be a new modern model that can be an example to others, to the US and China. You can compete and have growth and jobs and, at the same time, reduce your ecological footprint on the earth and eco-system. What some have called a realistic utopia. We are the only group which can combine creating jobs, the social dimension and ecological renewal.

2 FAILED AUSTERITY IN EUROPE:

PROGRESSIVE ECONOMY CONFERENCE MARCH 7 2013 AND THE INDEPENDENT ANNUAL GROWTH SURVEY

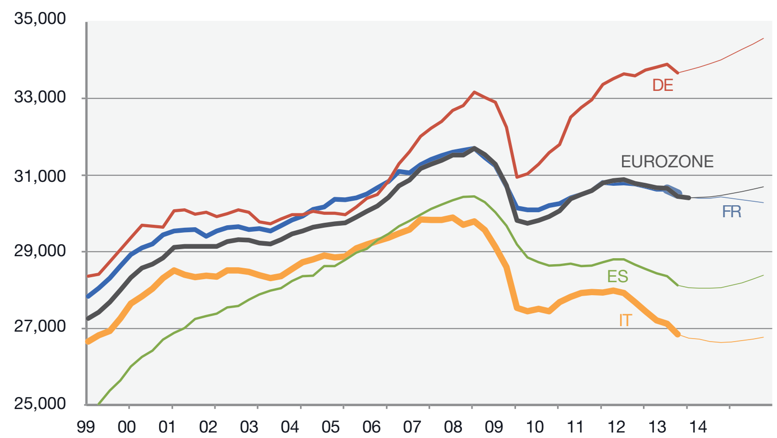
> **"After five years of austerity we can see the results: we've lost ten million jobs and got the highest unemployment rate and something needs to be changed…People are crying out for an alternative so this is our moment."**
>
> **Poul Nyrup Rasmussen,**
> Former prime minister of Denmark and PES president

The lost decade

Early 2013, unemployment in the euro area reached a record 12.1% or more than 19 million, with a rise of 1.75 million in just 12 months. The figures are getting worse and are a searing indictment of the failure of the policies imposed since 2010 to "restore financial and fiscal stability" in Europe as a "necessary prelude" to economic recovery, growth and jobs. They mask severe human pain on a scale rarely witnessed since the end of World War II. They hardly express the anger and anxiety of a younger generation, a quarter of which is jobless and, worse, uncertain of ever finding work in their native land. They highlight the prospect that Europe is in the midst of a lost decade.

The increasing possibility of a "triple-dip" recession in the EU-27 formed the sombre background to the first annual Progressive Economy conference in Brussels in early March 2013. Looking further ahead, the audience and speakers were aware that the EU accounted for 30% of global output in 1950, but could generate just 10% of world GDP a century later – on unchanged policies. But the mood of the conference was to defy fear and embrace the need for change. It saw the need for necessary – not socially regressive - reforms that give hope for more jobs and growth. But it also called for better growth and sustainable employment in a Europe that rejects economic decline and a diminished global role.

Evolution of GDP per head in eurozone



Source: National statistics, OFCE forecast April 2013

"Now Europe has a form of restructuring that is stupid, inefficient and anti-social. Since the crisis we have had 70,000 cases of restructuring and a loss of 4.6 million jobs and have created just 2.6 million.

A study initated by the S&D Group shows that a pro-active policy at the European level to manage industrial change is far more effective. With social dialogue, early consultation and information, 60% of those losing their jobs can find new ones after training and retraining, the costs can be cut and even the firm itself can be saved."

Alejandro Cercas, MEP

"Youth unemployment costs Europe €153 billion a year in welfare payments and, above all, lost output and productivity. The Dublin Foundation calculates that a genuine youth guarantee would need €21 billion a year compared with the €6 billion over seven years approved by the March summit. This is inadequate to deal with the losses which are not just for now but will carry over an entire generation. That's the difference between us as social democrats and the lip-service the centre-right pays to such problems. We know what needs to be done, we would put our money where our mouth is, we need to stop digging ourselves into a hole and invest in growth and jobs…It makes economic sense, it's a no-brainer."

Stephen Hughes, MEP

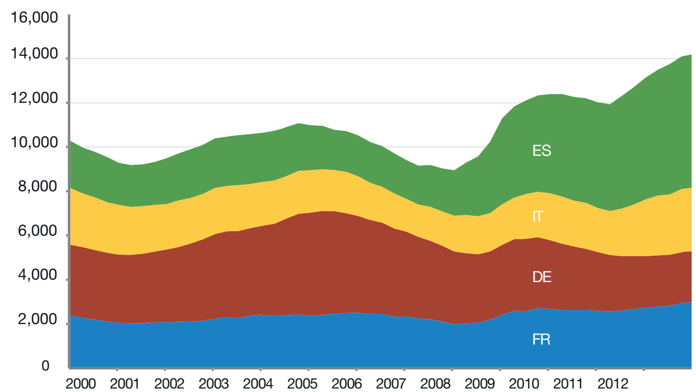
Olli's folly

The urgent necessity for a real and rapid change of course is spelled out in the independent Annual Growth Survey (iAGS), a radical alternative to the survey (AGS) put out each year by Olli Rehn, EU economic and monetary affairs commissioner, and his team. This document does not just pull together economic forecasts. It sets out the policy framework within which the EU and its member states must operate each year. Since 2011, it has become the key instrument for enforcing and refining pan-European austerity.

The iAGS – drafted by three economic institutes, the Economic Council of the Labour Movement (ECLM), Institut für Makroökonomie und Konjunkturforschung (IMK) and L'Observatoire français des conjonctures économiques (OFCE) – dissects the Self-Defeating Austerity (SDA) Syndrome espoused by the EU authorities for the past three years. This was more pithily described by one Progressive Economy speaker as: the Folly from Olli.

In a nutshell, the European Commission and the centre-Right majority of EU governments have adopted a "fallacious diagnosis" that "fiscal profligacy" or excessive state spending is to blame for Europe's continuing problems in escaping from the economic mire induced in 2008-09 by the original sin of the banking crisis. They took a sledgehammer – extreme austerity across the entire and very fragile EU – to crack the wrong nut.

Unemployment in key eurozone countries



Source: National statistics, OFCE forecast April 2013

> **"We have to foster the desire for Europe as part of the solution rather than the reason why the crisis is getting worse…we need to put growth at the centre of the European agenda. I'm not saying we should give up on budgetary discipline, far from it, or on structural reforms but we need to get the balance right, creating the conditions for economic recovery."**
>
> **Pierre Moscovici,**
> French minister of finance

The real issue, the iAGS analysts show, was current account imbalances. Instead of embarking upon and encouraging a vicious circle of fiscal consolidation at all costs, as they did from late 2010, the EU authorities should have intervened more swiftly and more strongly against excessive interest charges; encouraged surplus countries to boost demand; and allowed deficit countries a slower pace of consolidation in return for tackling much-needed reforms.

"Even if some fiscal consolidation was almost certainly a necessary part of a rebalancing strategy to curb past excesses in some countries, it was vital that those countries with large surpluses, especially Germany, took symmetrical action to stimulate demand and ensure faster growth of nominal wages and prices. Instead, the adjustment burden was thrust on the deficit countries", the iAGS analysts say. This was a leitmotif at the March conference which was told by Gustav Horn, IMK director, that this "systematic error" induced a series of false dawns in Rehn's forecasts. These can be summed up as: "turnaround next year" or "jam tomorrow."

WORLD OF TROUBLE
RECESSIONARY ENVIRONMENT

GDP GROWTH OVER LAST SIX MONTHS — **IN RECESSION**

Latvia	**2.5**	Belgium	**0**	Finland	**-0.7**
Lithuania	**2**	UK	**0**	Euro Area 17	**-0.8**
Romania	**0.9**	Austria	**-0.1**	Slovenia	**-1**
USA	**0.7**	Estonia	**-0.4**	Czech Rep	**-1.1**
Slovakia	**0.4**	France	**-0.4**	Spain	**-1.3**
Hungary	**0.3**	Netherlands	**-0.5**	Italy	**-1.4**
Bulgaria	**0.1**	EU27	**-0.6**	Portugal	**-2.1**
Poland	**0.1**	Germany	**-0.6**	Cyprus	**-2.5**

Source: David Blanchflower, The Independent

> **"The way the euro and the single market have functioned so far has created huge imbalances and these cannot be bridged simply through massive public works. As core elements of a coherent policy we have got to use 21st century weapons based on research and innovation."**
>
> **Elisa Ferreira ,** MEP

Things are getting better…

Rehn's latest forecast now foresees a further contraction in the euro area this year, on top of one last year, while the EU as a whole can look forward to a further decline of 0.1% this year after contracting 0.3% in 2012. (He regularly and mistakenly sees the 'green shoots of recovery' when they are not there.) Rehn – "the face of denialism when it comes to the effects of austerity", according to Professor Paul Krugman – said in February: "The decisive policy action undertaken recently is paving the way for a return to recovery. We must stay the course of reform and avoid any loss of momentum, which could undermine the turnaround in confidence that is underway, delaying the needed upswing in growth and job creation." The iAGS analysts, however, expect the eurozone to contract 0.3%, in line with other forecasts: the ECB points to a decline of 0.5%, the IMF to one of 0.2% and Rehn himself to one of 0.4% while the OECD has postponed any recovery until later this year – and it says Europe is still dragging back the global economy as a whole.

The Commission's own AGS (November 2012) acknowledges that the "profound restructuring" of European economies now under way is "disruptive, politically challenging and socially difficult" but insists that the recovery it will prompt will be "smart, sustainable and inclusive." It admits that the short-term outlook is "still precarious" but it claims that "there are also more positive trends at play". This brought guffaws of disbelief on publication and, again, at the March conference where Marco Buti, director general for Economic and Financial Affairs (ECFIN) in the European Commission and Rehn's most senior official, caused some uproar when he said the policies were not pursued "by ideology" but "are in line with the thinking of mainstream economists".

As Józef Niemiec, European Trade Unions Confederation (ETUC) deputy general secretary, put it, the EU authorities "don't recognize how serious things are" while they actively encourage a "race to the bottom". Professor Jean-Paul Fitoussi, research director at OFCE, expressed the real state of affairs most graphically: "Full employment was first sacrificed on the altar of inflation and now on that of public debt but none of this works: you simply end up making the debt even bigger."

"We are as determined as anybody, as the EPP and Liberals, to bring down debt and deficits as we all know that high levels of both are a problem. But what we are saying is: If a family runs up an excessive credit card debt they don't try and pay it off in six months by starving the children."

Stephen Hughes, MEP

"We as social democrats would get to grips with the debt agenda but it would take us a bit longer. If I have an overdraft at the bank and you take my job away I will never repay the debt in my life. We have, above all, to give hope to young people; we are at risk of losing a generation."

Arlene McCarthy, MEP

"There's been far too much of a moralistic explanation for the crisis… We had an accumulation of asymmetries, of internal imbalances, so when the crisis came primarily from US financial markets, our monetary union didn't have the capacity to act counter-cyclically. But that's completely different from saying: you are to blame. A moralistic stance completely destroys the European spirit.

"We know we're in a non-optimal currency area so we have to cut through things again and see what's missing. What's completely missing is the financial instruments that can counter-balance the impact of the crisis on the whole euro area…We simply can't go on with a budget of 1% of GDP to control these imbalances. We have to reshape the MFF (EU seven-year budget) with own resources to stop this Thatcherite approach which says, simplistically, you get out what you put in…"

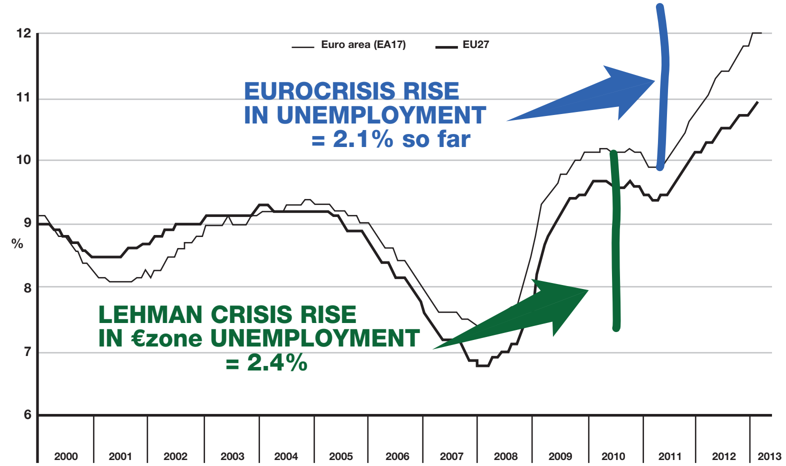
Elisa Ferreira, MEP

A rush over the cliff

A core thesis of the iAGS is, indeed, that "ill-designed and precipitous consolidation" applied across the board of the euro area countries not only prevented any spontaneous recovery but choked off even the tentative one under way. So GDP remains below its pre-crisis level five years later. Unemployment, which was 16 million in the EU-27 in early 2008, is now 26.5 million. Member states where the fiscal consolidation has been especially severe (Greece, Spain, Portugal etc) have seen unemployment reach levels which are dangerous for social cohesion and political stability; the youth unemployment rate is 56% in Spain while it is above 60% in Greece.

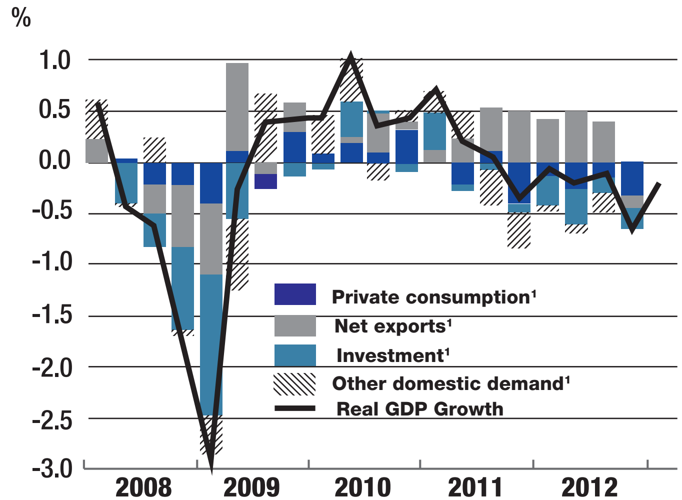
The iAGS analysts forecast that, on these trends, the long-term unemployment trend will worsen, with 12 million across the EU and 9 million in the euro area by end-2013. As Professor Fitoussi said, this is likely to be a loss of social or human capital almost on the scale of the 1930s that will lower Europe's future growth potential for all time. Rehn's own AGS, meanwhile, devotes two small paragraphs to tackling social exclusion and poverty. (We also know that the first draft of the conclusions for the mid-March 2013 European Council made no mention of this at all, with a few empty phrases added in later).

Euro area and EU27 unemployment rates
Seasonally adjusted series



Source: Faisal Islam, Channel4News

The economy in recession
Quarter-on-quarter percentage changes



Source: OECD, May 2013

Multiplying blind austerity

This profound error of judgment is compounded by another: a serious underestimate of the impact that such policies would have on the real economy. EU policy-makers simply overlooked the fact that an over-strict tightening of fiscal policy, applied uniformly throughout the EU, would create the very outcomes we have seen: recession, rising unemployment, growing inequality and, not least, increasing rather than decreasing debt. This was more than amply demonstrated when the IMF admitted in early June 2013 it had utterly under-estimated the impact of austerity policies on Greece, the first Eurozone country to be bailed out and, effectively, governed by the "Troika" of Commission, European Central Bank and IMF.

Evidence, not least from the IMF[1] itself, strongly suggests that "fiscal multipliers" – the impact of tax and spending policies on growth – have a bigger effect than expected when economies are weak or, even more so, sick.

As the iAGS analysts explain: normally or when real and potential output levels are virtually equal, cutting public spending by 1% of GDP reduces activity by 0.5% to 1%. But, in hard times, especially during early stages of a crisis (as at the end of 2010/start of 2011), this effect can be more than 1.5% and, in a full-blown recession (as in 2012), as much as 2%. In the case of the eurozone this means, iAGS experts say, that the negative fiscal stance will wipe out a further 1% of GDP this year, resulting in a further 0.7% decline in consumption and one of 1.5% in private investment. In other words, a more prolonged recession with the easily foreseeable deleterious effects upon unemployment and poverty. And, for all this pain, only Germany, Austria and Finland, the so-called model economies of the north, will meet their annual fiscal targets.

[1] http://www.guardian.co.uk/business/2013/jun/05/imf-underestimated-damage-austerity-would-do-to-greece

The initial response of EU policy-makers was simply to "say it ain't so". Rehn wrote a letter to EU Finance ministers and the heads of the ECB, IMF and other relevant bodies saying: "The stability culture embodied in Europe's reinforced economic governance does not stand in the way of sound, long-term growth. To the contrary: Carefully calibrated fiscal consolidation in a credible medium term horizon creates the conditions for sustainable growth for years to come." (As we shall see, a month later, in the March summit conclusions, the right consolidation had suddenly become 'growth-friendly'.) And Rehn simply dismissed studies on fiscal multipliers by the IMF's chief economist inter alia as lacking "robustness" and as being "unhelpful" or even "confidence-eroding". Fortunately, his words fell upon largely deaf ears – not least those of even the EU's centre-Right majority leaders and of Christine Lagarde, IMF managing director. She explicitly urged more time in meeting nominal targets and even suggested these could be (temporarily) ignored. Jose Manuel Barroso, European Commission president, and Rehn began talking the same way in the spring of 2013 when the failure of the austerity-only policy became too great to ignore and evidence mounted that Europe's citizens were turning Eurosceptic in unprecedented numbers – even in the traditionally most pro-EU countries[2].

This is how Barroso put it on April 23 2013: "At a time when so many Europeans are faced with unemployment, uncertainty and growing inequality, a sort of 'European fatigue' has set in, coupled with a lack of understanding. Who does what, who decides what, who controls whom and what? And where are we heading to? These are all questions that demand a clear answer." "The truth is that Europe is a daily reality for more than 500 million Europeans and yet the public opinion is fragmented mainly along national borders. Which also means, that we must put an end to the aberration of dealing with European issues at the national level as if they are foreign policy issues."

> **"This policy of stagnation and extreme austerity is unacceptable. It does not bring the promised results, creates political chaos and sometimes extremism – and certainly brings lots of pain."**
>
> **Hannes Swoboda,**
> S&D Group president

[2] http://www.guardian.co.uk/world/2013/apr/24/trust-eu-falls-record-low

Ahead of the game

The Progressive Economy conference, we can say coolly, anticipated shifts of thinking among policy-makers – and not for the first time, as we show in the next chapter. Strikingly, speakers and delegates refused to issue facile calls for immediate fiscal stimuli or bluntly reject reforms. Rather, as Hannes Swoboda, president of the Socialists & Democrats Group, said: “The speed of reducing budget deficits is not economically sensible, not socially acceptable and not politically correct.” What’s more, he added, reforms were necessary but we could not endorse those that lay the entire burden of adjustment on workers by cutting wages and pensions or destroy the welfare state in the process. “We’re willing to produce our alternatives.” And these shall be: “concrete, visible, convincing”.

Two common themes united delegates: the rejection of “blind austerity” in itself and No to the EU as “austerity police.” As Bruno Liebhaberg, president of the scientific council of the Foundation for European Progressive Studies (FEPS), underlined: “Europe is becoming inextricably associated with austerity for its citizens”. The problem, keynote speaker Pierre Moscovici, French finance minister, rightly suggested, is primarily political. “Europe’s crisis is first and foremost a crisis of integration: it’s the lack of Europe, not an excess of Europe. And this crisis is political before it’s economic. It’s immobilism or ineffectiveness which is weakening us… we have to show that Europe can offer an adequate degree of solidarity to match fiscal discipline.” He highlighted the “risk of schizophrenic growth”, with financial markets repaired but the real economy stagnating. Moscovici urged completion of EU institutions, particularly those in the euro area, to help overcome this. We share his view that, in addition, an array of tools is required to stabilize shocks, better management of very heterogeneous economies is urgent – and the old institutional model must be updated. Relying entirely on fiscal consolidation as laid down by the stability & growth Pact must be tempered. “Repairing public finances and growth are not incompatible; it’s the fair balance between these goals which should guide us.” So: Yes to reforms but also to robust solidarity.

The right tools for the right job

Moscovici set out his chosen set of tools to remedy the position: a distinct and separate eurozone budget financed from own resources and able to intervene contra-cyclically; an unemployment insurance fund; common debt issuance; reinforced democratic controls via a euro area committee in the Parliament and a dedicated eurozone minister. Under questions, he made plain that the struggle to repair public finances and bring down sovereign debt should not be abandoned. “We need to draw up an agenda for Europe or else be resigned to its divorce from its peoples”, he said. “Europe has lost (and must regain) the narrative of its epic story”. His views found an echo in S&D Group president Hannes Swoboda : “Until we on the Left regain the initiative we won’t be able to change things; we need to reach a point where Europe is giving hope to its citizens, to its young people, but we’re not there yet; we have to give hope we will come out of the crisis.” This, of course, is exactly what we are doing in this book.

Austerity isn’t working

GDP growth in %

	2013				2014				2012	2013	2014
	T1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
DE	0,3	0,2	0,3	0,3	0,4	0,4	0,4	0,4	0,9	0,4	1,5
FR	-0,1	0,0	0,2	0,2	0,2	0,2	0,2	0,2	0,0	-0,2	0,6
IT	-0,2	-0,1	-0,3	-0,1	0,1	0,2	0,3	0,3	-2,4	-1,5	0,3
ES	-0,3	-0,1	0,0	0,0	0,2	0,2	0,3	0,3	-1,4	-1,2	0,6
NL	0,0	0,0	0,1	0,1	0,2	0,2	0,2	0,2	-1,0	-0,7	0,7
BE	0,1	0,3	0,3	0,4	0,3	0,3	0,3	0,3	-0,2	0,3	1,3
IR	0,0	0,1	0,2	0,2	0,2	0,2	0,2	0,2	0,9	0,1	0,7
PT	-0,3	-0,2	-0,1	0,0	0,0	0,1	0,2	0,2	-3,2	-2,5	0,1
EL	-0,2	-1,2	-0,8	-0,8	-0,5	-0,3	0,0	0,0	-6,3	-6,0	-2,0
AT	0,1	0,1	0,2	0,2	0,3	0,3	0,3	0,3	0,8	0,4	1,0
FI	0,2	0,3	0,3	0,3	0,3	0,3	0,3	0,3	-0,2	-0,1	1,1
EUZ	0,0	0,1	0,1	0,2	0,3	0,3	0,3	0,3	-0,5	-0,4	0,9

Source: IMF 2013

Solidarity and growth are the twin pillars of this new European narrative. In a session on “A life beyond austerity” even Marco Buti acknowledged that “fairness and equity will be top of the agenda in future” and called for more ‘flexicurity’ on Nordic lines. Professor Pier Carlo Padoan, chief economist of the OECD, went further and set out the case for varying speeds of fiscal consolidation in different countries: so far a policy to which EU policy-makers pay lip service and no more. This, he added, was essential to address issues such as inequality and promote structural reforms such as improving the labour market to allow more active participation by both women and young people: a stance we wholeheartedly endorse. Padoan especially emphasized the need for Germany to embrace fiscal expansion, making good lack of investment in, say, services and shrinking its surpluses. He even endorsed the idea of mutualizing debt – put forward in late 2011 by Germany’s ‘council of experts’ (Sachverständigenrat) but rejected then by chancellor Angela Merkel. Europe’s goals were firmly set as: full employment, balanced growth and a stable fiscal stance. The Right, we assert, has abandoned the first of these, cannot deliver the second and is obsessed by the third.

“We social democrats are the reason why this youth guarantee has been adopted but €6 billion is not enough and we are demanding more. We not only want more money but want to extend it to 25-to 30-year-olds as they are up to half the unemployed. We are demanding more money and more flexibility so if the youth unemployment rate is more than 25% more money is paid out now. At the same time, we have to ensure that internships and apprenticeships are not exploited for cheap labour.”

Alejandro Cercas , MEP

“In each and every member state we have to undergo enormous reforms to catch up with modern challenges but we cannot lose the social balance and we cannot ignore the fact that reforms have to be addressed to ordinary people in a way that should influence their everyday life positively. The conservative way is to pile hardship on the middle class and low-income families, reduce open access to education, career planning – and what we end up with is 60% youth unemployment in several member states.... You have to give messages to inspire people to come together and solve problems in a way that’s based on solidarity and does not divide people.”

Udo Bullmann, MEP

Europe's future is at stake

In a further session, a discussion of the EU's social crisis expanded into a wider debate on Europe's future, with Nicolas Schmit, Luxembourg's minister for labour, employment and migration, pointing to the "risk that Europe is losing its pace in terms of development, technology and the fight against climate change". Youth unemployment, costing the EU €153 billion a year in lost output, belongs to a "dire picture" of social unrest, with extremists of Left and Right acting as "a drag anchor on our ability to get out of the crisis", in the words of Stephen Hughes MEP, vice-president of the S&D Group. Winning the battle of ideas, the theme of the final session, is a marathon that never ends. But the Left has made progress in this struggle as the failure of austerity becomes obvious even to its proponents. For Alfredo Pérez Rubalcaba, secretary general of the Spanish socialist party (PSOE), the task is not to dump fiscal consolidation but to set out a more realistic timetable for paring down debt – and one that commands more public support. "The European Left has to say yes, we favour budget consolidation but it must be done in a smart way, measured out over time and linked to growth strategies," he said.

His agenda includes: an increased, growth-orientated budget; a more activist ECB policy; greater investment capacity for the EIB; and, most of all, more solidarity. For Rasmussen, this solidarity must mean the debt redemption fund first espoused by the European social democratic Left. For all, a concerted effort to tackle problems in a fair manner is vital.

> **"This policy of stagnation and extreme austerity is unacceptable. It does not bring the promised results, creates political chaos and sometimes extremism – and certainly brings lots of pain."**
>
> **Hannes Swoboda,**
> S&D Group president

An alternative road ahead

We believe that true and effective solutions are available. The iAGS analysts pinpoint the flexibility already extant under EU fiscal rules, including the stability and growth pact (S&GP) and the six-pack. If, they say, deficit countries took a little more time to fix their budgets this would free up €85 billion to invest, saving or creating 1.5 million jobs. This would, alone, add 0.7% growth a year between 2013 and 2017. Allowing the ECB to act as lender of last resort (in common with other central banks) would protect member states from market panic. Greater capacity for the EIB to invest plus the use of structural funds and project bonds would also boost growth. Ending harmful imbalances, including the excessive surpluses in Germany and the Netherlands as well as excessive deficits elsewhere, would promote more balanced growth.

It's not as if these ideas are wildly unrealistic. After all, some at least are contained within the EU 2020 Strategy or the new employment and growth pact of 2012 which exists only in name so far. The March 2013 European Council explicitly reminded member states of the leeway they had to modulate and/or moderate the course of fiscal consolidation, making it "differentiated" and "growth-friendly". Its conclusions spoke of short-term measures to boost growth and jobs, especially among the young, and of spending on "productive public investment" within the terms of the S&GP. One of the five priorities adopted is: tackling unemployment and the social consequences of the crisis. Better a sinner that repenteth…

> **"The old Lisbon agenda failed as nobody gave a damn: it was supposed to be built on open co-ordination of policies and peer review but that never happened. These schemes have to be made binding – like the fiscal targets in the Semester process. We need mutually supporting modernization efforts which are binding commitments and subject to sanctions. There would be incentives for positive behaviour but sanctions for those which let their youth unemployment, say, rise unchecked."**
>
> **Udo Bullmann,** MEP

A genuine conversion?

EU policy-makers and decision-takers are clearly ambivalent about which course of action to take. Here, for example, is Barroso after talks with Austrian chancellor Werner Faymann in early April: “We have placed the fight against unemployment at the heart of our comprehensive crisis response. I want to reiterate this, because several times people discuss the European policy in terms of fiscal consolidation and correcting imbalances. This is part of the response and it is indispensable, but it is not all the response. Fighting unemployment, namely, youth unemployment, is a top priority.” This is the same person who wrote to the March summit: “You can see that the steadfast implementation of reforms is beginning to deliver results in terms of current accounts and regaining competitiveness. You will also see that other Member States still need to invest more in structural reform to turn around their relative loss of competitiveness over several years.” We welcome this apparent greater flexibility but, as Hannes Swoboda told the Progressive Economy conference, it is simply not enough. The fact is that the EU remains wedded to the top-most – and ill-judged - priority of rapidly cutting public debt. This – Spain is the prime example – simply brings more debt and higher unemployment. And misery and rage. As David Graeber, an American anthropologist, rightly put it[3] when deriding the proponents of austerity: “We are talking about a politics of crime and punishment, sin and atonement. True, it’s never been particularly clear exactly what the original sin was: some combination, perhaps, of tax avoidance, laziness, benefit fraud and the election of irresponsible leaders. But in a larger sense, the message was that we were guilty of having dreamed of social security, humane working conditions, pensions, social and economic democracy.”

We shall examine in closer detail how to overcome Europe’s crisis below and we shall make no apology for reinstating that dream. But first we set out how the progressive Left has been ahead of the curve in proposing cogent and radical solutions for tackling the crisis.

[3] http://www.guardian.co.uk/commentisfree/2013/apr/21/no-need-for-economic-sadomasochism

“If you ask Germans if they back Mrs Merkel’s strategy for leading Europe they say yes but, then, they condemn the growing inequality, the widening gap between rich and poor. So we have to formulate our programmes in an interesting and enticing way to build on that awareness, and the sense that more Europe inevitably means less pay for me.”

“In place of Troika conditionality ours would be based upon saying: We help you back on your feet in return for the fact that, say, the rich actually start paying tax instead of hiding their money in Switzerland…This is a form of solidarity politics rather than the empty phrases uttered by Barroso and Van Rompuy…The choice is clear: it’s between working together and respecting each other or re-nationalisation, blaming others for your misfortune or bad luck. Ours is the first and right way.”

Udo Bullmann, MEP

3 SHIFTING THE AGENDA

> **"We are trying…to re-balance the Commission proposals to ensure coherence with the Europe 2020 strategy, to prevent a pro-cyclical policy bias and to define a broad-based concept for macroeconomic imbalances."**
>
> **Stephen Hughes,** MEP

"I told you so" is rarely an attractive or desirable response in politics but Europe's centre-Left can be forgiven for feeling wholly vindicated when, finally, and after a lot of needless pain, EU policy-makers began to wake up to the failure of the austerity policies they had relentlessly pursued for half a decade. This was in the spring of 2013 when all the forecasters, private and public, pointed to the inescapable evidence that those policies had reached a dead end of zero or negative growth, rising unemployment, depressed output and investment, declining wages and living standards and, most critically, higher debt ratios and budget deficits.

The prevailing consensus among centre-Right policy-makers had been that austerity and the drive to cut deficits and debt via slashed public spending and lower wages would be a virtuous path to sustained recovery and growth. This consensus had already begun to unravel when even conservative economists began proposing alternatives to break the cycle of depression and debt. The European Commission and its political allies in the Council began unpicking their own orthodoxy. And, then, even the theoretical basis upon which austerity policy had been built was undermined in April 2013.

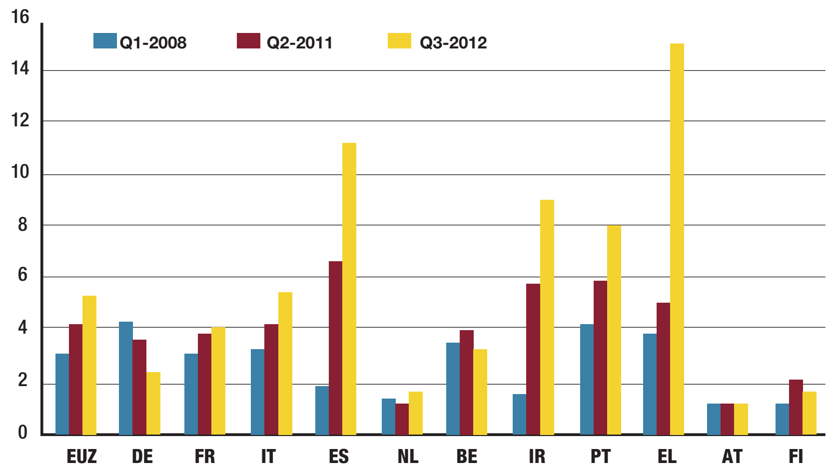
A January 2010 paper by two prominent Harvard economists, Carmen Reinhart and Ken Rogoff, has been repeatedly used – or abused – to make the case for austerity as essential to prevent debt to GDP ratios rising above 90%. Their study appeared to show that public debt above that threshold was a drag on economic growth. But detailed analysis of their work, published recently, has uncovered basic arithmetic and statistical errors which have fatally undermined their conclusions. "In Europe, R&R's work and its derivatives have been used to justify austerity policies that have pushed the unemployment rate over 10 percent for the euro zone as a whole and above 20 percent in Greece and Spain. In other words, this is a mistake that has had enormous consequences,"[1] wrote Dean Baker of the CEBR.

Thomas Herndon, a PhD student and co-author of the debunking paper, wrote: "The findings in our paper are clearly not consistent with the view that we consistently observe a sharp fall-off in economic growth when the public debt/GDP ratio exceeds 90%." He went further: "The current historical moment, with historically high rates of mass unemployment in both the U.S. and Europe and with interest rates on U.S. Treasury bonds at historic lows, is precisely the set of circumstances under which we would expect public borrowing to have large positive effects, with comparably fewer costs. Moreover, it is precisely the set of circumstances under which we expect austerity to have substantial negative effects."[2]

[1] http://www.cepr.net/index.php/blogs/beat-the-press/how-much-unemployment-was-caused-by-reinhart-and-rogoffs-arithmetic-mistake?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+beat_the_press+%28Beat+the+Press%29

[2] http://www.businessinsider.com/herndon-responds-to-reinhart-rogoff-2013-4#ixzz2RCdQRzl5

Share of long-term unemployment in the labor force



Source: Eurostat 2013

Reinhart & Rogoff swiftly not only recognised the flaws in their study, but distanced themselves unequivocally from the austerity politics that had sought to use their work as an intellectual justification. Writing in the *Financial Times* on 1 May 2013 they said: “To be clear, no one should be arguing to stabilise debt, much less bring it down, until growth is more solidly entrenched.” Even the Commission’s supposed intellectual mentors had disowned its savage and counterproductive policies.

And R&R’s was not the first error of its kind as we examine below.

The naked emperor

The tragedy of European economic policy under Right-wing leadership is that, as a result of bad policy choices, Europe is suffering both short-term misery and long-term economic damage. Austerity politics was and is both unnecessary and recklessly mis-timed as well as counter-productive. We can witness the immediate impact in dole queues, soup kitchens and food banks. But the long-term effects in terms of lost jobs and growth opportunities will be lasting. And public debt has, because the recession was deeper and longer than necessary, simply risen.

The European Council and Commission have, in a nutshell, put short-term concerns of their own making (“fiscal consolidation”) ahead of longer-term (Lisbon, Europe 2020) goals. There have, therefore, been glaring contradictions within the policies of EU policy-makers since the onset of the financial crisis over five years ago. These really came to a head with the double-dip recession that plunged Europe into despond in 2011-12. On the one hand, the EU had signed up in 2010 to this Europe 2020 vision of investment in a smart, inclusive and innovative future. On the other hand, there was the dead hand of what the S&D Group memorably called “a collective stampede towards austerity”. And, unfortunately for Europe’s poor and jobless, it was the relentless drive towards the cliff-edge of negative growth, joblessness and poverty that gained the upper hand.

> **“Austerity is simply not working…It’s a bankrupt approach. It will not solve the EU’s problems, it chokes off growth. Far from making economies healthier, cuts are driving the entire Eurozone, including its strongest members such as Germany, into recession. Recession increases costs and cuts tax revenues, wiping out any gains from austerity.”**
>
> **Arlene McCarthy,** MEP

Yet, from as early as the summer or autumn of 2010, progressive forces warned of the consequences and presented an alternative agenda. Some of the Left's strategy is even now, almost three years later, beginning to be adopted though it is an uphill struggle to persuade incumbent governments and, above all, the EU's institutional policy-makers to change course definitively. Commission and Council prefer to change the rhetoric, not the policies. So no Summit Declaration or Commission Communication is now complete without fine words about their dedication to growth and jobs. And yet the macro-economic folly which is killing both persists.

The core message of the centre-Left throughout this period has been to marry fiscal responsibility with productive investment for growth, to match necessary reforms with fairness. Adopting a holistic approach, the centre-Left has proposed new economic governance models that go well beyond the narrow and authoritarian surveillance enforced by the centre-Right. Where the Right has made a shibboleth of balanced budget targets as the supreme goal of economic and political life, the Left has promulgated employment and fairness targets as well. It drew up early plans for "Eurobonds" to promote solidarity and reduce the huge annual transfer of funds from taxpayers to financial markets through sharing debt - equitably and responsibly. It has put forward plans for a new "growth regulation" within the revised Stability & Growth Pact to monitor national investment spending and raise this to at least 3% a year from 2017. The calumny that the Left has no viable ideas about how to beat the crisis has been exposed as a barefaced lie. Moreover, many of its ideas are being adopted by others – but too little and too late.

"The conservatives are culturally dominant and have brainwashed the media, the journalists, especially in Germany, into accepting that the crisis has arisen because those guys in the south are lazy while we are hard-working, fully committed to our jobs…Maybe we can be nice to them but that costs money, they'll have to lower their wages about 30%, cut benefits, cut pensions. This is a profound misunderstanding of economics as well as of the common obligations of the common market and single currency. This is the wrong paradigm."

Udo Bullmann, MEP

"The countries which are successful are not the ones with less public spending or with no social policies. Structural reforms also need to empower people which is the main raw material for Europe. The question of competitiveness is completely linked to education and training and countries cannot be asked to downgrade public spending in a manner that puts their educational system at risk. The best-performing economies are those where the quality of the social dialogue is highest."

Pervenche Berès, MEP

Nailing the lie

One such lie is that the Left is simply wedded to old-fashioned "tax and spend" policies and believes governments can simply spend their way out of the crisis willy nilly. But this is far from the truth: a Fair Way out of the Crisis, an early (September 2010) statement by the S&D Group setting out an alternative economic strategy, made plain that fiscal responsibility is "a necessary ingredient". It stated: "This is not where 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." The real issue was and is one of timing: short-sighted budget cuts "undermine vital public financing of human and capital investment and thereby jeopardise growth and jobs." A balanced policy improves the public accounts, it added.

The far-sighted S&D policy paper contained five priorities.

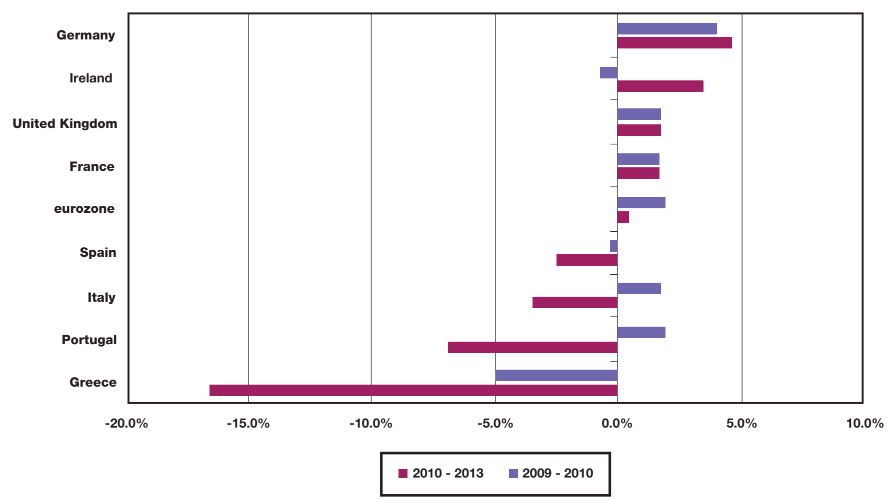
1. **First, a new model of economic governance that does not simply reduce policy co-ordination to surveillance of national budgets – as in the subsequent Six Pack legislation to police the European semester – but gives equal priority to job creation.** The S&D Group, therefore, proposed a "growth and employment" pact to complement/amplify the Stability & Growth Pact. This was *21 months* before the European Council finally adopted its own version of the same in late June 2012. Even then, the Compact for Jobs and Growth endorsed by the EU-27 summit on June 29 simply reiterated a host of platitudes drawn from previous papers and, within a so-called €120 billion boost to the economy, committed just a €10 billion increase in the European Investment Bank's paid-in capital. (The fruits of even this are yet to appear.) In sharp contrast, the progressive Left would enjoin member states to submit "stability, growth and employment programmes," set a specific (un)employment target and include this target within the alert scoreboard for macroeconomic surveillance. In other words, the group proposed a more rounded set of objectives for economic policy geared towards social wellbeing.[3]

[3] This is well argued in a critique of the EC's own in-depth review of macro-economic imbalances by Andrew Watt. *Social Europe Journal* 11 April 2013

Widening and deepening the agenda

2. **Secondly, the policy paper approved plans to establish a European Monetary Fund (EMF) in order to deal with excessive debt across the EU-27 by providing support and loans to countries excluded from financial markets.** The Brussels-based economic think tank, Bruegel, endorsed this notion in a May 2013 paper (Pisani-Ferry, Sapir, Wolff) calling for another key S&D Group demand: the de-construction of the Troika. (The weaker European Stability Mechanism is yet to intervene fully because of political disputes, above all German resistance). Issuing a red alert warning that austerity alone would simply compound problems of lack of growth, high debt and rising unemployment, the Group proposed – *already then* – a "differentiated fiscal consolidation strategy". Member states would be given a common deadline – 2015 – to bring budget deficits to or below the required 3% level but the timing for individual countries would be allowed to vary. Finally, at the March 2013 summit, EU-27 leaders endorsed this strategy though, again, they stopped short of ensuring that consolidation is "socially just" as well as "economically efficient."

CUMULATIVE CHANGES IN GDP



Source: IMF, World Economic Outlook Database, 2013

3. **A third policy alternative was especially bold: the creation of a European debt agency and Eurobonds. This idea, drawing on the notion of "red" and "blue" bonds put forward by some think tanks, would pool a portion of sovereign debt within a mutually guaranteed common fund.** The effect would be both to reduce interest rates and ward off speculative attacks. And an additional goal would be to help finance investment projects, most likely via project bonds managed by the EIB. A version of this agency would see joint "blue" bonds cover the first 60% of pooled national debt, with member states individually responsible for servicing the "red" bonds though the S&D paper sets no threshold. (The group subsequently looked favourably at the 60% of GDP threshold). The EC came out with a timid, tentative model of its own (in a Green Paper) a year later (November 2011) and the German council of experts (Sachverständigenrat) presented its own version that month. But resistance, notably from the German government, has so far killed the idea off.

4. **A fourth strand was and is to significantly increase tax revenues on a European level. This includes a European ("and preferably global") financial transaction tax (FTT) – now finally being adopted by eleven euro area countries[4] but far from being levied yet.** A core element is a joint EU strategy to combat tax fraud – with national targets – and European-led plan of attack on tax havens: a policy that is now so obvious that centre-Right politicians from Barroso to George Osborne are tumbling over each other to claim it as their own. The EU has been given the go-ahead to negotiate with Switzerland, Liechtenstein, Andorra, Monaco and San Marino on securing more information on taxpayers' accounts held there. But only if these talks yield fruit will Austria and, especially, Luxembourg lift their own constraints on sharing information about accounts held within the EU-27. The S&D Group would go much further: it is pushing EU leaders for a global definition of tax havens, a European public blacklist and appropriate sanctions, with the ultimate aim of eradicating these havens. Action promised by EU leaders to crack down on tax havens is inadequate: €1 trillion a year is lost through fraud and avoidance or the equivalent of €2000 per citizen. The S&D Group has therefore come forward with a comprehensive report proposing 30 measures for concrete action: by 2020 half of this amount should rightly go to the public purse. In order to counteract tax avoidance on the scale as practised by Google, Apple, Facebook and other transnationals mandatory national registers of all legal entities should therefore be established and made available to any fiscal authority requesting the register[5].

> **"Social democrats are caught in a trap: I always thought I had to be in favour of growth as this would allow us to redistribute wealth. But when we plead for growth we could just be calling for the easing of the conditions to enable capitalists or entrepreneurs to access capital – effectively without conditions, opening the door for big speculators. It does not fulfill any social purpose."**
>
> **"We have to go beyond the Bad Godesberg compromise with capital (by Germany's SPD) of 1959 and realize that , with this crisis, Europe is no longer the centre of the world and we need to invent the next model after the failure of the one based on the free movement of capital."**
>
> **Pervenche Berès,** MEP

This clamp-down would be complemented by a European-wide carbon tax – now being discussed as an alternative to or addition to the fragile emissions trading scheme (ETS). Critically, the proposed fiscal package would embrace a shift of the tax burden from labour – a view gaining traction in 2013 among differing governments, including in Berlin. The overall aim is to promote fair income tax packages – more than ever required when depressed incomes and rising unemployment are depleting state revenues.

5. **Finally, the fifth element – an anti-crisis agenda – would see tougher financial regulation, stricter surveillance of macroeconomic imbalances (partially achieved via the Six- and Two-Pack) and, above all, a more socially just redistributive fiscal policy.** As the paper laments, no progress had been made on this by the autumn of 2010 and, sadly, none has been since then. But the case for fairer systems in the face of growing income inequalities remains overwhelming. Indeed, far from seeing a narrowing of the gap between rich and poor since the banking crisis began in 2007 the chasm has widened. That's one very cogent reason why the policy paper set out above is still very much valid today.

[4] The 11 countries are: Germany, France Italy, Spain, Austria, Portugal, Belgium, Estonia, Greece, Slovakia and Slovenia

[5] 22 May 2013: http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7-TA-2013-205

Saving and improving social Europe

By 2013, as unemployment in the euro area reached historic highs and disenchantment with austerity Europe turned to rage on the streets of Athens, Madrid, Lisbon, Nicosia, Rome and Sofia, even the dominant centre-Right majority began to realise: Something must be done if the entire EU project was not to turn to dust after little more than half a century. This was precisely the message the centre-Left had been delivering for months and months, if not years, as it asserted the priority of marrying the policies of reducing debt and of investing in the future. The Right, meanwhile, had used the crisis as a pretext for an assault, unprecedented since the 1930s, on Europe's social model. It targeted wages even though, say, in the EU's most "successful" economy, Germany, employees had suffered for over a decade a sustained decline in real pay as boardroom remuneration soared. But it also began offensives against workers' rights under the guise of promoting necessary "structural reforms" to make Europe "fit for globalisation". The Right's disguised agenda, as often before, is to shrink the state and simultaneously reduce the social achievements of generations.

The Left, once again, refused to look away and confronted real issues involved in modernising the welfare state posed by phenomena such as ageing, pension provision, exclusion from the labour market of young and women workers, wage inequality. When the euro area summit approved the "pact for the euro" or "euro-plus pact" in March 2011, the Left highlighted its provisions on "wage competitiveness" ('monitoring and adjusting unit labour costs') and "labour market reforms" – euphemisms for holding down wages and weakening employment protections - as evidence that economic recovery would or could be at the cost of undermining the social model. Quite specifically, the S&D Group issued an early warning about how this would "generate an unprecedented anti-European backlash" and boost populist, xenophobic movements – a prescient warning, as we have seen, putting Europe's stability at risk.

"Following an S&D lead, the European Parliament adopted draft legislation on the better managment of industrial restructuring, by 503 votes to 107 yet the Commission's neo-liberal clique has blocked it.

This is just one case among many where we social democrats have shown the leadership needed to fulfill this Social Europe which has been forgotten for the past ten years..."

Alejandro Cercas, MEP

Looking beyond Europe 2020

Instead, the S&D Group drew up a version of the EU's 10-year development strategy that offered a sustainable, socially just way out of the crisis. "Europe's strategy for the next decade," it said, "should focus not only on rates of growth and employment but also on how growth can help build a better, fairer society, a more sustainable economy and a more secure prosperity for all, at home and globally, less vulnerable to financial sector greed and excess." Rather than spread the strategy to overcome the crisis thinly, the progressive Left combined strong policies for the economy, society and the environment in one over-arching response. "One strategy, not three," it said – and this would embrace six core objectives for a revised 2020 strategy and a reformed S&GP as well as for a sustainable development strategy.

These are: a new deal for sustainability; full employment with decent work and social inclusion for both women and men; fight against poverty, inequality, insecurity; a high-productivity knowledge economy; social and territorial cohesion; and a fair globalisation that benefits all. By sharp contrast, the EU's core policies for the European semester have only marginally evolved. They are: "differentiated, growth-friendly (sic) fiscal consolidation"; restoring normal lending to the economy; promoting growth and competitiveness; tackling unemployment and the social consequences of the crisis; and modernising public administration. Only two years after the S&D's call for a new beginning is the fight against unemployment given, if only rhetorically, priority status. The Left, meanwhile, sees the greatest challenge as giving new life to the pre-crisis policy goals of a "green new deal" while overcoming the recession with more imaginative and comprehensive policies.

Europe would, once more, become a global pacesetter if centre-Left policies were adopted. While the crisis has wiped out 10 million jobs, the S&D Group would pursue the goal of creating 10m new ones, many (3m) of them "smart and green". Eradicating widespread poverty and homelessness would be covered by essential guidelines within the revised 2020 strategy. "The EU should make sure that the distribution of wealth is made more just instead of unjust as a result of the crisis," the Group said. "A restoration of the share of wages in national income and a reduction in the gap between rich and poor must become an explicit objective of Europe's 2020 strategy." And, to underpin this, the financial sector would be restored via regulation and supervision to its historic role: providing finance to the real economy to support investment and jobs.

A better Europe for all

Rather than be cowed, as the Right is, by the challenges of the post-crisis world, the progressive centre-Left sees enhanced democratic governance as the way forward. Key performance indicators to measure the EU's progress should shift from an emphasis on GDP alone to embrace prosperity and quality of life for all citizens. The Left has led the way in demanding action to end the scourge of youth unemployment and the scandal of thousands of young people "not in education, employment or training" (Neets). It was the first to propose a youth guarantee offering the newly-jobless or those leaving formal education either employment, continued education, an apprenticeship or traineeship. This was finally endorsed at the March 2013 summit but with pitifully inadequate financial resources: €6 billion over seven years or just €150 per each young person affected. This compares with the €21 billion suggested as an absolute minimum by the International Labour Organisation. The group proposes – as in a letter to the French and German employments ministers from Swoboda in late May – that the guarantee should be extended to cover 25-30-year-olds and frontloaded in the early years of the scheme.

This (small) breakthrough came almost two years after the Group issued an appeal to Change Europe: "This is by no means about coming up with simplistic or irresponsible solutions but about putting an economic modernization plan on the road, with the help of responsible, balanced and intelligent policies that fully respect the values that underpin the European project."

The progressive Left warned at the outset that austerity policies pursued relentlessly would create and deepen recession and, unfortunately, that has proved to be the case. Only now are EU policy-makers starting to suggest that use be made of the scope within the revised economic governance packages for averting a third recession in less than a decade: both by easing the achievement of deficit targets for seven member states for up to two years and by safeguarding public investment spending (down from 3.5% to just 2.5% now) – but with no sign of real change to match the rhetoric This was highlighted by the centre-Left at least a year earlier – when it also urged the ECB to make clear to the markets it would indeed intervene to buy government bonds some months before Mario Draghi finally unveiled his outright monetary transactions (OMT) plans that have steadied financial markets. The Left has also spearheaded the drive to enable the ESM to have a banking licence (backed by the ECB) though this remains contentious within the faltering moves towards the urgently-required fully-fledged banking union.

The Brussels-based think tank Bruegel has adopted this and other similar options in a paper (Darvas, Pisani-Ferry, Wolff) presented to an informal meeting of EU finance ministers in Dublin (05/04/2013). Its analysis reflects that first put forward by the Left up to three years ago in its warning against “self-perpetuating stagnation”. The authors write: “Without credit, investment and growth, any structural reform is likely to fall victim to popular rejection…If fiscal retrenchment does not deliver results, support for it will vanish”. In truth, that support has already evaporated and Europe’s growth crisis has become so entrenched even more radical policies will be required – as we examine in the next chapter.

4 COMPLETING THE UNION:
A GENUINE EMU FOR ALL

“We have got to come up with a hierarchy of creditors. The bail-in is a good model but not a silver bullet. So far the only good example of managing failing banks has come from…the US. This cannot be done via national treasuries. The FDIC (Federal Deposit Insurance Corporation) is a good model and here the ESM could become the common resolution funding authority.”

Elisa Ferreira , MEP

It took a poet to express the crisis of Europe. On May Day 2013, as thousands protested in towns and cities across the continent against austerity politics, Michael Higgins, Irish president, spoke of the EU’s “moral crisis.” He told the *Financial Times* the EU must reform its “hegemonic” economic model or risk social upheaval. “You are either a union or you are not,” he said.

The Irish president is not alone. The democratic Left has drawn up a full-scale alternative to the European Council’s dead-end plans for economic and monetary union. We, the Group of Socialists & Democrats, are addressing the EU’s loss of popular legitimacy and support head-on. Our plans not only promote jobs and growth but social integration, economic stability and security – and greater democracy in policy-making. The Left is willing and able to tackle the two core problems of the eurozone and EU as a whole: policy imbalances favouring strong, surplus countries and weak, undemocratic governance.

In sharp contrast, the centre-Right elites that have (mis)ruled Europe since the crisis erupted in 2008 remain trapped in the narrow sphere of debt reduction, punishment and pain. For all their talk about “social welfare” and “productive public investment”, they are still magnetically attached to a model that creates the opposite of these. The conservative majority’s political leaders claim they acknowledge that austerity policies have reached the limits of public acceptability but continue to pursue them via centrally-controlled “contractual agreements” on structural reforms and budget discipline in return for unspecified but very limited financial support. They lack the political will to change course with action, not words. Theirs is a recipe for prolonging the crisis, making the Great Recession even more protracted than the Great Depression of the late 1920s/early 1930s. It is a blueprint for Europe’s decline.

> **"We in Germany may think we're on the sunny side of the street right now but we know that this could boomerang upon us if we don't solve problems in other member states…Look at the German car firms who have lost about 30% sales in Greece, 25% in Spain and Portugal as there's no consumption there. The majority of people are not prepared to see that message written on the wall but you know what is going to happen: You cannot survive just by selling to the Chinese. If Germany wants to have an export-led economy then somebody closer to home has to buy its products too…"**
>
> **Udo Bullmann,** MEP

Fulfilling EMU's real purpose

The ongoing eurozone crisis has, surely, taught a sharp lesson: monetary union without economic and social union is unstable, socially regressive, vulnerable to external shocks and incompatible with the EU's goals and values. The treaty underlines that EMU is designed to promote, inter alia, full employment and social progress, sustainable economic growth and social inclusion. In mid-2013 it is obvious it has done none of these. On the contrary, it has been administered recently in such a way as to trample these underfoot.

What we have seen instead is a narrow, blinkered focus on fiscal discipline. This is important, not least for working people on low incomes and the poor unemployed, but it needs to be an element of a more rounded economic and social strategy. That should be geared to overcoming chronic imbalances in trade and productivity; it has instead exacerbated these.

So, until the European Central Bank finally cut its basic (repo) interest rate in May to 0.5%, monetary policy was set to satisfy the needs of big economies. Countries like Germany thus enjoyed low inflation but those on the (southern) periphery got caught in an inflationary spiral. Rising inequality in incomes squeezed consumer purchasing power, helping to trigger the explosion in credit that lay behind the 2008 crisis. Businesses in some EU countries have held on to mountains of cash rather than invest and innovate. The net effect has been a seriously imbalanced EU economy that requires urgent fixing.

Herman and Jose's failed blueprint

We have seen how the EU's conservative majority finally began waking up to the human and social damage their austerity policies have wrought. At the very least, they began paying lip-service to the social dimension of EMU. The entire college of commissioners met the social partners for the first time on May 2 and affirmed that this social dimension is "crucial for EMU's sustainability", in the words of Commission president Barroso. Yet it is also clear that this commitment has its limits. The emphasis is on "deeper coordination and surveillance of employment and social policies". (We discuss this further below). Similarly, discussion on improving the democratic governance of EMU starts and stops with vague talk about an extended consultation with the social partners. ("Broad ownership of the policies is fundamental for our crisis response to succeed.")

Again, the blueprints presented by Commission and Council in late 2012 for a "genuine" or "deep and genuine" EMU talk of the need to retain Europe's social market economy/social model and to improve democratic legitimacy and accountability. But the instruments for achieving this are thin on the ground. The December 5 2012 paper presented by Herman Van Rompuy, Council president, to the EU-27 summit nine days later, is absolutely right on the need to break the link between banks and sovereigns but back in its ideological comfort zone talking about enforcement of structural policies and almost entirely silent on jobs, growth, skills, innovation, competitiveness, social inclusion.

As we shall see, elements of the Van Rompuy/Barroso blueprints are shared by the S&D: notably, banking union that embraces not only a single supervisory mechanism (the ECB acting as chief supervisor) but also common resolution (restructuring/closure) and deposit guarantee frameworks. The notion of an employment-based insurance scheme for the eurozone funded by contributions to a specific cross-border budget ("fiscal capacity for EMU") is, however, barely sketched out. All we know is that it might "buffer large country-specific economic shocks". And the price would be contractually-enforced agreements to implement structural reforms that come with sanctions. There is even talk of using it for "common debt issuance without resorting to the mutualisation of sovereign debt". But it is studiously timid as well as vague.

When it comes to fighting unemployment the emphasis, again, is on more efficient labour and product markets and greater cross-border labour mobility. This is in line with the Right's blinkered, politically-driven vision. And there is no talk of skills training, retraining, greater investment…Finally, the section on democratic legitimacy and accountability is, essentially, platitudinous about the need to involve the European and national Parliaments at the appropriate levels.

This vagueness was even more glaring in the European Council conclusions on completing EMU of December 14 2012. Plainly, Europe's conservative leaders remain wedded to top-down policy-making behind closed doors rather than stand ready to endorse proper parliamentary accountability.

A better way forward

The S&D blueprint is very specific in its goal-orientation and the steps needed to reach objectives. At its heart is a social progress pact to complement/amplify the stability & growth pact (and related six- and two-packs associated with the European semester). This is not idle waffle or a spurious wish list. Rather, the proposed new pact contains explicit and binding targets to ensure that national governments and EU institutions do not waver in their struggles against the scourge of unemployment, poverty, inequality as well as low productivity, excessive deficits, labour and product market rigidities and the like. Only growth, investment, more jobs, more skills and a greater employment rate – especially for women and young people - can solve all these issues taken together.

Our blueprint wholeheartedly embraces the notion of a fiscal capacity for the euro area. This would take the form of an anti-cyclical fund which would be financed by "own resources" or a share of the duties and taxes that flow automatically to the EU/ euro area – including revenues from the proposed financial transactions ('Tobin') tax on trades in equities, derivatives and other instruments. But this special fund would also be empowered to raise money through issuing bonds in order to finance productive investment. (See also below in our proposals for greater democratic controls).

The Commission has tabled initial proposals for what it calls a "Convergence and Competitiveness Instrument". This would be called upon when a euro member state runs into severe difficulties, largely not of its own making, and these have major knock-on effects for other countries using the euro. The affected country would be given limited help to adjust and make the necessary reforms – earlier than now - under the so-called "contractual arrangements" we alluded to above. We prefer a community system based on incentives for growth implemented at a European level, with the full inclusion of both MEPs and national MPs under our scheme – rather than structural reforms policed by the Commission.

But the S&D Group would also go much further than Barroso/Van Rompuy and propose a redemption fund or a partial mutualisation of debt at EU/euro area level. This would cover debt above 60% of GDP and would issue eurobills, which normally have a maturity of up to a year so they are short-term instruments. Eventually, when the system was more proven, we would propose moving to full-scale Eurobonds. Either way, the aim is to help countries pay off their debt more cheaply – and more swiftly.

Growth pact

We have argued throughout this book that the pace of fiscal consolidation – cutting the budget deficit to 3% or less – should be slowed down, with up to €85 billion released for public investment in projects to boost growth and jobs. We now also propose that the cost of such investments – and national contributions to the EU Budget – should not be taken into account when the Commission calculates what it calls "excessive budget deficits". Like well-run businesses, it makes sense for governments to borrow to invest. Gordon Brown's 'golden rule' of blessed memory – that non-investment spending, taking one year with another, should not exceed budget revenues – should be adopted within the EU's own budgetary rules. What's more, we would give the Growth Pact – adopted in name by the June 2012 summit – real teeth: targets for tackling poverty, raising research spending (to 3% of overall GDP) or correcting sectoral deficits/surpluses would be made binding (see below and in annexe). These would have far more teeth than the vague proposals floated by Rehn on presenting the "country specific recommendations" on May 29 2013.

This all means that the mechanisms within the European semester – the six-month process for scrutinizing, revising and approving national budgets and economic programmes – would be simplified and improved. They are now used to impose self-defeating restrictions on deficit countries alone. They should also help increase productivity and investment in regions lagging behind.

Cracking down on tax fraud and evasion is now the order of the day, even for conservative governments. The S&D Group's findings indicate the huge scale of this in Europe: €1 trillion goes missing each year. Recovering just 20% of this could help fund national budgets and structural reforms. Given the accumulated evidence that some of the world's biggest and most banks have actively helped clients evade tax on a grand scale, we would revoke their banking licences in such cases.

“The regional and structural funds we created in 1973 to rebalance the economy and share wealth are not sophisticated enough for the 21st century. We need to be setting up European universities, interchanges, research centres and venture capital funds to boost business and promote long-term competitiveness, not just spend money on building roads.”

Elisa Ferreira , MEP

Banking union

The EU’s plans for banking union – designed to prevent a repeat of the 2008 crisis and sever the link between banks and sovereign states/taxpayers – are stalled and must be implemented swiftly. We entirely back proposals to stop “casino” banking by separating the investment and retail arms – so we welcome the reforms proposed in the Liikanen report[1] of late 2012 but would go further.

We fully endorse the proposal to make the ECB the central supervisor for European banks but would press ahead with the proposed European deposit guarantee mechanism and a single European resolution fund for failed or failing banks. Commentators widely agree that, without these two other pillars in place, banking union will be unstable and vulnerable to renewed crisis. Similarly, the ESM (European Stability Mechanism) or the main bail-out fund should finally be empowered to directly recapitalize banks after too much shillyshallying (mainly in Berlin).

Our prime purpose is to protect both depositors and taxpayers, with banks and their shareholders and bond-holders forced to take more responsibility for any failure on their side and its impact on the real economy. This means that the banking union’s provisions must be based upon the principle of private financing, with riskier banks which pose a danger to the system as a whole charged more.

[1] A group of 11 independent experts chaired by Erkki Liikanen, governor of the Bank of Finland and ECB council member, and set up by internal market commissioner Michael Barnier in November 2011 on the lines of the Vickers banking commission in the UK.

Overcoming the democratic deficit

Both legitimacy and accountability have been eroded during the crisis. Power has shifted - often through intergovernmental decisions outside the control either of European institutions or of national parliaments. The European Stability Mechanism (ESM) has been given a pivotal role in Europe’s defences against future crises, but it is outside the EU architecture and accountable to no parliament.

The European Central Bank has come to play an even more central role in defining the EU’s response, first to the global recession and then to the eurozone crisis. Its interventions have had a strong influence on the course of the crisis and on the interest rate burden borne by Europe’s taxpayers; its decisions have far-reaching distributional consequences - the very stuff of democratic politics. Yet it is expressly and explicitly unaccountable to any elected authority.

The S&D Group is calling for a more open and democratic European economic governance. We insist that intergovernmental creations like the 2012 Fiscal Compact, or the ESM must be brought within the EU system and made publicly accountable. S&D plans for a reformed, expanded EMU rest on the guiding principle that there is ONE European Union and the European Parliament is its parliament.

A critical difference between our and conservative plans for EMU is that we would give MEPs and national MPs stronger legislative and scrutiny powers. The European Parliament, in our plan, would have co-decision over the economic and employment guidelines laid down in the European semester which are then applied separately to each individual country through “country-specific recommendations”. And we want a more effective voice for national parliaments, both in the wider debate which first establishes the economic and employment guidelines, and then in the National Reform Plans where governments set out their policy responses.

Some of this will require Treaty change, including further measures to make the new powers for the Commission and Council more transparent and accountable within the EU's legal framework.

In the meantime, we demand an inter-institutional agreement which would force the Commission and Council to give Parliament a strong voice when the framework-setting annual growth survey (AGS) and national guidelines are drawn up and approved. Decisions of such magnitude simply cannot be left to "faceless bureaucrats" and governments meeting behind closed doors.

Treaty change will similarly be required to make the ESM democratically accountable. In the short-term, therefore, the European Parliament must be allowed to scrutinize and advise upon any agreements the ESM makes with individual countries and, eventually, it too must become an EU institution subject to proper democratic control.

Ending the Troika's tyranny

The trio of institutions known as the Troika – Commission, European Central Bank and International Monetary Fund – that monitor, scrutinise and admonish countries in receipt of bail-out loans ("in the programme") should be scrapped. It is an obstacle to transparent and accountable government: the epitome of remote, uncaring bureaucracies to tens of thousands, nay millions, of affected citizens from Athens to Lisbon.

In its place the Commission, as guardian of the EU treaties, should take the lead in oversight of the bail-out loan and economic recovery programmes – liaising not only with the ECB and IMF in the initial process but also with the International Labour Organisation to ensure that the impacts of these policies on employment and social standards are taken into account. Ultimately, we would envisage a European Monetary Fund taking over the IMF role, with the ECB also playing a much reduced part.

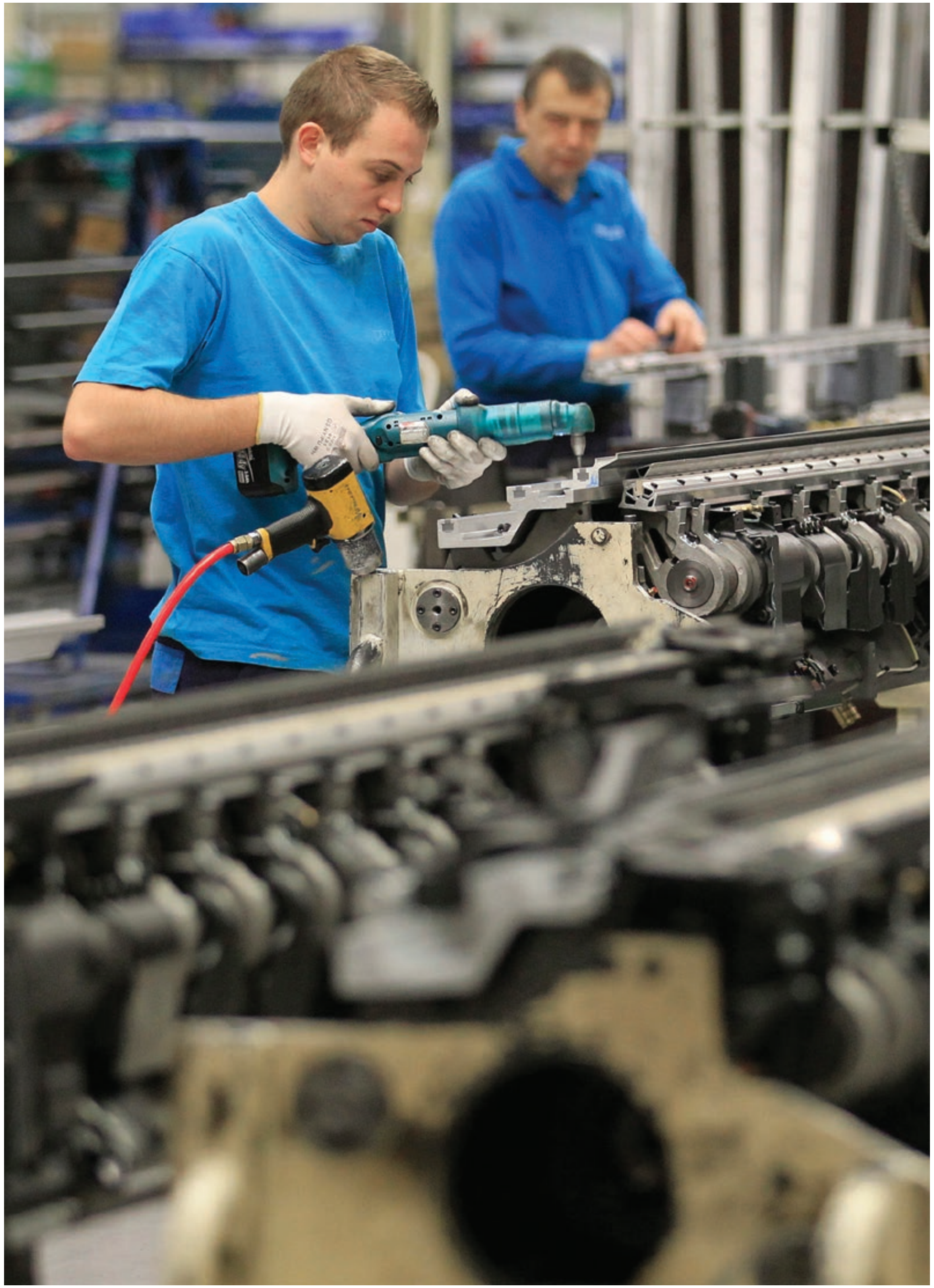
Steps to a real social dimension

MEPs have already voted (November 2012) to make the social pact a fifth pillar of EMU. The ETUC says bluntly that the social dimension of EMU is the condition for trade union support for the entire EU project (Bernadette Ségol, May 2 2013). Millions of Europe's citizens, angry and depressed by the fact that 26 million of them are unemployed, demand no less.

Our social progress pact would rebalance an EU in which social progress has played second fiddle to a narrow economic agenda. It would set binding targets for social objectives just as the EU does now for government deficits and debt: a 75% employment rate, unemployment down to no more than 5%, education given 6% of national GDP, a national R&D ratio of 3% of GDP and a phased reduction in numbers of people at risk of poverty and social exclusion (down to 20% by 2020 and 15% by 2030). Countries failing to reach these targets would be named and shamed but, at the same time, given EU-backed financial incentives to achieve them. (Once again, in a woefully inadequate statement on the "social pillar of EMU" to the EP on May 22 2013, Rehn gave a half-hearted pledge to "look at" this idea.)

Under any forthcoming Treaty change social rights must be given the same value and importance as economic freedoms and incorporated in a *social protocol*. This would be laid down in secondary legislation.

An *employment and social investment programme* would see at least a quarter of all cohesion funding in the EU budget go to the European social fund. The €6 billion funds set aside for the Youth Employment Initiative would be raised to at least €10 billion and ideally to €21 billion. The €500 million European Globalisation Fund to aid workers made redundant by "industrial relocations" should also be increased – and allowed to help manage restructuring, safeguarding skills, retaining workers for new industries and protecting communities hit by closures. Current plans for project bonds (to fund new infrastructure) should be extended to social enterprises. The Commission should make proposals for a European unemployment insurance fund which would provide a crisis safety net for European workers and improve the resilience of the European economy in hard times.



Common social standards

Along with common youth and childcare guarantees, we would propose a European framework regulation for living wages so that countries are enjoined to ensure that full-time employees are paid above the poverty threshold – achieving this either through collective bargaining or enshrined in law. Full pension portability would promote labour mobility. Social dumping would be ruled out by revising The Posting of Workers Directive.

We would embark upon measures to ensure truly equal treatment of women and men by: setting a binding target for each country to reduce the gender pay gap by 2% per annum, improving minimum standards for childcare and parental leave and implementing gender balance within company boardrooms via an initial 40% quota for women.

Enhanced role for employment ministers

A genuine EMU is too valuable to be left to finance ministers alone – important as they are. Employment ministers – supported by the European Parliament's employment committee and the Commission's DG for employment, social affairs and inclusion – must play stronger roles in implementing the European semester. They should oversee a new employment and social scoreboard.

Finally, EPSCO (Employment, Social Policy, Health and Consumer Affairs Council) must be given equal prominence to ECOFIN, with the two staging at least one annual meeting – to approve the recommendations of the annual growth survey before the spring (March) summit. (One such joint discussion took place on June 20 2013).

5 A DEMOCRATIC LEFT VISION FOR EUROPE

> **"After 1997 there was a centre-left majority across Europe but we wasted the opportunity because we were singing from three, four, different hymn-sheets at the same time. So this time must be different: we must speak with one voice."**
>
> **Stephen Hughes,** MEP

Democracy, Equality, Solidarity

On 29 April 2013 the renowned German philosopher and sociologist, Jürgen Habermas, delivered a lecture to 500 students at the Catholic University of Leuven on: Democracy, Solidarity and the European Crisis. It was a classic but ever more urgent statement of the way forward for Europe: co-operation, solidarity, a shared political perspective, democratization. His audience included Herman Van Rompuy, European Council president and co-architect of the "technocratic" handling of the crisis he so eloquently denounced. "Postponing democracy is rather a dangerous move", the doyen of the Frankfurt School said.

It is a view the democratic Left in Europe has been putting forward since the crisis began – even long before. But it needs to be restated over and over again if Europe is to avoid sliding again into dark despair and worse: A rebirth of the violently destructive forces unleashed by economic slump almost a century ago. As Sylvie Guillaume, S&D vice-president, put it at a rally in Lyon: "The economic challenges and the lack of effective political responses are generating a growing frustration, creating a breeding ground for populism and extremism. Our answer to far-right extremism, intolerance and rising religious fundamentalism is more solidarity, more equality and more social cohesion."

> **"If we as socialists were in power we would say that the origin of the crisis and its consequences is driven by the social dimension and this for two reasons: growing inequalities, unfairness in distributing the added value between capital and labour - and unequal societies are less competitive. What is on the table right now is: rescuing financial markets without doing anything for job creation."**
>
> **Pervenche Berès,** MEP

The long-standing view of social democrats, pre-dating the crisis, is: Yes to the market, No to a market society (2008 pamphlet). What the S&D Group calls a "Europe of excellence" is based upon this approach which has NOT been rendered obsolete by the crisis: a response to the triple challenge of globalization, constant, accelerating change (in technology, markets, business models) and chronic economic and political stability internationally. It is a sober, inclusive reaffirmation of the Lisbon/EU 2020 Strategy that can and must be delivered.

Left to themselves, market forces, aided and abetted by the conservative political elite, would make of some parts of Europe a low-cost producer. The alternative is to assert Europe's social and environmental model not as an obstacle to but an ally of renewal: Far from eschewing Europe, investors will choose it for its skilled workforce, its vibrant universities and research centres, its first-class communications, its quality of life. But this requires, above all, "investment in jobs and innovation, better regulation to control markets and solidarity to make sure citizens can live decent lives and have hope for the future" (from "Relaunching Europe", 2013). In a nutshell: The solution (to the crisis) is not less Europe but a closer, better, fairer Europe.

"We have to take the moral high ground, condemn the way they 'socialise the losses and privatize the profits' – tapping into very strong feelings across Europe. We would have gone much faster with the required reforms. The Right has been very slow, lurching from one crisis to another, rowing among themselves, when a rapid response was required."

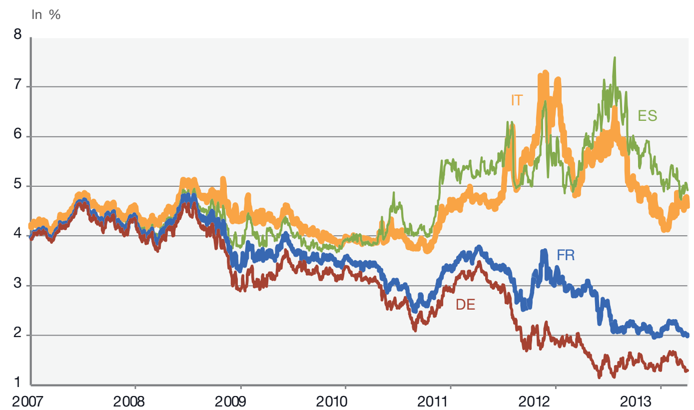
Arlene McCarthy, MEP

A new industrial revolution

There are 26.5 million jobless in Europe, with a record 6m out of work in Spain and 3.2 million, another record, in France. The European Commission is forecasting a further 0.4% contraction of GDP in the euro area this year. But a clear lesson has emerged from the crisis: countries which nurture and sustain their industrial sectors are doing significantly better than those which de-industrialised at will. Industry punches well above its weight in Europe's economy, providing a third of value added, 75% of exports and 80% of R&D; one job supports two in services. As part of the rebalancing of the economy we need throughout Europe a revitalized industrial sector that can provide millions of high-quality jobs and relaunch the economy via "green growth".

At the heart of this strategy must be sustainable technologies that can give Europe a competitive edge as emerging economies such as China scale up. Four key segments could provide the core of this renewal: mobility – low-carbon cars (electric, hydrogen, hybrid, self-drive); rail and aviation; cross-border infrastructure such as smart grids (via project bonds); energy efficiency (creating up to 2m jobs by 2020) within a modernised energy policy; and healthcare/life sciences (notably to deal with ageing). We wholly endorse the priorities put forward by the Commission in its 2012 Communication such as biotechnology and 3-D printing, clean production and sustainable construction. We have to reverse the position in which Europe spends only 1.8% of GDP on R&D compared with 2.7% in the US and 3.4% in Japan.

Interest rates in the eurozone



Source: OFCE, April 2013 forecast

CHAPTER 5

We also recognise that, as the paper puts it: The industrial structure of Europe is relatively more focused on medium and medium-high tech sectors and relatively less on high-tech sectors. These trends were also visible in the recent years. In the period between 2006 and 2009 high-tech industries were losing their importance in favour of medium-tech industries, whilst in the USA exactly the opposite happened. Despite the importance and contribution of the medium-tech sectors to GDP, this lack of structural shift in Europe suggests that the European economy has been less dynamic and less competitive in exploiting the opportunities from new technologies.

As we have seen throughout this book, putting Europe on a more dynamic track requires a renewed partnership between public and private sectors to spearhead investment in training and research. Another key must be to forge rapidly ahead with banking union – and with reform of the financial sector to unlock lending to the small and medium-sized firms that are the engine of the New Europe, the source of jobs and growth. Between 2002 and 2010 a staggering 85% of all new jobs in Europe were created by SMEs. They provide 80% of all Italian jobs, 67% of Spanish jobs and 60% of jobs in France. The European Investment Bank can play a critical role in helping to release funds from both public and private sources as has been said repeatedly. But this requires urgency. We have to reverse the situation so aptly described by *The Economist* (editorial, May 4 2013): "The money machine is so badly out of order it may drive the economies of Italy and Spain into a depression."

> **"The EU's leaders have failed to define what is the European interest in industrial policy, trade policy, to insist on reciprocity in everything we demand: a minimum level of standards and rights, respect for the environment, rather than according to the relative strength of importers and exporters. I'm not arguing for protectionism but it's time to stop being excessively naïve when Brazil, China, India, the US, all know what they want. Minimum standards can stop this world from being just a jungle."**
>
> **Elisa Ferreira,** MEP

Rights for all

The democratic Left has an answer to the social, economic and political instability of the free market model ('Reaganomics') that has held sway in Europe for three decades – and led directly to the crisis. Its response and programme are rooted in a holistic vision of society which embraces all its members, including young and old, no matter what their origin, ethnicity, or sexual orientation.

This means, above all, a policy of zero tolerance towards xenophobia, racism, and extremism of any kind. We think the EU should be more robust in protecting civil rights and democracy, taking action against those who ignore or abuse them – including member state governments. Our EuropePlus initiative recognizes that today people, especially the younger generation, have varying identities as mobility increases but belong to Europe and have the same rights, including to citizenship.

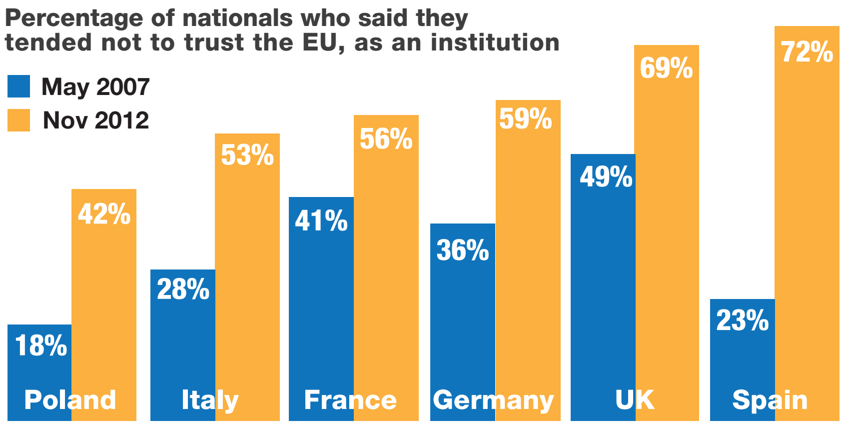
Similarly, the radical changes in our working and social lives brought about by the digital revolution need to come accompanied by new rights and freedoms. We argue for common standards and policies to guarantee media freedom, guard against censorship and prevent operators rationing access to content via differentiated charging. Ending and/or preventing the digital divide remains a key priority – especially as all citizens, including the poor and ill-educated, need access to online services as voters and not just as consumers.

"Our crisis won't last for ever. Then it will be another continent's turn to get caned by pundits for its stupid model. One day young Europeans will get jobs again, and we'll just be a delightful backwater with excellent macchiato. I can think of several worse places to live", as Simon Kuper stated in the Financial Times on 4 April 2013.

"Fairness is at the heart of our vision of a deep and genuine economic and monetary union… That's why the macro-economic scoreboard in the European semester process, we say, needs to include social indicators such as long-term unemployment, levels of education and training, inclusion and exclusion. Social Europe would be at the heart of a social democratic Europe and EMU. That's why we are engaged in a battle with Van Rompuy on the future direction of EMU and we say this needs a social pillar and he has done very little about it. Both the EPP and the Liberals are refusing to engage with us. Instead of recognizing that Social Europe might get people out to vote they are digging themselves into the trench of austerity."

Stephen Hughes, MEP

Collapsing trust in EU institutions



Source: Guardian Graphics, Eurobarometer, April 2013

An alternative vision

Overcoming Europe's crisis and mapping a path to recovery needs, we have argued throughout this book, a new economic governance and greater participation by citizens. But, in renewing itself, 'Old' Europe needs a fresh approach to issues such as jobs and growth, social inclusion and even foreign trade. It needs a new, more sustainable economic model. Not the free market model based on rising inequality at home and abroad. Nor the austerity model fuelling social dislocation via unemployment, poverty and reduced rights. And certainly not the one-size-fits-all model imposed by the conservative majority elite.

"The EU is giving the same medicine to every eurozone country despite knowing that the illness they suffer is not quite the same. When countries like Spain that now suffer unemployment rates dangerously close to 30% and that have already lost over 15% of their GDP and 25% of public revenue in just 4 years remember that they joined the euro zone to "borrow credibility" they realise the nightmare they are in. Interest rates are lower outside the eurozone and economic policy is in the hands of foreign countries that debate domestic adjustment programmes in their national parliaments while their parliaments give up controlling EU or Troika decisions. The loss for democracy is huge. It is so big that national elections do not matter anymore because no government no matter its political or ideological orientation can change the orientation of the policy mix that is leading Europe to a disaster. Not only to a disaster but to an awkward situation where the elections that really matter are taking place in Germany," is how Juan Moscoso del Prado, PSOE spokesman on Europe, puts it. (Policy Network, May 2 2013).

We need to overcome this dangerous re-nationalisation of Europe and threat to its democratic fundament via a genuinely forward-looking programme. First of all, we have to put back into Europe's political discourse the passion, vision and energy that spurred the EU's founding fathers into rebuilding a shattered continent in peace and prosperity. That means dispensing with what the eminent sociologist, Saskia Sassen, calls "the financialisation of everything". She says and we can only agree: "Finance is not about money: if you take outstanding derivatives, which are the basic measure of the value of finance, then it's several times larger than global GDP. Finance is extraordinarily disruptive and part of the issue right now is not the lack of discipline in Eurozone economies. It's not even the lack of responsibility displayed by national governments. It's the financialisation of everything. The situation in Greece, where we suddenly had financial markets betting against the country is, to me, criminal conduct." (Interview with EUROPP, May 2013).

The conservative majority has simply kowtowed to this tyranny in a cowardly manner. But for social democrats empowerment and renewal are at the heart of our vision. We do not believe Europe is condemned to a slow, miserable decline. As the home of the first democratic political system and industrial revolution there is no intrinsic reason, only despair, why Europe should not be the centre of social and economic recovery and transformation. This change in direction must start with the emancipation of the poor, the low-skilled and jobless rolled over by the juggernaut of globalisation and with democratisation of the political processes that have prolonged the current recession and, above all, fomented disaffection with everything that the EU stands for. This is genuine fairness we strive for: the sharing of economic gains and political power. A Europe made by and for unaccountable big corporations and their political servants is not for us. The rebalancing of the economy must go hand in hand with the rebalancing of power. Rejuvenated democratic states must assert their primacy over unfettered markets.

Europe has plenty of creative thinkers, artists and entrepreneurs and can be the space for reinventing the political economy. But that, in the social democratic vision, must mean unleashing the full talents and capabilities of all its citizens rather than relying on the self-enrichment of the few in the neo-liberal model. This requires huge investments in education, training, in research, in innovation and extending access to health, wealth and capital to all. Europe's reborn economy and society can be a beacon for others in addressing the common, shared problems of inequality, social exclusion and political alienation. Ultimately, we are talking about a different economic model, as Hannes Swoboda said in the interview at the start of this book.

"Greening our economy is not just an end in itself but can help Europe out of the crisis – a more sustainable economic model will help create huge opportunities for employment and wealth creation", is how our latest pamphlet puts it. "Growth is not an end in itself but a means to produce the conditions for a Good Society with full capabilities for all," is how Marc Saxer of the Friedrich-Ebert-Stiftung expresses it (*Social Europe Journal*, May 2013). We are talking about solidarity: within economies, between peoples, among generations, with the planet.

It is this deep-rooted commitment to solidarity that distinguishes the S&D Group from all others, whether in tackling the financial and debt crisis or climate change. Solidarity – what Habermas called "a cooperative effort from a shared political perspective to promote growth and competitiveness" - is the only way to promote economic recovery, social renewal, political integration and environmental sustainability. The current policy of austerity will lead to even greater alienation from the very EU institutions that enshrine Europe's post-war progress. Europe needs to rediscover its hope – and vision.

"With its anemic growth, ongoing euro crisis, and the complexity of its decision-making, Europe is admittedly a fat target right now. And the stunning rise of countries like Brazil and China in recent years has led many to believe that the Old World is destined for the proverbial trash heap. But the declinists would do well to remember a few stubborn facts. Not only does the European Union remain the largest single economy in the world, but it also has the world's second-highest defence budget after the United States, with more than 66,000 troops deployed around the world and some 57,000 diplomats (India has roughly 600). The EU's GDP per capita in purchasing-power terms is still nearly four times that of China, three times Brazil's, and nearly nine times India's. If this is decline, it sure beats living in a rising power."

Hans Kundnani, Mark Leonard,
European Council on Foreign Relations

6 ANNEX

1. OUT OF CRISIS

Some examples of The S&D Group's work in the Economic and Employment Committees to promote an alternative social and economic model:

BERÈS Pervenche

Lead author of the European Parliament's major report in 2010 on the origins and consequences of the 2008 global financial sector crash and of the Parliament's proposals for comprehensive reform of the "European semester" economic coordination process.

BERMAN THIJS

Led for the European Parliament in 2012 on monitoring of the European Investment Bank.

BULLMANN Udo

Led for the S&D Group on key European Parliament reports on reform of the financial sector, including the Basel III rules and the Capital Requirements Directive.

CERCAS Alejandro

Lead author on the European Parliament's report proposing radical changes in the EU's management of industrial restructuring, including recommendations on information and consultation of workers.

COFFERATI Sergio Gaetano

Led for S&D Group on European Parliament's report on the European labour market, highlighting measures needed to promote social dialogue and secure employment rights for workers in insecure or atypical work.

COSTELLO EMER

Lead Parliamentary author on legislation creating a Fund for European Aid to the Most Deprived.

CUTAŞ George Sabin

Led for the European Parliament for several years on monitoring of the European Central Bank and European Investment Bank.

DAERDEN Frédéric

Lead author on the European Parliament's report on combating poverty and social exclusion and led for the S&D Group on the EP's report on the role of minimum income in combating poverty and promoting social inclusion. He is also the author of the EP's report on the sustainability of pensions.

DOMENICI Leonardo

Lead Parliamentary author on EU legislation establishing new rules for credit ratings agencies and other financial sector legislation.

EL KHADRAOUI Saïd

Lead Parliamentary author on European Parliament´s report on remuneration of directors on financial services sector and on the regulation of "shadow" banking

FALBR Richard

Lead author on the European Parliament's report on promoting labour and social standards internationally.

FERREIRA ELISA

One of the lead Parliamentary authors on the "six-pack" of legislation on EU economic governance, instrumental in winning important improvements in legislation which, for social democrats, presented major problems. She was also one of the European Parliament´s lead negotiators for the so-called "Two Pack" on the surveillance of economic policy coordination.

GOEBBELS Robert

Led for the S&D Group on EU legislation regulating the provision of financial services as well as on hedge funds and private equity.

GÖNCZ Kinga

Lead Parliamentary author on legislation establishing a European Microfinance Facility for Employment and Social Inclusion.

HOANG NGOC Liem

Lead Parliamentary author on European Parliament report on the long-term sustainability of European public finances and led for the EP in 2011 on monitoring of the European Central Bank. He also led the S&D negotiations on the reform of EMU, to create a social pillar and a more sustainable economic framework

HOWITT Richard

Lead author of the European Parliament's report on Corporate Social Responsibility.

KLEVA KEKUŠ Mojca

Lead author of the European Parliament's groundbreaking report on how the EU can crack down on tax fraud and tax evasion.

McCARTHY Arlene

Lead Parliamentary author on major financial sector legislation, including the Market Abuse Directive, dealing with insider trading and market manipulation. She is currently the EP negotiator for the Liikanen Report on the separation of “casino” banks from high street banking.

PAPADOPOULOU Antigoni

Led for the S&D Group of the European Parliament’s report on the Social Investment Pact.

PITTELLA Gianni

Led for the European Parliament in 2012 on monitoring of the European Central Bank and for the S&D Group on key legislation on the regulation and supervision of the financial sector.

PODIMATA Anni

Lead Parliamentary author on a series of reports on the Financial Transactions Tax, playing a key part in pushing this tax on to the European political agenda.

SÁNCHEZ PRESEDO Antolin

Lead Parliamentary author on several major financial sector reports, including regulation of the mortgage sector and financial supervision of banking.

SCICLUNA Edward

Led for the S&D Group on the European Parliament’s reports on budgetary surveillance and on options for developing Eurobonds.

SIMON Peter

Lead Parliamentary author on EU rules for deposit guarantee schemes in banking.

SKINNER Peter

Lead Parliamentary author on major reforms of the insurance sector.

STEINRUCK Jutta

Lead Parliamentary author on rules for the EU Programme for Social Change and Innovation.

STIHLER Catherine

Led for the S&D Group on legislation regulating securities and on tax fraud.

2. FOR AN EMU AT THE SERVICE OF EUROPEAN CITIZENS

The European Council's plans for the Euro are a dead end. The Group of Socialists & Democrats promotes an alternative model geared towards growth, jobs and social justice in Europe, the reduction of economic instability and insecurity, and the closing of the democratic deficit in order to put the interests and the voice of citizens at the heart of policy-making.

How about a solution that addresses the real problems?

1. We must never allow the conservatives to forget that the Eurozone crisis is an aftershock of the 2008 global financial crisis - a failure of light-touch regulation and blind faith in market forces.

2. But the Eurozone was especially vulnerable to the financial storms because of deep **policy and macroeconomic imbalances** in EMU. And the Eurozone's difficulties have been prolonged and exacerbated by mismanagement by the Commission and Council - reflecting partly their misdiagnosis of the problem, but also reflecting **inadequate governance**, with poor public accountability and a weak democratic mandate, which prevented decisive action.

3. The recent recognition by the Commission of the need to slow down the pace of fiscal consolidation in at least certain member states is a welcome, though belated, softening of its politics of austerity. But this should not be used as a bargaining chip to impose even tougher structural reforms which could undermine the national social fabric.

A credible reform of EMU has to tackle the twin problem of policy imbalances and of weak and undemocratic governance.

Rebalancing EMU by embedding it into a social dimension

4. The sharpest lesson of the eurozone crisis is that monetary union without economic and social union is unstable, socially regressive, vulnerable to external shocks and incompatible with the goals and values of the Union.

5. The purpose of EMU, as set out in the Treaty, is to:

   "promote sustainable development...based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the environment...scientific and technological advance... combat social exclusion and promote social justice and protection..."[1]

   The Treaties require promotion of high employment and the guarantee of adequate social protection to be taken into account in the policies and activities of the EU - including economic strategy, integrated guidelines, European programmes, national programmes, macroeconomic surveillance and coordination with the social dimension.

6. In practice, the Treaty objectives have been set aside in favour of a narrower focus solely on stable prices and fiscal discipline. These are essential goals, but we now know they cannot be achieved on their own. The lack of a strong economic and social pillar has led to the severe macro-economic and social imbalances that have brought the eurozone to its knees.

7. The eurozone has been marked throughout its life by chronic trade imbalances and divergence in productivity trends, which explain the eurozone's fragility. For example:

   - Monetary policy was set according to the needs of the bigger, core economies - triggering an inflationary spiral in parts of the periphery.

   - Instead of recycling surpluses from stronger economies into investment in weaker ones - thus promoting convergence - the financial sector created the asset price bubbles whose collapse caused havoc, for example, in Ireland and Spain.

[1] Articles 3 & 120 TFEU

- The prolonged growth in economic inequality across Europe and the shift in income shares from wages to profits have squeezed purchasing power and fuelled the explosion in consumer credit that contributed to the 2008 global crisis.

- In some member states the business sector has run a chronic surplus, which undermines the dynamism of our economies. As creators of wealth, businesses should invest, innovate and raise productivity.[2]

8. It's time for a new approach. We have a social democratic vision of new economic governance, at the service of European citizens - returning to the vision laid down in the Treaties but ignored by the Right.

Our vision - an EMU of growth, stability, inclusion and accountability

I. A strong social pillar for EMU

The lack of effective social governance has allowed social exclusion and inequalities to grow, and the burden of austerity in tough times to fall hardest on the least advantaged and on public services. Yet social and economic progress are interdependent. Europe's global competitiveness depends on its capacity to strengthen its social model. The European summit to be held on the 27-28 June 2013 must act with concrete steps.

Our vision for EMU starts with strong social pillar which guarantees a synthesis between the economic and fiscal aspects and the social dimension. Our plans (see also the annex) for a social pillar of EMU include a detailed set of proposals on how economic and monetary union can be transformed into an economic, monetary and social union. It includes:

[2] And since the surpluses/deficits of the business, household, government and foreign trade sectors must sum to zero, a chronic business sector surplus means that governments must run budget deficits to avoid a plunge into recession. (Since it is unfeasible for every member state to run a chronic trade surplus and undesirable for households to run a deficit to match the business sector surplus).

- A social progress pact complementing the stability and growth pact including a scoreboard on employment and social indicators, EU 2020 policy benchmarks, an unemployment insurance scheme as well as a special eurozone Council on social issues
- A Social Protocol to ensure at least the equal prominence of social rights and economic freedoms
- An Employment and Social Investment Programme
- Common Social Standards
- A Strengthened European Social Dialogue
- A more balanced and democratic governance system in which the social dimension is fully integrated.

Most importantly, in order to fight youth unemployment, the S&D group is calling for a youth guarantee which is sufficiently funded and has a wide enough scope to truly address Europe's youth jobs crisis.

II. EMU for growth, jobs and real economic convergence

The Union's handling of the eurozone crisis is failing because the savage cuts in public spending have derailed growth and tipped some member states back into recession - which in turn widens budget deficits.

The S&D proposals will reform the EU's fiscal rules, with the aim of protecting public investment[3]. We want the creation of a European fiscal capacity in the form of an anti-cyclical fund capable of raising money through borrowing and bond issues to finance productive investment. The Commission's new Competitiveness and Convergence Instrument (CCI) should be the start of such a new instrument aiming at supporting the implementation of convergence and competitiveness measures in the member states, based on the community method with the full inclusion of national and European parliaments and not on bilateral contractual arrangements as planned by the Commission.

We also aim to set up in 2014 a partial mutualisation of debt at EU level in the form of a **redemption fund**[4] (covering debt above 60% of GDP) as well as the issuance of eurobills. In the longer-term, we want to see the issuance of **Eurobonds**, with safeguards against moral hazard.

[3] The deficit rules would also allow a significant economic downturn to qualify as "exceptional circumstances", which could require flexibility in application of the 3% deficit limit of the Stability & Growth Pact.

[4] The rules of the redemption fund should give sufficient time to member state to pay back their debts according to their specific macroeconomic conditions.

Fiscal consolidation should also be slowed down, as proposed by the independent Annual Growth Survey[5], within the limits of the revised stability and growth pact (six-pack and two-pack) in order to free up to €80 billion a year for growth-enhancing and employment creation policies. The SGP should be revised to exclude productive and social investments and national contributions to the EU budget from the computation of deficits. The **Growth Pact**, adopted by the June 2012 Summit, would be adopted into EU law and the **European semester** mechanisms would be revised to allow proper parliamentary scrutiny and used to tackle macro-economic imbalances - such as those discussed earlier. Targets for tackling poverty, raising research spending, or correcting sectoral deficits or surpluses would be made binding.

The achievement of real economic convergence between regions - especially by raising investment and productivity in lagging regions - would become a central objective of economic policy. The Semester process should also be used to strengthen **automatic stabilisers** in the European economy, as a safeguard against both inflationary and deflationary forces.

S&D findings show that €1 trillion of public money is lost every year due to tax fraud, tax evasion and tax avoidance. The S&D Group therefore has taken the lead in pushing European leaders for a **global definition of tax havens**, a **European public blacklist** and appropriate **sanctions** , with the ultimate aim of eradicating tax havens. Of course, merely attacking tax havens is not enough, and the S&D Group proposes further concrete measures to counteract the massive flow of fraudulent and lost money. The Semester should in this light be enhanced by integrating an **EU tax gap strategy** into the annual national stability and growth programmes and national reform programmes. S&D proposals also aim at putting into place more efficient disincentives for tax fraud, such as the r**evoking of banking licences** for financial institutions actively assisting their clients in tax fraud, and in order to counteract tax avoidance on the scale demonstrated by Google, Apple, Facebook and others. **mandatory national registers of all legal entities** should be established and made available to any fiscal authority requesting the register. A roadmap for corporate tax convergence should be proposed by the Commission. The EP resolution on a Common Consolidated Corporate Tax Base could serve as a basis for the first steps in this process. Moreover, automatic exchange of information must become the norm across the EU for all member states, and increasingly also at international level. It is a welcome step forward that the May 2013 European Council made tax evasion a top priority of the Union. Now action must follow the words.

[5] http://www.socialistsanddemocrats.eu/gpes/media3/documents/4121_EN_iAGS_Report_version%20finale.pdf

III. Banking Union

The banking sector has been the epicentre of the crisis and the achievement of the reforms currently under way is a pre-condition for ending the crisis. Therefore, the S&D Group calls for the achievement of a true Banking Union as soon as possible with three objectives: stopping casino banking, breaking the link to public finance to protect taxpayers, and ensuring sustainable financing of the real economy for growth.

The adoption of the proposals for a single supervisory mechanism, with a central role for the ECB and a reform of the EBA's role along with greater transparency and more democratic accountability, and the CRD IV proposals for a Single Rule Book for banks to strengthen prudential requirements is an essential step toward a Banking Union. But to provide stability and protect taxpayers and depositors it should be complemented by a well-funded **European deposit guarantee mechanism**, and a **resolution framework** with a **Single European Resolution Fund** for banks. Clear rules for the bail-out and bail-in of banks in the event of bank failures should be defined, in order to fully protect all depositors in all member states. The ESM should be allowed to directly recapitalize banks.

The banking union proposals should ensure that the banking sector takes more responsibility for the impact of its failures on the real economy - so the deposit guarantee and resolution framework should be based on ex ante private financing, charging more to institutions which represent a systemic risk.

A true Banking Union should also include a **reform of the structure of the European banking system** through a separation between retail and investment activities.

IV. Resolving the crisis of democracy: the interests and the voice of citizens must be at the heart of policy-making.

Under right-wing leadership, the EU response to the economic crisis has widened the democracy deficit and put the Union's legitimacy under strain. Transfer of powers has put some decisions beyond the reach of national politics, while the solutions from the Council and European Council have eroded rather than strengthened accountability at European level. It is essential to uphold the unity of the EU and the Eurozone. Further EMU integration should not lead to the creation of unnecessary barriers between euro and non-euro member states. The full integrity of the single market as a whole should be maintained. All proposals seeking to divide the EU are unacceptable. New proposals currently being discussed would further weaken the very concept of representative democracy in Europe. This is notably the case for the so-called "contractualisation" mechanism, through which essential parts of national economic and budgetary policy-making would be subject to bilateral, legally binding contracts between the Commission and individual member states. Such developments must be rejected. Eurozone governance must be subject to Parliamentary control by the European Parliament.

Our plans will radically strengthen European democracy. For a start, a reformed EMU has to entrench four guiding principles:

- There must be no division of the European Union.
- The Euro is the currency of the European Union and the European Parliament is its parliament.
- The "Community method" is the indispensable basis for effective and democratic EU decision-making.
- All related legislation must be adopted under co-decision.

To strengthen democratic legitimacy and accountability, the European Parliament must have stronger legislative and scrutiny powers, just as national Parliaments must be better able to hold their governments to account for their European actions. This is a precondition for any further step toward a Banking Union, a Fiscal Union and an Economic Union. The reinforcement of the economic governance of the eurozone through a permanent structure could also only be effective if accompanied by a reinforcement of the European Parliament's role in the process.

The cornerstone of European economic governance is the **European semester**, the annual process through which the Commission proposes, and Council adopts, economic and employment guidelines for the Union, followed by **Recommendations** for each member state. It is also the background against which the Commission and Council interpret and apply the rules of **multi-lateral surveillance** and **the excessive deficit procedure** - for example, in deciding whether a downturn is sufficient to allow deviations from fiscal rules.

To make EU economic governance fully accountable, **the European Parliament must have co-decision over the economic and employment guidelines**. That will require Treaty change, which should also simplify the current complex, ineffective and only partially accountable instruments and bring them fully within the EU legal framework.

Within the present Treaty, however, social democrats are campaigning for an **Interinstitutional Agreement**, binding the Commission and Council to give Parliament a strong voice in the preparation and adoption of the Annual Growth Survey and the economic and employment policy guidelines, from their earliest stages of preparation.

The EP should be able to define its calendar, content and methodology for the Semester in close cooperation with national parliaments and with social partners and civil society.

Make the ESM accountable

The ESM, based on an intergovernmental Treaty, is not accountable to any European institution - yet it will have important powers on financial assistance, and on conditionality, for countries in need.

In the medium term, the ESM should be integrated into the Community framework and made subject to scrutiny. In the short term, the European Parliament should insist on guarantees from the Commission of an effective influence over negotiation, signing and evaluation of Memoranda of Understanding - all of which are Commission tasks. We should end the current Troika method which has demonstrated in the past three years its lack of democratic accountability and its inefficiency.

A stronger Parliament role is crucial. It provides the instrument by which MEPs, as the representatives of European citizens, can insist on the shift of policy we demand - towards growth, jobs and social inclusion.

ANNEX

TOWARDS AN ECONOMIC, MONETARY AND SOCIAL UNION an S&D discussion paper

The December 2012 European Council requested the President of the European Council, in close cooperation with the President of the Commission, to present to the June 2013 European Council "possible measures and a time-bound roadmap on [....] the social dimension of the EMU, including social dialogue". This discussion paper focuses on that dimension.

The S&D Group had made an important contribution in this respect prior to the December European Council, as we succeeded in reaching a clear position of the European Parliament in its resolution of 20 November 2012 "Towards a genuine Economic and Monetary Union", calling for a social pact for Europe as a fifth pillar of EMU.

This paper aims at extending the discussion on a genuine EMU beyond the economic and monetary aspects and to move the political debate to a broader and more horizontal level where a necessary synthesis can be found between the economic and fiscal aspects and the social dimension. It provides a detailed set of proposals on how economic and monetary union can be transformed into an economic, monetary and social union[6].

1 A social progress pact complementing the stability and growth pact, including:

- Binding targets: a 75% employment rate, an unemployment rate of no more than 5%, 6% of national GDP invested into education, 3% of national budgets invested in R&D, and a reduction of people at risk of poverty and social exclusion down to 20% by 2020 and to 15% by 2030.

- A scoreboard of key employment and social indicators (Employment Performance monitor and Social Protection Performance Monitor) to be included in the Macroeconomic Imbalances Procedure scoreboard (MIP) triggering collective action through specific instruments such as a strengthened EU 2020 open method of coordination, country specific recommendations, ex-ante coordination as well as the new Convergence and Competitiveness Instrument

[6] The proposals contained in this position paper draw to a large extent on the Declaration of PES Ministers for Social Affairs and Employment "Towards a Social Union", adopted on 27 February 2013.

- Policy benchmarks for the revised Employment Guidelines (points 7-10 of the EU 2020 Integrated Guidelines) to reinforce the commitment of the Member States to effective employment and social policies and prevent or address employment and social imbalances within the EMU

- An enforceable system of monitoring, naming and shaming, and incentives through the use of EU funds

2 A Social Protocol

- The next Treaty revision must be used to introduce a clear clause on social rights being at minimum treated equally to economic freedoms. This should offer the occasion to clarify articles 5 and 9 in order to bring them in line with the spirit of article 11 (the aim is a proper integration of the social dimension horizontally across policies)

- Before such a Treaty change, the equal prominence of social rights and economic freedoms must be laid down in secondary legislation and the respect and implementation of the existing Article 9 and of the Charter of Fundamental rights, in particular social rights, shall be ensured by the European institutions, especially the European Court of Justice

3 An Employment and Social Investment Programme:

- Sufficient resources need to be allocated to the European Social Fund within the next multilateral financial framework, with at least 25% of cohesion funding for the European Social Fund

- The funds available for the “Youth Employment Initiative” should be raised, as part of a wider agreement on the EU’s multi-annual financial framework, to at least €10 billion, to make it a true EU initiative with real added value,

- This €10 billion should be the first of several instalments if we are to establish a youth guarantee which will truly combat youth unemployment. The initial funding should be concentrated in 2014 and 2015, with a commitment to look for further resources through a review in 2015. Spending related to the Youth Employment Initiative and social investment should be excluded from the excessive deficit procedure. The scope of the youth guarantee should also be extended to those under 30.

- The implementation of the youth guarantee could further be boosted through a role for the EIB - for instance, linking loans to the creation of jobs and training places, or supporting the development of dual education systems in Southern Europe. But the impact of EIB loans, dependent as they are on demand from the private sector, is uncertain. They have to supplement, not replace, the use of EU funds in the form of grants.

- The European Globalisation Fund should receive increased funding and be used to manage restructuring and deal with its social consequences

- Project bonds should be extended to social investment. The Commission does refer to “social investment bonds” in the Social investment package

- The Commission should as a matter of urgency provide a proposal for a eurozone unemployment benefit scheme, to respond to the need of developing macro-economic stabilisation partly at the level of the eurozone and support adjustment to asymmetric shocks in the long-term

4 Common Social standards

High social standards should apply across the EU. Amongst others, this should include:

▶ Youth and education

- National youth guarantees within a European legal framework, backed up by European and national funding
- Common quality standards for every citizen for education, training and life-long learning, a European framework for dual education and a European quality framework for traineeships
- Common quality standards and targets for early childhood education (0-3 and 3-6), as a cornerstone in the fight against inequalities

▶ Workers

- European legislation on health and safety at the workplace must be further strengthened and better implemented
- The working time directive needs to be revised and applied in the whole of the EU
- A European framework regulation for decent income stipulating that EU member states ensure that all workers and employees working full time receive an income above the poverty threshold, either through collective bargaining or by law, while ensuring compatibility with, and respect for, national traditions and praxis and the autonomy of social partners.
- Effective preservation of pension rights and proper tracking services across member states in order to underpin labour mobility
- A determined and effective fight against social dumping, including the progressive revision of the posting of workers directive and a much stricter implementation of the existing legislation
- A European legal framework for socially responsible restructuring
- The definition of common minimum standards for active labour market policies.

▶ Equal treatment of women and men

- A binding target must be introduced for all member states to reduce the gender pay gap by 2 percentage points each year
- European minimum standards for childcare and parental leave to be improved
- The proposed directive on gender balance among non-executive directors needs to be strengthened to ensure that in companies in the EU, including in certain SMEs, at least 40% of the members in executive and non-executive boards are women, backed up by common effective sanctions in case of non-compliance.

▶ A social protection floor with universal access to health care, income support, subsistence security and portability of all workers' social rights

- A European framework should ensure that every European has access to affordable housing
- European legislation must be introduced to guarantee the right to child care and EU and national funds available for new and decent child care places
- A common European minimum standard should be introduced, guaranteeing every citizen a minimum standard for their pension or an equivalent minimum social protection, depending on each national system.

5 A Strengthened European Social Dialogue

▶ A social protection floor with universal access to health care, income support, subsistence security and portability of all workers' social rights
▶ Member states should be encouraged to improve the consultation, information and co-decision of workers in and out of their workplace, and to strengthen the role of trade unions
▶ European Social Dialogue needs to be strongly reinforced
▶ Central wage agreements should be promoted
▶ Autonomy of social partners in wage negotiations must be upheld
▶ Tripartite social summits must be reformed and strengthened. Their recommendations must be fully taken into account by the European Council and respected during the European semester process

5 A more balanced and democratic governance system

- Parliamentary input into the European semester, and in particular the role of Parliament's Employment committee, should be enhanced. The powers of Parliament should be laid down in an Interinstitutional Agreement and should be clarified in the Treaty at the time of its next revision

- The European Social Partners should be more involved in the framework of the European semester

- The Council of Ministers for Employment and Social Affairs (EPSCO), the EMPL Committee in the European Parliament and the European Commission's Directorate-General for Employment and Social Policy must play a much stronger role in the implementation of the European semester, which is the core of governance of economic and monetary union.

- An Employment and Social Scoreboard should be introduced, in line with Article 148 of the Treaty on the European Union and under the responsibility of the relevant Council of Ministers.

- In case of an ex-ante coordination mechanism of major reforms, EPSCO must be fully involved, as equal partner to ECOFIN.

- The meeting of the Eurogroup should be complemented by regular meetings of the Social Affairs and Employment Ministers of the Eurogroup, and at least one annual joint meeting of EPSCO and ECOFIN should approve the recommendations of the AGS before the Spring European Council.

- The Troika has become an obstacle to transparent and accountable government and should be discontinued. In its place, the Commission should resume its Treaty role of leading on the oversight of recovery programmes, liaising with the ECB, IMF and also the International Labour Organisations.

3. INDEPENDENT ANNUAL GROWTH SURVEY (iAGS 2013) EXECUTIVE SUMMARY

Four years after the start of the Great Recession, the euro area remains in crisis. GDP and GDP per head are below their pre-crisis level. The unemployment rate has reached a historical record level of 11.6 % of the labour force in September 2012, the most dramatic reflection of the long lasting social despair that the Great Recession produced. The sustainability of public debt is a major concern for national governments, the European Commission and financial markets, but successive and large consolidation programmes have proven unsuccessful in tackling this issue. Up to now, asserting that austerity was the only possible strategy to get out of this dead end has been the cornerstone of policymakers' message to European citizens. But this assertion is based on a fallacious diagnosis according to which the crisis stems from the fiscal profligacy of member states. For the Euro area as a whole, fiscal policy is not the origin of the problem. Higher deficits and debts were a necessary reaction by governments facing the worst recession since World War Two. The fiscal response was successful in two respects: it stopped the recession process and dampened the financial crisis. As a consequence, it led to a sharp rise in the public debt of all Euro area countries.

During normal times, sustainability of public debt is a long-term issue whereas unemployment and growth are short-term ones. Yet, fearing an alleged imminent surge in interest rates and constrained by the stability and growth pact, though transition towards more normal times had not been completed, member states and the European Commission reversed priorities. This choice partly reflects well-known pitfalls in the institutional framework of EMU. But it is equally reflecting a dogmatic view in which fiscal policy is incapable of demand management and the scope of public administrations has to be fettered and limited. This ideology has led member states to implement massive fiscal austerity during bad times.

As it is clear now, this strategy is deeply flawed. Eurozone countries and especially Southern European countries have undertaken ill-designed and precipitous consolidation. The austerity measures have reached a dimension that was never observed in the history of fiscal policy. The cumulative change in the fiscal stance for Greece from 2010 to 2012 amounts to 18 points of GDP. For Portugal, Spain and Italy, it has reached respectively 7.5, 6.5 and 4.8 points of GDP. The consolidation has rapidly become synchronized, leading to negative spillovers over the whole euro area, amplifying its first-round effects. The reduction in economic growth in turn makes sustainability of public debt ever less likely. Thus austerity has been clearly self-defeating as the path of reduction of public deficits has been by far disappointing regarding the initial targets defined by member states and the Commission.

Since spring 2011 unemployment within the EU-27 and the Euro zone has begun to increase rapidly and in the past year alone unemployment has increased by 2 million people. Youth unemployment has also increased dramatically during the crisis. In the second quarter of 2012 9.2 million young people aged 15-29 years were unemployed, which corresponds to 17.7 percent of the 15-29 years old in the workforce and accounts for 36.7 percent of all unemployed in the EU-27. Youth unemployment has increased more dramatically than the overall unemployment rate within the EU. The same tendencies are seen for the low skilled workers. From past experience it is well known that once unemployment has risen to a high level it has a tendency to remain high the years after. This is known as persistence. Along with the rise in unemployment the first symptoms that unemployment will remain high in the coming years are already visible. In the second quarter of 2012 almost 11 million people in EU had been unemployed for a year or longer. Within the last year long term unemployment has increased by 1.4 million people in the EU-27 and by 1.2 million people within the Euro area.

As a result of long-term unemployment, the effective size of the workforce is diminished, which in the end can lead to a higher structural level in unemployment. This will make it more difficult to generate growth and healthy public finances within the EU in the medium term. Besides the effect of long-term unemployment on potential growth and public finances, long term unemployment may cause increased poverty because unemployment benefits will stop sooner than expected. Thus long term unemployment may also become a deep social issue for the European society. Given our forecast for unemployment in EU and the Euro area, we estimate that long term unemployment can reach 12 million in EU and 9 million in the Euro area at the end of 2013.

What is striking is that the consequences of ill-designed consolidation could and should have been expected. Instead, they have been largely underestimated. Growing theoretical and empirical evidence according to which the size of fiscal multipliers is magnified in a fragile situation has been overlooked. Concretely, whereas in normal times, that is when the output gap is close to zero, a reduction of one point of GDP of the structural deficit reduces activity by a range of 0.5 to 1% (this is the fiscal multiplier), this effect exceeds 1.5% in bad times and may even reach 2% when the economic climate is severely depressed. All the features (recession, monetary policy at the zero bound, no offsetting devaluation, austerity amongst key trading partners) known to generate higher-than-normal multipliers were in place in the euro area.

The recovery that had been observed from the end of 2009 was brought to a halt. The Euro area entered a new recession in the third quarter of 2011 and the situation is not expected to improve: GDP is forecast to decrease by 0.4% in 2012 and again by 0.3% in 2013. Italy, Spain, Portugal and Greece seem to sink in an endless depression. The unemployment soared to a record level in the eurozone and especially in Spain, Greece, Portugal and Ireland. Confidence of households, non financial companies and financial markets has collapsed again. Interest rates have not receded and governments of Southern countries still face unsustainable risk premium on their interest rates, despite some policy initiatives, while Germany, Austria or France benefit from historically low interest rates.

Rather than focus on public deficits the underlying cause of the crisis needs to be addressed. The euro area suffered primarily from a balance of payments crisis due to the build-up of current account imbalances between its members. When the financial flows needed to finance these imbalances dried up the crisis took hold in the form of a liquidity crisis. Attempts should have been made to adjust nominal wages and prices in a balanced way, with minimal harm to demand, output and employment. Instead salvation was sought in across-the-board austerity, forcing down demand, wages and prices by driving up unemployment.

Even if some fiscal consolidation was almost certainly a necessary part of a rebalancing strategy to curb past excesses in some countries, it was vital that those countries with large surpluses, especially Germany, took symmetrical action to stimulate demand and ensure faster growth of nominal wages and prices. Instead the adjustment burden was thrust on the deficit countries. Some progress has been made in addressing competitive imbalances, but the cost has been huge. Failure to ensure a balanced response from surplus countries is also increasing the overall trade surplus of the euro area. This is unlikely to be a sustainable solution as it shifts the adjustment on to non-euro countries and will provoke counteractions.

There is a pressing need for a public debate on such vital issues. Policymakers have largely ignored dissenting voices, even as they have grown louder. The decisions on the present macroeconomic strategy for the euro area should not be seized exclusively by the European Commission at this very moment, for the new EU fiscal framework leaves euro area countries some leeway. Firstly, countries may invoke exceptional circumstances as they face "an unusual event outside the control of the (MS) which has a major impact on the financial position of the general government or periods of severe economic downturn as set out in the revised SGP (…)". Secondly, the path of consolidation may be eased for countries with excessive deficits, since it is stated that "in its recommendation, the Council shall request that the MS achieves annual budgetary targets which, on the basis of the forecast underpinning the recommendation, are consistent with a minimum annual improvement of at least 0.5% of GDP as a benchmark, in its cyclically adjusted balance net of one-off and temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the recommendation". This is of course a minimum, but it would also be seen as a sufficient condition to bring back the deficit to Gdp ratio towards 3% and the debt ratio towards 60%.

A four-fold alternative strategy is thus necessary:

First, delaying and spreading the fiscal consolidation in due respect of current EU fiscal rules. Instead of austerity measures of nearly 130 billion euros for the whole euro area, a more balanced fiscal consolidation of 0.5 point of GDP, in accordance with treaties and fiscal compact, would give for 2013 alone a concrete margin for manoeuvre of more than 85 billion euros. This amount would substantially contrast with the vows of the June and October 2012 European Councils to devote (still unbudgeted) 120 billion euros until 2020 within the Employment and Growth Pact. By delaying and capping the path of consolidation, the average growth for the Eurozone between 2013 and 2017 may be improved by 0.7 point per year.

Second, the ECB must fully act as a lender of last resort for the euro area countries in order to relieve MS from the panic pressure stemming from financial markets. For panic to cease, EU must have a credible plan made clear to its creditors.

Third, significantly increasing lending by the European Investment Bank as well as other measures (notably the use of structural funds and project bonds), so as to meaningfully advance the European Union growth agenda. Vows reported above have to be transformed into concrete investments.

Fourth, a close coordination of economic policies should aim at reducing current accounts imbalances. The adjustment should not only rely on deficit countries. Germany and the Netherlands should also take measures to reduce their surpluses.

A full report is vailable on the Progressive Economy website:
http://www.progressiveeconomy.eu/content/iags-first-report

4. CLOSING THE EUROPEAN TAX GAP / RE-LAUNCHING THE ECONOMY AND CREATING JOBS

An analysis of the key findings of the Richard Murphy study ‘Closing the European tax Gap’

1. The main finding of the study commissioned by the S&D Group from Tax Research UK is that €1 trillion are lost in potential tax revenue every year (EU27).

2. This loss of public revenue plays a substantial part in the deficit and debt levels we are currently facing, which in turn is negatively affecting public investment levels, growth and employment.

3. A large part of this non-taxed liquidity is feeding into financial trading activity rather than private or public consumption and investment.

Therefore, by forcefully addressing this ‘tax gap’, the EU could at the same time:

- Contribute to the necessary stabilisation of financial markets and of the economy as a whole by significantly reducing the liquidity available for financial trading unrelated to real economic activity;

- Increase available public revenue to accelerate necessary fiscal consolidation while reducing its austerity effect (thereby also alleviating current pressure on necessary public spending on education, health or social policy); the study shows that if the tax gap were to be totally closed, EU governments could repay all public debt within 8.8 years (see table below).

- Provide the necessary resources to increase public investment geared towards the strengthening of Europe’s international competitiveness and growth potential, despite the consolidation agenda. By channelling an additional amount of about €200 billion from the reduced tax gap into public investment spending each year, the EU could lift that investment from the current 2.7% of GDP to a realistic target of 3.5% within a few years. This would notably provide essential funding for public investment in sustainable growth technologies.

- This whole new strategy should be framed politically within a strengthened Europe2020 strategy, backed up by proper funding.

- The governance of this strategy at EU level (as much will be done directly by member states) would need to be managed via the existing processes involving the annual national stability and growth programmes and the national reform programmes. Available information on the extent of tax avoidance and evasion in each member state must, in this context, be significantly improved in the public interest.

KEY RECOMMENDATIONS

The EU must take strong action at European and at national levels at the same time. To provide the necessary focus, the European Council must agree on an ambitious but realistic headline target: **halving the tax gap by 2020**. By moving towards this target, member states would gradually achieve new tax revenue without raising tax rates at the level of several €100 billion a year.

This target can be reached by ensuring action on five key issues:

1. Reforming the accounting rules and corporate accounting disclosure
2. Upgrading and extending the scope of the European Union Savings Directive
3. Ensuring compulsory Common Consolidated Corporate Tax Base
4. Introducing country-by-country reporting for cross-border companies
5. Strengthening regulation of company registries and registers of trust

This will have to include adequate EU-wide agreements with key non-EU countries currently providing platforms for financial institutions which facilitate tax fraud and evasion activities from within the EU, such as Switzerland. The report provides over 30 detailed proposals for policy action at EU and at member states’ levels.

KEY FACTS AND FIGURES

Using consistently credible sources the report provides an estimate of tax evasion in the European Union at approximately €860 billion a year. Estimating tax avoidance is harder, however the report estimates it could be €150 billion a year. It is therefore likely that the combination of **tax evasion and tax avoidance might cost the governments of the European Union member states €1 trillion a year.**

In a significant number of countries tax lost as a result of the shadow economy may represent more than 20% of total government spending, and as a proportion of government revenues that sum exceeds 30% of total income in some cases.

On average the tax lost as a result of shadow economies in Europe is equivalent to 105.8% of the total **healthcare** spending in EU countries.

A full report is vailable on the S&D website:
http://www.socialistsanddemocrats.eu/

Country	GDP 2009	Gov't spending as proportion of GDP	Health care spending as proportion of GDP	Size of Shadow Economy	Tax lost as a result of Shadow Economy	Tax lost as a proportion of tax income	Tax lost as a proportion of government spending	Tax lost on shadow economy as % of healthcare spending
	Euro'm	%	%	Euro'm	Euro'm	%	%	%
Austria	284,000	49.0	11.0	27,548	11,763	9.7	8.5	37.7
Belgium	353,000	50.0	11.8	77,307	33,629	21.9	19.1	80.7
Bulgaria	36,000	37.3	7.4	12,708	3,673	35.3	27.4	137.9
Cyprus	17,000	42.6	6.0	4,760	1,671	28.0	23.1	163.8
Czech Republic	145,000	42.9	7.6	26,680	9,205	18.4	14.8	83.5
Denmark	234,000	51.8	7.0	41,418	19,922	17.7	16.4	121.6
Estonia	15,000	39.9	4.3	4,680	1,680	31.2	28.1	260.5
Finland	180,000	49.5	11.7	31,860	13,732	17.7	15.4	65.2
France	1,933,000	52.8	3.5	289,950	120,619	15.0	11.8	178.3
Germany	2,499,000	43.7	8.1	399,840	158,736	16.0	14.5	78.4
Greece	230,000	46.8	7.4	63,250	19,165	27.5	17.8	112.6
Hungary	98,000	49.2	8.2	23,912	9,445	24.4	19.6	117.5
Ireland	156,000	42.0	7.6	24,648	6,951	15.8	10.6	58.6
Italy	1,549,000	48.8	5.1	418,230	180,257	27.0	23.8	228.2
Latvia	18,000	38.5	8.1	5,256	1,398	29.2	20.2	95.9
Lithuania	27,000	37.4	7.8	8,640	2,532	32.0	25.1	120.2
Luxembourg	42,000	37.2	4.1	4,074	1,511	9.7	9.7	87.8
Malta	6,200	44.8	16.5	1,686	577	27.2	20.8	56.4
Netherlands	591,000	45.9	10.8	78,012	29,801	13.2	11.0	46.7
Poland	354,000	43.3	7.1	96,288	30,620	27.2	20.0	121.8
Portugal	173,000	46.1	11.3	39,790	12,335	23.0	15.5	63.1
Romania	122,000	37.6	5.4	39,772	10,738	32.6	23.4	163.0
Slovakia	66,000	34.8	8.5	11,946	3,440	18.1	15.0	61.3
Slovenia	36,000	44.3	9.1	9,432	3,546	26.2	22.2	108.3
Spain	1,063,000	41.1	9.7	239,175	72,709	22.5	16.6	70.5
Sweden	347,000	52.5	9.9	65,236	30,596	18.8	16.8	89.1
United Kingdom	1,697,000	47.3	9.3	212,125	74,032	12.5	9.2	46.9
Total or unweighted average	**12,271,200**			**2,258,223**	**864,282**	**22.1**	**17.6**	**105.8**

Furthermore, the amount of tax lost is on average more than 4 times higher than the amount spent on **education.**

As shown in the table below, there is **no clear relation between the level of taxes and the level of tax evasion** in the European Union member states:

Country	GDP 2009	Size of Shadow Economy	Tax burden - 2009	Size of Shadow Economy	Tax lost as a result of Shadow Economy
	Euro'm	%	%	Euro'm	Euro'm
Austria	284	9.7	42.7	27,548	11,763
Belgium	353	21.9	43.5	77,307	33,629
Bulgaria	36	35.3	28.9	12,708	3,673
Cyprus	17	28.0	35.1	4,760	1,671
Czech Republic	145	18.4	34.5	26,680	9,205
Denmark	234	17.7	48.1	41,418	19,922
Estonia	15	31.2	35.9	4,680	1,680
Finland	180	17.7	43.1	31,860	13,732
France	1,933	15.0	41.6	289,950	120,619
Germany	2,499	16.0	39.7	399,840	158,736
Greece	230	27.5	30.3	63,250	19,165
Hungary	98	24.4	39.5	23,912	9,445
Ireland	156	15.8	28.2	24,648	6,951
Italy	1,549	27.0	43.1	418,230	180,257
Latvia	18	29.2	26.6	5,256	1,398
Lithuania	27	32.0	29.3	8,640	2,532
Luxembourg	42	9.7	37.1	4,074	1,511
Malta	6,2	27.2	34.2	1,686	577
Netherlands	591	13.2	38.2	78,012	29,801
Poland	354	27.2	31.8	96,288	30,620
Portugal	173	23.0	31.0	39,790	12,335
Romania	122	32.6	27.0	39,772	10,738
Slovakia	66	18.1	28.8	11,946	3,440
Slovenia	36	26.2	37.6	9,432	3,546
Spain	1,063	22.5	30.4	239,175	72,709
Sweden	347	18.8	46.9	65,236	30,596
United Kingdom	1,697	12.5	34.9	212,125	74,032
Total or unweight-ed average	**12,271.2**	**22.1**	**35.9**	**2,258,223**	**864,282**

Finally, the following table compares tax losses with government deficits and total government borrowing based on European Union data. **If tax evasion could be stopped, total EU public debt could be repaid in just 8.8 years:**

Country	GDP 2009	Size of Shadow Economy	Tax lost as a result of Shadow Economy	Annual deficit 2010	Tax lost as a % of annual deficit	Gov't borrowing 2010	Years it would take tax lost to repay debt
	Euro'm	Euro'm	Euro'm	Euro'm	%	Euro'm	
Austria	284,000	27,548	11,763	13,169	89.3%	205,212	17.4
Belgium	353,000	77,307	33,629	14,355	234.3%	341,019	10.1
Bulgaria	36,000	12,708	3,673	2,269	161.9%	11,428	3.1
Cyprus	17,000	4,760	1,671	926	180.4%	10,619	6.4
Czech Republic	145,000	26,680	9,205	6,815	135.1%	55,825	6.1
Denmark	234,000	41,418	19,922	6,318	315.3%	102,024	5.1
Estonia	15,000	4,680	1,680	-18	0.0%	951	0.6
Finland	180,000	31,860	13,732	4,427	310.2%	87,216	6.4
France	1,933,000	289,950	120,619	136,525	88.3%	1,591,169	13.2
Germany	2,499,000	399,840	158,736	81,630	194.5%	2,079,629	13.1
Greece	230,000	63,250	19,165	24,193	79.2%	328,588	17.1
Hungary	98,000	23,912	9,445	4,116	229.5%	78,596	8.3
Ireland	156,000	24,648	6,951	49,903	13.9%	148,074	21.3
Italy	1,549,000	418,230	180,257	71,211	253.1%	1,843,015	10.2
Latvia	18,000	5,256	1,398	1,386	100.9%	6,876	4.9
Lithuania	27,000	8,640	2,532	1,917	132.1%	10,314	4.1
Luxembourg	42,000	4,074	1,511	710	212.9%	7,661	5.1
Malta	6,200	1,686	577	226	255.2%	4,248	7.4
Netherlands	591,000	78,012	29,801	31,979	93.2%	371,028	12.5
Poland	354,000	96,288	30,620	27,966	109.5%	194,700	6.4
Portugal	173,000	39,790	12,335	15,783	78.2%	160,470	13.0
Romania	122,000	39,772	10,738	7,808	137.5%	37,576	3.5
Slovakia	66,000	11,946	3,440	5,207	66.1%	26,998	7.8
Slovenia	36,000	9,432	3,546	2,027	175.0%	13,704	3.9
Spain	1,063,000	239,175	72,709	98,227	74.0%	638,767	8.8
Sweden	347,000	65,236	30,596	0	0.0%	138,106	4.5
United Kingdom	1,697,000	212,125	74,032	176,488	41.9%	1,357,600	18.3
Total or unweighted average	**12,271,200**	**2,258,223**	**864,282**	**785,563**	**139.3%**	**9,851,413**	**8.8**

7 ABBREVIATIONS

AGS	Annual Growth Survey
BRIC	Brazil, Russia, India and China
CCI	Competitiveness and Convergence Instrument
CEPR	Centre for Economics and Policy Research
DG	Directorate General
EC	European Commission
ECB	European Central Bank
ECLM	Economic Council of the Labour Movement
ECOFIN	Economic and Financial Affairs Council
EIB	European Investment Bank
EMF	European Monetary Fund
EMPL	Committee on Employment and Social Affairs
EMU	European Monetary Union
EP	European Parliament
EPP	The Group of the European People's Party
EPSCO	Employment, Social Policy, Health and Consumer Affairs Council
ESM	European Stability Mechanism
ETS	Emissions Trading Scheme
ETUC	European Trade Unions Confederation
EU	European Union
EUROPP	European Politics and Policy at London School of Economics
FEPS	Foundation for European Progressive Studies
FTT	Financial Transaction Tax
GDP	Gross Domestic Product
iAGS	Independent Annual Growth Survey
IMF	International Monetary Fund
IMK	Institut für Makroökonomie und Konjunkturforschung (Macroeconomic Policy Institute)
MEP	Member of the European Parliament
MS	Member State
NEETS	Not in Education, Employment or Training
OECD	The Organisation for Economic Co-operation and Development
OFCE	L'Observatoire Français des Conjonctures Économiques (French Economic Observatory)
OMT	Outright Monetary Transactions
PES	The Party of European Socialists
PSOE	Partido Socialista Obrero Español (The Spanish Socialist Workers' Party)
R&D	Research and Development
S&D	The Socialists and Democrats Group in the European Parliament
S&GP	Stability and Growth Pact
SME	Small and Medium Enterprises

Europe is still struggling – and failing – to come out of the Great Recession triggered by reckless global financial institutions in 2008. The European Union, especially the euro area, has been seriously damaged by the neo-liberal policies pursued by the conservative majority to tackle the wrong problems – at the cost of millions of victims made scapegoats for the crisis. This book analyses the policy errors made and highlights their savage impact. It sets out how the democratic and progressive Left has consistently sent out warning signals about false policy options and put forward cogent, cohesive alternatives ahead of the game.

The Left has a positive vision of how Europe can arrest decline and restore hope through genuine changes in economic governance and much greater democratic control. We need to combine policies to promote a new kind of growth and more jobs with increased fairness and equality. Above all, we need to restore to Europe's half a billion citizens the ability to shape their own lives. We reject the "European consensus" demanded by José Manuel Barroso, European Commission president, ahead of the June 27-28 2013 EU-28 summit and built upon "reforms" designed to depress wages and remove rights.

Here we show in detail how the Left's alternatives can be achieved. First, Hannes Swoboda, the S&D Group's president, sets out his group's analysis and vision in an interview. Then, we explore the flaws in the EU's economic strategy and expound the Left's alternative growth survey. Two further chapters show how the Left has repeatedly shifted the policy agenda and proposes a genuine economic and monetary union firmly based upon social justice. Finally, we present a vision of a New Europe for All.

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Co-authors:

HANNES SWOBODA,
the S&D Group's president

DAVID GOW,
independent journalist & former
European business editor, *The Guardian*

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