



For an EMU at the service of European Citizens

Brussels, 12 June 2013

On the way to a social Europe

The European Union, especially the economic and monetary union (EMU) based on a common currency, cannot be successful without a strong social dimension. Such a 'soulless' union would be unacceptable, economically ineffective and unstable, socially damaging and a danger to democracy. Belatedly, even the European Commission recognises the fatal consequences of the lack of growth, brought about through a suffocating austerity policy. It confesses in its most recent European Semester report: "Fairness is essential for the sustainability and effectiveness of reforms." However, neither the Commission nor the Council have yet matched their policies to their words. In practice, they resist measures to enact the social dimension of the EMU.

Our task as Social Democrats is to banish the right-wing myth that a social market economy is less efficient than a neo-liberal market economy. The present state of Europe's economies proves this beyond a doubt.

We want to destroy too the myth that budget consolidation is not compatible with a social dimension of the EMU. In truth, a strong social dimension strengthens the resilience of the economy to shocks and economic fluctuations, through the effect of automatic stabilisers. What does not work is trying to consolidate budgets through the short, sharp shock of extreme austerity. That means less income and therefore lower tax revenues and increased social costs from unemployment and poverty. And if this spending is reduced too, that will again reduce demand and growth and further increase unemployment.

A strong social dimension of the EMU would also help face the great challenge of essential economic reform, including those of the labour market. But we have to insist that increased flexibility must be accompanied by increased security, particularly an active labour market policy to bring people back into work. This reform, like many other necessary measures, should be done in the framework of a viable and effective social partnership, to ensure the understanding and support of citizens.

Our four key demands for agreement at the June European Council meeting are:

- 1) Social partnerships must be strengthened in all EU member states. Successful labour market reform requires the strong involvement of labour representatives and the establishment of active labour market policies.
- 2) The European Semester must include a social scoreboard, to ensure that objectives such as combating poverty and unemployment, and raising labour market participation, are central to policymaking, and to generate a public debate if the targets are not met.
- 3) The Commission must be asked to continue its work on automatic stabilisers, examining in particular the options for implementing an additional unemployment benefit scheme on a European scale, targeting short-term unemployment related to the economic cycle or asymmetric shocks, which does not relieve member countries from their obligations to tackle structural unemployment.
- 4) To speed delivery on the European Youth Guarantee, the funding already agreed should be concentrated in 2014 and 2015, with a commitment to look for further resources through flexibility or preferably a review of the MFF in 2015. Spending on the Youth Employment Initiative and on social investment should be excluded from the excessive deficit procedure.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hannes Swoboda', written in a cursive style.

Hannes Swoboda

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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

¹ Articles 3 & 120 TFEU

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.
 - 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

1. 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:

- A Social Progress Pact complementing the Stability and Growth Pact including a scoreboard on employment and social indicators, EU 2020 policy benchmarks, an

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.)

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 investment³. 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.

Fiscal consolidation should also be slowed down, as proposed by the independent Annual Growth Survey⁵, 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

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.

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

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 **revoking 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.

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 reflection 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 reflection 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 union⁶.

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
- 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

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.

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 bn 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

- 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

6. 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 Organisation.

About the S&D Group:

The Group of the Progressive Alliance of Socialists and Democrats (the S&D Group) is the second largest political group in the European Parliament with 190 members from all 27 EU member states and 12 observer members from Croatia.

We stand for an inclusive European society based on principles of solidarity, equality, diversity, freedom and fairness. We campaign for social justice, jobs and growth, consumer rights, sustainable development, financial market reforms and human rights to create a stronger and more democratic Europe and a better future for all citizens.

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