

# **The case for a new European promise.**

*How the elections to the European Parliament can stop Eurosion*

*O. Cramme, A. Meyer, J. Ritzen, L. Soete and K.F. Zimmermann*

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Europe is in a state of “Eurosion”. For more than three years now, European governments have been seeking to come to terms with what started as an allegedly insular crisis of sovereign debt in one of Europe’s smallest economies. Since then, the entire European continent has been affected one way or another: banks have gone bust; disputes over rescue packages and conditionality have divided political parties and, in some cases, entire countries; far-reaching governance changes have been rammed through in nocturnal sessions to appease financial markets. Despite considerable efforts and some remarkable achievements, Europe remains drawn into a negative spiral of economic stagnation and levels of unemployment unparalleled in the post-Second World War history. Anti-EU parties have seized the opportunity and exploit a dramatic fall in the popular support for European integration or the Euro. Populism has never had it so easy, as if in a Europe without the EU the situation would have been better.

Against this background the elections to the European Parliament in 2014 bear a sizable meaning: they can accelerate Eurosion by reinforcing a deficient status quo which polarizes Europeans around misleading political dividing lines: austerity versus growth; the ‘North’ versus the ‘South’; national interest versus the European good; federalists versus intergovernmentalists. In such a scenario, the major political families remain divided about the promise of further European integration and cooperation, only to be challenged by an increasing number of Eurosceptic and anti-European forces who believe in dismantling not only the Euro, but also important socio-economic cornerstones of today’s Union. Further dissatisfaction would follow inevitable inertia.

The elections, however, could also trigger a new impetus for a different Europe which majorities in our populations believe is worth fighting for. This is a 21<sup>st</sup> century Europe of peace, progress and social cohesion in which high levels of welfare remain the linchpin of our distinctive European social model; in which entrepreneurship is cherished and better supported; in which inequality is curbed and kept in check; in which learning and education occupy a central place in our lives; and in which sustainability is applied to more than just the a nature under threat, also questioning prevalent forms of doing business and organizing our finances.

The new European promise needs a break with past policies, structures and mindsets. It needs to convince our citizens that the populist alternatives for a new nationalism in Europe are a

recipe for disaster rather than an offer for a better future. Instead, it needs to exhibit a new vibrancy with which the case for European integration can be revived. Today, citizens do no longer regard the EU as a vehicle for positive change in Europe. A mentality of zero-sum thinking has taken over, primarily due to the absence of a common agenda, if not vision, for our continent. Yet a new agenda has three preconditions: First, the need for greater clarity about our policy priorities; second, a sharper view on where the EU can add real value; and third a new institutional compromise in support of this direction.

In the following, we outline the building blocks for a new, progressive agenda – based on more dynamism in our labour markets and in support for innovation; less income inequality and more greening of our industries and way of life, with a relentless drive for full employment. We call this agenda a ‘Vibrant Europe’, convinced that majorities in our populations share a similar ambition and cry out for new momentum in the European debate. Our plea is to progressive politicians within all the big political families in the European Parliament (in particular Social Democrats, Christian Democrats, Liberals and Greens) to take up this challenge. There is much to gain – and indeed lose – in 2014.

### **From the promise of Europe to Euroasion.**

The performance of Europe in the past 70 years in terms of economic growth and income convergence has been extraordinary. The ideal of a social market economy guided governments in their pursuit to raise living standards for all of society. The great achievements of the ‘mixed economy’ were complemented by the development of a ‘mixed polity’ – gradually evolving into the European Union – which sought to reinforce and protect Europe’s distinctive socio-economic model. Today, a large majority of Europeans enjoy unprecedented levels of prosperity and welfare, pushing the memories of national and continental misery wide back into the past.

During these 70 years, Europe has seen many economic crises come and go. Each time the EU has managed to emerge stronger, combining short-term crisis management with new, long-term objectives and ambitions. The promise of Europe – to be a guardian and driver of rising living standards in a peaceful settlement – has so far weathered any economic storm. This time, however, that promise looks seriously tainted. The European dream has turned sour in the present financial and economic crisis as all political energy is consumed by exhausting fire-fighting: fixing the financial framework so that credit flows resume and reducing government deficits so that financial markets reduce the risk premiums they demand for lending to the weak EU countries.

Even if these actions succeed in extinguishing the fire, the damage of the crisis is already considerable: the prospects for the next decade are greatly discouraging, pointing towards slow growth, a loss of some 80 million job years compared to a no-crisis scenario, increasing income inequality and a pressure from industry to go slow on greening.

Yet the scar is likely to go much deeper. The Euro crisis continues to seriously undermine the European project as a whole. Europe as a Union was meant to be bliss for the citizens of its member states. Countries who had ventured to give up part of their own identity, namely their own currency, would be ensured of a “golden future”. Indeed, the first few years (2001 to 2008) showed that growth in the Euro area mostly exceeded that of the rest of the EU. The bitter reality today, however, is very different. With a few exceptions, in countries such as Germany, Austria and the Netherlands, unemployment in the Eurozone is near or at record levels. In Spain and Greece it has reached a staggering 27% in April 2013. Youth unemployment (younger than 25 years of age) in those countries amounts to an incredible 57%. The EU-wide unemployment is only marginally better, adding little comfort to Europe’s social slump.

This tangible damage is only exacerbated by an intangible one. In fact, the worst the Euro crisis has brought about is a new resentment between peoples who had gotten better and better along. This crisis is turning from a financial and economic crisis into a crisis of “bridging trust”, in particular between the North and the South of Europe. The solidarity within Europe has been turned out to be absent or insufficient under the stress of the crisis. The social contract which linked the EU member states seemed to end up in smoke. There is outrage on the streets of Europe against national cutbacks imposed by no-one else but ...Europe! Demonstrations all over the continent lament the crisis, the ensuing cutbacks in social provisions and rising unemployment, blaming Europe. Greeks protest against what they regard as the German domination of Europe, culminated in calling Ms. Merkel a Nazi.

Not that there were no early warning signs. The failure of the European Constitution to gain support in some EU countries rang loud as an alarm bell. The unwillingness of some of the wealthier European countries to share the financial burden in order to bring about more convergence which would have been a win-win game was yet another signal. The “I want my money back” ride of several countries might have been considered smart negotiation for a while, but the implied message was that Europe was not to be trusted as a safe haven for cooperation with mutual benefits.

In short, the crisis did not only hit an EMU unprepared to cope with financial and economic shocks; it also hit a Europe without a compass and consensus over its direction of travel. A void has opened up, filled by Eurosceptics who ruthlessly exploit the lack of leadership within the Union. The danger is not so much an immediate implosion of the Euro: politicians have invested far too much into its rescue and the costs of leaving the Euro area are simply too high for any of the seventeen countries involved. No, the real danger is Eurosion: the erosion of the popular support for Europe as the principal *modus operandi* for nurturing and reconciling our common interests. The threat of a standstill is real if a fragmented and disoriented European Parliament after 2014 will systematically block any ambitious policy initiatives within the EU.

The mud slides which might be caused by ‘Eurosion’ have different textures:

- Lower economic growth because of less innovation and competitiveness. The EU has not played its role all too well in stimulating governments in either domain (as the Lisbon declaration of 2000 expressed). Research and development expenditures are cut as a result of austerity measures. Little or nothing is done to counter the credit crunch for startups. The ease of doing business (as the World Bank report giving details on the comparative score of countries) is not increased, all despite the Lisbon exhortation. If the EU does not support countries more in their innovation efforts, European countries will gradually lose their main advantage vis-a-vis the major Asian economies: that of a superior innovation capacity leading to high-added value products.
- More income inequality as a continuation of the present trend. Europe is more and more looking for competitiveness through the reduction of social costs. This comes close to a 'race to the bottom' in social infrastructure. Europe has become incapable at maintaining social cohesion. There this double edge at work: the EU has done too little in the past to help Governments to contribute to social cohesion, yet without the EU any chance for change disappears as most measures have to be taken in coordination to avoid leakage effects.
- Less effort in greening: our industries like to be competitive and find further advancement of positions of Europe in the reduction of CO2 emissions to be in the way of competitiveness, especially in the chemical and in the aluminum industry as elaborated by the International Energy Agency.
- The inability to negotiate at the world table important issues like fair world trade with prices incorporating the impact of production on the environment, and further irrelevance to defend values of human dignity and human rights in a world ridden by conflicts, such as in Syria today.

Some will surely argue that Eurosion, mostly of a superficial and innocent nature, has been with us since the creation of the EU. Indeed, support as measured by Eurobarometer shows significant ups and downs in the history of European integration. But the aftermath of the global financial crisis of 2007/8 has revealed something more fundamental: namely that the belief in a shared European destiny based on a common understanding of social and economic progress is worryingly absent. A turning away from Europe, fuelled by a surge in anti-EU sentiments, has become a real eventuality if our leaders fail to show ambitions for a more progressive, prosperous and egalitarian Europe – a Europe which renews its promise of rising living standards for all.

The policy challenge, in turn, is this: can Europe agree on a definition of "progress" – in relation to employment, equality, sustainability – which is capable of rallying majority support for it? Such a debate must move the debate away from the false dividing lines gripping today's EU and offer progressive political parties a better opportunity to unmask the false promises of those who want to substantially scale back European cooperation and integration.

One could call it a “no-regret scenario”: it would be regrettable to notice in 2015 that we sink further into the quagmire of the crisis because of the inability to come to conclusions on the European level. The no-regret scenario is one in which progressive parties in Europe work together around a core of values they recognize in Europe across borders, but also within member states. Part of the no-regret-scenario is also a reflection on a different organization of Europe, possibly with different speeds, but in any case based on a popular verdict.

### **A new European promise: first principles.**

Politicizing Europe along the lines above faces a basic obstacle: whereas in national arenas, debates are conducted exclusively on a horizontal axis of left and right politics – allowing for healthy contestation around salient policy issues – in the EU this dimension is complemented by a vertical axis on which integrationists oppose those who demand greater independence and less interference from Brussels. In other words, substantial issues of policy are mixed up with constitutional questions, often producing contradictory impulses and mandates which are difficult to reconcile.

For too long, this dilemma has held back true politics in the EU. To be sure, there have been good arguments in favour of a cautious approach: an emphasis on partisanship and an injection of majoritarianism in the essentially consensual processes of the EU carry considerable risks. At the same time it remains unclear whether a politicized Europe actually produces better outcomes and results.

But those arguments have lost their weight in the light of the Euro crisis. Europe has already greatly gained in salience, influencing national elections and shaking up political systems. Questions of redistribution, previously perceived as an exclusive domestic matter, are now played out at the EU level too. All this demands an urgent change of gear: no more hiding behind institutional tinkering and slogans for or against “more Europe”, but a commitment to a rigorous debate about what *kind* of Europe we want to live in. The European Parliament needs a clear mandate for progressive reform guided by first principles, as well as a renewed consensus about how the EU can add value to this vision.

In simple terms, European citizens want to see the EU to *empower* and *leverage* the individual countries in the creation of wealth, welfare and full employment, underpinned by an equitable distribution both in our times as well as between present and future generations. We do not consider Europe to be the new locus of government. Instead, Europe should provide indispensable levers to support individual countries in their reform efforts. The institutional structure of Europe should be chosen to just do that: Europe is not a nation with Brussels as its capital and the benevolent dictatorship of the European Commission, supported by an intelligent and well-trained bureaucracy, supervised by a Council for which every decision is taken with long teeth and explained to its population as disagreeable but inevitable.

A smarter elaboration of the leverage role of the EU is the answer to Eurosion. It also means that the Member states should agree exactly on what should be leveraged. What is the European model for organizing ourselves?

- A more dynamic Europe of full employment: The devastating impact of unemployment on the happiness of those who are unemployed, but also on those who are employed is well documented. Labour mobility in Europe at present is too low to generate full employment. Labour mobility and flexibility is mostly generated through the secondary part of the labour market (young and less educated workers with temporary contracts), while the workers with permanent contracts stay mostly put. Europe must become take decisive steps to create a true Single Market for Labour: this requires greater recognition of professional qualifications across the EU; a renewed commitment to deepen the common market for service provision; and better labour migration policies that can address concerns of social dumping and welfare tourism.
- A more competitive Europe: the EU needs less “life-style” regulations but higher expenditures for public research in such a way that regions and countries can increase innovation. New enterprises could also be spurred by making it easier to start such an enterprise, by reducing regulation and easing credit for new businesses. There are still huge differences within the EU in the regulations which decide on the “ease of doing business” as documented by the World Bank. Credit for small and medium scale enterprises has been seriously restricted mainly in response to the increased capital demands which banks have to follow in line with the Basel 3 agreements. Government guarantees should be seriously considered as a temporary measure to make credit for small and medium scale enterprises flow again.
- A more egalitarian Europe: The increase in income inequality in the past decades has been considered as something inevitable. “It is the market which determines the wage inequalities”, was part of the adagio. Until the Swiss (not known to be a leftist, revolutionary country) showed the way ahead to curb top wages, with the risk that top earners might just settle across the border. The EU is sufficiently large a region to enact a general line –together with firms- to curb top incomes. The lower part of the wage distribution is not supported by raising the minimum wage for those who are now on that level. That would lead to a loss of employment. Perhaps more could be done through the tax system, so that even low wage earners could benefit from a negative income tax. More in general, income inequality has also been increased because of less Government redistribution (with less Government expenditures), forgetting that less Government was meant to lead to sharper Government which would be more inclined to focus its support to those who cannot afford it themselves.
- A greener Europe: Greening is equally part of a vibrant alternative to the present course with its corrosive impact. Greening means more internationalization in our products of the costs we now push towards the future in the form of climate change and the claim on natural resources. Greening in a matter of a level playing field up to now has been a subject of international political conferencing like the Kyoto agreement. We need to show more ambitions: the upcoming discussions around a new EU-US free trade partnership should be used to define stricter environmental norms and standards for tradable goods and production processes, paving the way for a joint initiative at the WTO to raise and impose those standards globally.

## **Policy priorities: Reconciling a competitiveness agenda with the fight against unemployment.**

The Maastricht criteria are an important point of departure for a strong competitive position of Europe. Yet, they are too rigid to apply for the desired European model which combines sustainable economic growth with social cohesion. A thoughtful application of these criteria, leaving substantial room for well-argued exceptions is equally part of such a Europe.

Well argued exceptions can be in the area of the smoothing of structural labour market reforms which generate more mobility, or can be in the areas of investments in rail transport and renewable energy. Such a change in policy is not only sensible in its own right but also creates a greater policy space for combatting unemployment in the EU. To be sure, there is no substitute for better macro-economic conditions: persistently weak demand across much of Europe will undermine any efforts to reverse the negative trend of the last few years. But more drastic and creative measures are needed, and indeed possible, to jump start employment again. And in this context, the special focus on youth unemployed is right: all evidence suggests that a significantly delayed or abortive entry into the labour market can have seriously negative consequences over the life-cycle.

The EU has developed a youth employment program which is admirable, but has no teeth as it is not sufficiently well funded. This plan starts from what could be seen as the German approach by bridging the education-employment gap, namely to provide on a substantial scale on the job training for unemployed youngsters. For that purpose national governments can tap into the €3 billion budget not yet allocated to projects for 2007-13 under the European Social Fund. There are also funds (but very small) for ESF technical assistance to set up apprenticeship schemes. The aim is to get 370,000 new apprenticeship placements by the end of 2013. Lastly there is €3 million in ESF technical assistance available for young business starters and social entrepreneurs. Fair to say, however laudable, the 370.000 still looks pale in view of the 5 million unemployed youngsters in early 2013.

As an additional measure we therefore propose the introduction of a European youth loan scheme with a total size of 50 billion euro, for the years 2014 through to 2016. The notion would be that every youngster between the age of 20 and 30 who is a citizen of the EU can take out a loan of a maximum of 40,000 euro at an interest rate of the government or the Euro lending rate plus 2% (for default and administrative costs). This would be a personal loan which has to be paid back according to the social loan schemes (in the same way as used in some EU countries for education loans), i.e. you never have to pay back more than 10% of your income and at some point (after 20 or 25 years) the remainder of the loan (if there is still one) is written off. It is critical that interest rates are not too high. Hence, the addition that in countries where government lending rates are high, the EU acts as an intermediary (through the EIB or otherwise).

This is a focused form of “quantitative easing”: a monetary impulse is provided in spending while giving young Europeans a chance to start an own business, or to study or to invest in other ways in themselves. Of course, there is a risk involved in such a scheme, namely that a further government deficit on an unknown magnitude will occur at the time when the loans are supposed to be paid off (2034-2040). Yet the combined impulse in spending as well as the incentive in investing which it implies are likely to outweigh the chances of an overall negative balance of such an impulse.

Not least, Europe should support to lower the costs for firms to take on trainees, through tax incentives (tried out in the Netherlands in the 90s with considerable success) or even to pay firms for engaging youngsters to learn on the job as part of their education career (the Norwegian example), under the normal supervision of the inspectorate for education. Germany substantially benefits from the seamless transition from school to work in the German vocational education system. All countries, on all levels of education could do better in linking school to the labor market during the school years where transitions take place. Again: this requires flexibility in the Maastricht criteria.

The new EP, elected in June 2014, should have voters mandate to enact this. This can only be achieved if different parties within countries and between countries have the same core of proposals. If parties –as it was in the past – have laudable and nice words, but differ substantially on the elaboration of concrete measures to battle youth unemployment, then the EP has de facto no mandate and the initiative is with the Commission. The ensuing democratic deficit is – presumably inadvertently- the own creation of the political parties which claim to care about reducing it.

### **Legitimizing a new European promise: Institutional innovation for a more ambitious agenda.**

The present EU or Euro area is unlikely, if not unable to take forward a more ambitious agenda in pursuit of full employment with more vibrancy, less inequality and more greening, backed by proper popular support. The current debate about a two-tier Europe is somewhat unhelpful: differentiation is too exclusively framed around institutional choices and constraints – such as participation in the single currency – and not sufficiently around political objectives. While EMU will inevitably constitute the core of Europe, there is considerable space for experimenting with deeper integration and closer cooperation among those sharing common policy objectives. But for that to happen, Europe needs greater institutional flexibility and a return to the idea of multiple speeds. There are already two major speeds. One is followed by Norway and Switzerland that have opted to remain non-member countries while embracing virtually all EU legislation (often implemented ahead of the EU member states) and participating in many of the programs, yet without political representation in the EU Council and in the EU Parliament. Among the Member States there are the two speeds of the EMU countries and the non-EMU countries.

At a minimum, member states have to commit to the completion of the Single Market, concentrating on areas which can still bring real benefits to the EU: strengthened labour mobility, a deepened energy market, or improved intellectual property right – to name just a few areas where a lot more work needs to be done. In addition, member states will have to commit to develop further a joint European security, immigration and external policy. If Europe wants to be taken seriously in a fast-changing global world, it simply cannot lower its sights in any of these areas.

However, the countries whose populations feel that the EU can provide much stronger leverage for a more ambitious policy agenda should opt for a faster speed, with substantially more coordinated and integrated facilities. So far, closer coordination is exclusively legitimated through the *risks* and *dangers* associated with sharing a common currency. To this end, the EU has now instituted a semester approach in which budgets of member states have to be agreed upon by the EU before they are submitted to Parliament. This is a welcome innovation but the first experience has shown that the European Semester lacks teeth and vigour and is far from having the capacity of spurring progressive reform. As a defensive controlling device, it is unlikely to achieve its potential. It is a technical instrument without a philosophy of its contribution to full employment, to more vibrancy, to less income inequality or more greening.

Consequently, the current governance framework needs far greater ownership by national stakeholders. This can only be achieved through political mechanisms, which ask for explicit parliamentary support for a joint policy agenda. At the same time, participating countries should benefit from extra room under the Maastricht criteria for the additional costs of adjustment. The current cleavage between the North and the South, between creditors and debtors, can only be dealt with if we find a better balance between transfers providing additional funds for countries under stress, and internal reforms boosting competitiveness. In other words, market and peer pressure should be on a more equal footing – but both require greater financial incentives and a level playing field between EU countries. It is for this reason that some form of debt mutualisation should not be ruled out.

None of these corrections can be achieved without consent from Europe's citizens. And consent is unlikely if "Brussels" is not prepared to make further decisive steps in reforming its own working methods and increase its level of transparency and accessibility. Democratic engagement and popular interest needs to be gained – not just be expected. The following institutional innovations should help legitimize a new European promise:

- Reverse irreversibility: The EU as we have it now is one of irreversibility. You can get in, but – once in – you are there forever. The 21<sup>st</sup> century should allow greater flexibility in forms of governance. Europe needs fewer opt-outs but more opportunities for opting in where countries decide to create greater leverage in one policy domain, as in the case of the non member countries Norway and Switzerland and the non-EMU member countries. This could be based on 10-year contracts between the EU and member states, offering entry as well as exit – subject to the democratic will of each individual country. Market anticipations of exits and entrances will produce side effects that impose costs on such a system of flexibility.

- Further democratization of EU politics: The EP elections 2014 will, for the first time, feature lead-candidates from each political family. This will undoubtedly raise the profile of European politics but will not have a lasting effect on the relationship between citizens and EU integration. A combination of control via national parliaments and legislative scrutiny via the European Parliament can only offer partial legitimacy. If the purpose is to raise Europe's ambitions, only direct democracy can put things right. In that sense, the logic of the 'European Citizen Initiative' should be reversed: requests for national referendums should emerge out of Brussels and be used for initiating a new form of cooperation and integration, rather than nodding through an agreed deal in which citizens had nothing to say.
- At present EP parliamentarians are chosen by the same constituency as national Parliaments. The relation between national parliaments and the EP members of a country then needs to be clarified. It is now all too common that national parliamentarians (also of the same party) vote on the same issue differently from their companions in the EP. In the past joint membership of the EP and national Parliaments has been practiced to circumvent this contradiction. However: this has not worked, simply because the work overload.

Yet it makes sense to clarify that national parliaments are not going to double up with the EP on the matters which have been placed under Europe. Here it would be the national EP delegates who have to be accountable to the citizens of the member country for their actions and vote. National Parliaments have to accept that their responsibility has decreased with the transfer of sovereignty to the EU level while that of the EP has increased.

- One seat for the European Parliament: it is imperative that the madness of three seats of the EP is quickly ended. The EP should simply block all actions until Strasbourg and Luxemburg are struck from the list of EP seats or refuse to assemble in those places. Of course one wants to recognize the origins of the EU with a statue or a symbol. Yet the price is too high in the loss of faith with our citizens.
- A common language: The EP should act on one language, so that better debate and conversation is possible. Rather than facilitating translation services, the EP members should be encouraged the learning of the one language by learning services. One language brings back the interaction between people with rhetoric, with wit and with the conviction that together we can make Europe a better place

### **Conclusion.**

There is still a chance to halt Eurosion. Halting Eurosion requires political parties to realise that the Eurocrisis is no longer "just" an economic and financial crisis. It has long become a political crisis about the way we, Europeans, want our countries to develop. The EU has become a union with too vague and abstract a political notion of

Europe. Europe is about us, and an EU which leverages us with the aim of vibrancy, of full employment, with less income inequality and more greening. The promise for European member states is that the EU can leverage them to achieve these aims, and can help individual countries to emerge faster out of the crisis. Political parties participating in the European Parliamentary elections should provide clarity to their constituencies about their positions on the aims of Europe and the way they believe that these aims can be achieved in such a way that the coherence in visions across countries and parties can invite positive votes for Europe.

We advance more attention for a multi-speed Europe and for flexibility in entrance and exit to different speeds well realizing the costs due to market anticipation effects. We also propose that political parties participating in the EP elections make the case for a better Europe easier for the citizen, by being clear about one location for the Parliament and by doing away with the substantial direct costs and costs in terms of communication by resorting to one language for European debates in the Parliament and in the Commission, where of course every member country is free to translate.