

## ***Addressing Europe's Multiple Crises: An agenda for economic transformation, solidarity and democracy***

– EuroMemorandum 2016 –

### **Summary**

#### **1. Recent macroeconomic developments, policies and alternatives for economic growth and employment**

The economic recovery in Europe is still weak and fragile and Europe is still faced with the prospect of protracted slow growth and high unemployment. Although output in most countries is growing again, it remains well below the level in 2007 in Southern and many Eastern member states. What is needed is a strong macroeconomic stimulus that boosts growth and employment. Monetary policy has increased its efforts by amplifying quantitative easing, however, in the current macroeconomic environment with low expectations and weak demand this will not spark off the recovery. The so-called Juncker Plan will, for the same reasons, not provide the necessary stimulus and, while the clarification of the application of the Stability and Growth Pact constitutes some progress, it will only dampen the fiscal pressure on the crisis countries instead of providing a substantial positive fiscal boost.

A coordinated fiscal expansion is required. This should focus on boosting employment through the promotion of environmentally desirable and gender-sensitive investments and the attack on social spending should end. The single currency must be complemented by an effective federal level fiscal policy which is able to cushion downturns at the federal, national and regional level and to provide for effective transfers between the richer and poorer regions. This should be based on a strongly progressive tax system and complemented by the development of a European wide system of unemployment insurance which would provide an important automatic stabiliser. The regional and structural policies of the EU should be strengthened and expanded, in particular through a major programme of public and private investment, funded by the European Investment Bank, focussed above all on deficit countries and, more generally, on lower income states.

#### **2. The democratic challenge**

In January 2015, following repeated austerity programmes which have had a devastating impact on output and employment, Greek voters elected a new government led by SYRIZA. This sought to achieve an 'honourable compromise' with the European institutions but, as talks progressed, the official position hardened around the highly restrictive terms already stipulated in previous so-called Memoranda. In July, Greek premier Tsipras was forced to agree to especially strict conditions for a new loan and, although many SYRIZA MPs opposed the deal, the party held on to most of its seats in a snap election in September. While the terms of the Memoranda are unlikely to be met, the harsh conditions are intended to warn others from challenging the neoliberal order.

Developments in Greece point to the widening democratic deficit in the EU, and the way in which economic policy is being subjected to constitutional rules which remove it from the realm of democratic deliberation and social choice. The narrative of a 'state of emergency' has been used to promote legal acts which breach the constitutional law of the states of the euro area periphery and

to empower the least representative European institutions, the European Central Bank and the twin Euro summit and Eurogroup councils, which operate according to unwritten rules. The proposals contained in the Five Presidents Report claim to promote greater prosperity and solidarity in Europe but will serve to reinforce the technocratic character of EU governance.

The drive to constitutionalise economic policy testifies to the profound fear of democracy on the part of ruling elites in the EU. For the vast majority of citizens, democracy can be not only a political value but a positive economic force. A strong democratic consensus can be a powerful force to reduce economic uncertainty. Public investments are needed to demonstrate political commitment to promoting democratically agreed priorities, and to shape private sector expectations. Two examples of democratic priorities for today could be the transition to a low carbon economy, and economic convergence for the low-income member states to broader EU standards.

### **3. Migration, labour market and demographic change in the EU**

The dramatic pictures of thousands of migrants trying to get into the EU has shocked European citizens and divided EU countries on how to deal with the situation. The current migratory flows have raised questions, once again, on whether migrants are needed economically. The evidence on the impact of migrants strongly suggests a positive impact on the host economy over time, besides benefiting migrants themselves.

Migration policy at EU level is governed mainly by labour market considerations as part of the Single Market project. The principle of 'freedom of movement' in the Maastricht, and later the Schengen treaty became the core policy instruments for the control and management of migration and travel of EU nationals as well as those from third countries. The 'freedom of movement' and the notion of equal treatment go to the core of the important principle of 'Functioning of the European Union,' but EU directives have made it conditional on the EU migrating citizens not becoming a 'burden' on the host country.

The current debate over the right of migrants to social protection anywhere in the EU is about solidarity and the redefining of the borders of a European social community. The currency union project, without a counterpart of fiscal union and fiscal solidarity, revealed the fragility of the union of countries with different economic structures around a single currency – the continuing crisis in Greece is just one example of such contradictions. Fiscal solidarity to offer support to migrating EU citizens could help the EU to overcome its current crisis. A Europe of solidarity (instead of austerity) has a better foundation for extending a hand to the hundreds of thousands fleeing wars in the Middle East and Africa without giving rise to anti-immigration populist stance. The EU has to stand firm on the principle of 'freedom of movement,' for it is perhaps the only area where people of Europe are directly affected and experience the cultural diversity and 'citizenship' of Europe, hopefully an inclusive and integrated one.

### **4. Youth unemployment in the EU**

Although the social crisis in the EU is comprehensive, affecting all forms of social provision and all aspects of employment relations, the EuroMemorandum this year focuses on youth unemployment, one of the most severe problems facing the EU and one which clearly reveals the failure of EU elites to safeguard the future of the Union. Although youth unemployment has increased throughout the EU (with Germany as the only exception) it is most severe in those countries subjected to Troika conditionality. The rapid increase in NEET indicators (young people 'Not in Education, Employment or Training') shows that besides the unemployed there are millions of economically inactive young people with little or no connection to the world of work and that the problem is even more acute for the age group 25-34 than for 16-24 year olds. The introduction of the youth guarantee during the last Commission was a positive, but very exceptional, initiative in EU social policy but its funding is completely inadequate in the worst affected countries. What is needed, both in the case of youth

unemployment and across the whole field of social policy, is a reversal of priorities, anchored in social rights, which subordinates competition and public finance rules to social objectives.

### **5. The challenge of the TTIP, and the Eastern Partnership**

The TTIP is essentially not about trade but regulations, involving societal choices and collective preferences. It would affect the system of regulations at all levels, and give special privileges to foreign investors through ISDS. The undemocratic way it is being negotiated, including privileged access for special interests and lack of transparency, has given rise to major opposition. The Commission responded with limited transparency, an apparently revised ISDS but which does not actually deal with its core problems, and a new trade policy paper promising new values, but whose central thrust is to extend further the 'coalition of the willing' approach of the rich countries imposing profound liberalisation and de-regulation. Combined with the Better Regulation Package of 2015, TTIP would much further bias, delay and block regulations before they reached the European Parliament and Council. The approach to regulations is as costs for business rather than their benefits, which are a multiple of those. CETA goes even further than TTIP in key areas and must not be passed. Locking-in public services privatisation and banning public purchasing for local development are among the many damaging features in both. TTIP could be a fatal blow to European integration; the single market would be diluted in a transatlantic market and the perspective of deepening European economic integration permanently put into question. Instead, the alternative approach to EU trade policy proposed here would positively contribute to both the EU social model and an international economic order based on mutual respect and cooperation. Relatedly, an alternative 'good regulatory practices' is proposed too.

The Eastern Partnership (EP) is leading to widening asymmetric relations with the EU, de-industrialisation of East European countries, and worsening divisions within Europe and the EU. The association agreements can only hit Russia head-on, triggering reactions with unforeseeable consequences. An alternative EP is urgently needed, thus contributing to socially and ecologically sustainable development while creating strong regional dynamics.

The full text of the EuroMemorandum draws on discussions and papers presented at the 21<sup>st</sup> Workshop on Alternative Economic Policy in Europe, organised by the EuroMemo Group, from 24-26 September 2015 in Roskilde, Denmark.

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