

WHAT ARE THE ECONOMIC AND SOCIAL ISSUES OF THE 2014 EUROPEAN ELECTIONS?

Sofia Fernandes | Senior researcher at Notre Europe - Jacques Delors Institute

This synthesis draws on the conclusions of the round table chaired by Yves Bertoncini "Facing the economic and social crisis in Europe" which brought together Bernadette Ségol, Pervenche Berès and Guy Verhofstadt within the conference entitled "European elections 2014: the debate is now", in the framework of the cycle on the European public space: "Heading towards the European elections". It recaptures the main elements of the debate: the contentious issues of the allocation of competences and the method of integration, the capacity of the banking system to fund the real economy, the question of the fiscal capacity of the EU and the EMU as well as the need for a social Europe paying greater heed to its citizens' concerns.

Introduction

Notre Europe - Jacques Delors Institute, EuroCité and Europartenaires held a conference entitled "The European elections of 2014: the debate is now!" in Paris on 16 September 2013, addressing the main issues involved in the European elections in May 2014, in an effort to help launch the broad public debate that these elections should trigger.

This synthesis reviews the key issues addressed during a round-table entitled "Addressing the economic and social crisis in Europe" moderated by Yves Bertoncini, the Director of *Notre Europe - Jacques Delors Institute* (NE-IJD), and including the participation of:

- **Bernadette SÉGOL**, secretary general of the European trade union confederation (ETUC);

- **Pervenche BERÈS**, Member of the European Parliament (MEP), chair of the Employment and social affairs committee in the European Parliament and member of the Progressive alliance of socialists and democrats;
- **Guy VERHOFSTADT**, MEP, chair of the Alliance of liberals and democrats for Europe and former Belgian prime minister.

The round-table was introduced by Yves Bertoncini, who pointed out that even if the current economic and social crisis is being experienced in a different way in each of the members states - the peripheral countries being impacted most severely - it will be a crucial theme in the upcoming European elections. The NE-IJD's director threw out two questions to the speakers. One, are we going to be seeing mobilisation over this issue of the economic and social crisis as strong as it was over events connected with the banking and financial sector? And two, how can



we address this crisis at the European level in view of the principle of subsidiarity which applies in economic and social affairs?

The three speakers went on to explain their take on the economic and social issues currently facing Europe, identifying the four major areas that are going to lie at the heart of these European elections.

- First of all, progress towards a **political union and the issues of sovereignty** and of the method adopted to pursue integration: should it be intergovernmental or Community-based?
- Second, the creation and implementation of a **banking union and the question of funding the real economy**, a crucial factor in imparting a fresh boost to the economy and to create jobs in Europe.
- Third, issues concerning the **EU's and EMU's fiscal capacity**.
- And last but by no means least, the definition of a new Europe, a **more social Europe closer to the citizens** and to their concerns.

The round-table wound up with a question-and-answer session open to the audience.

1. Towards a political union: the issues of the division of powers and the method of integration

The three speakers began by underscoring the fact that Europe's leaders have handled the crisis poorly over the past four years.

In this connection, Bernadette Ségol highlighted two major failures in European policy in recent years. The first and most important failure is that **European action has been driven by the goal of consolidating public finances** - bring public deficits back down to below 3% of GDP level - **which has triggered spiralling recession and led to a sharp rise in unemployment**. This policy is counterproductive and fails to provide a single crucial answer to the citizens' real problems, which largely explains the current crisis in confidence in the European project, the ETUC's secretary general explained. The second failure is that **Europe's decision-makers have been pursuing a punitive rationale** with a negative tone which suggests that the "sinners" - the peripheral countries - should be made to pay for their mistakes. **That is not the right way to emerge from the current deadlock**. The Greeks and the Portuguese are partly to blame for the situation their

countries are in, but Europe also has its share of the blame to shoulder.



The two MEPs, for their part, criticised the method adopted since the start of the crisis with **the inter-governmental method taking precedence over the Community method**. All of the important decisions since 2010 come from the European Council rather than from the Commission, which Guy Verhofstadt now likens to a kind of secretariat for the heads of state and government leaders: in other words, the Commission implements projects on the basis of decisions reached by the European Council. The former Belgian Prime Minister insisted on the fact that **it is not possible to run a monetary zone with the current method** because it is based on unanimity. He compared the European experience with that of the United States: "It is as though the United States were run by the 50 governors of the states meeting four of five times a year, rather than having a president, an administration and a treasury; it simply would not work". The result of this method in Europe is that most of the measures adopted since 2010 either have not gone far enough or have been adopted too late. **Europe's leaders today are chasing after events**, moving forward with tiny steps and taking decisions that are only implemented months later, or in some cases even years later.

Pervenche Berès also stressed that this method paints a picture of a Europe in which, in times of crisis, **"the people who make the decisions at the European level are the people who put up the money"**. For instance, in relying on the intergovernmental nature of the European stability mechanism (ESM) and on the nature of the guarantees afforded under the mechanism - which rest largely on the German budget - we consider that it is normal that the Bundestag should be the one to decide on the adoption of new financial aid plans. The EP Employment and social affairs committee chair stressed that this approach fuels the appetites of national parliaments,

which in turn calls into question both the Community method and the very principle of solidarity in the EU.

Above and beyond issues of method, the current crisis has also shed light on the need to move towards a [political union in the euro area](#). Back in the 1990s, when Europe's leaders chose to pursue monetary union, they thought that all the rest (thus including political union) would spontaneously follow on from that. Yet that has not happened and the crisis has made it painfully clear that, for the euro to be sustainable, there has to be a public authority behind the single currency. According to Guy Verhofstadt, **"a country can exist without a currency - several countries use another country's currency - but a single currency cannot exist or survive without a public authority and all that that entails"**.

This is going to be one of the major issues in the upcoming European elections because the progress being made towards political union highlights **the issue of national sovereignty and of the transfer of powers to the European level that that entails**. Naturally, each country must be able to have its say. Where France is concerned, for instance, Pervenche Berès stressed that Europe is suffering from the loss of credibility in France's voice caused by the deterioration in its economic situation in the years both preceding and during the crisis. **If it is to regain its position, France must re-establish budgetary discipline while at the same time contributing to investments designed to boost its potential for growth**.

Guy Verhofstadt argued that **it is necessary to reinvent sovereignty at the European level**: that is where it is necessary to rediscover sovereignty, because it is only through Europe that we will be able both to defend our social model and Europe's interests and to negotiate global standards with our international partners. The ETUC's secretary general, however, stressed that in the current situation, as far the workers of Europe - and their representatives, namely national trade unions - are concerned, the idea of granting Europe, and the Commission in particular, more extensive powers is unacceptable in the light of the social results that we have been seeing since the start of the crisis. In the view of Pervenche Berès, the real challenge lies in **establishing a clearly understood multi-level governance**.

2. A banking system serving the real economy

Almost four years on since the start of the debt crisis in the euro area, can we expect that the countries of Europe will rapidly emerge from the crisis?

According to the ALDE's floor leader in the EP, the answer to that question is "no". After the recession of the past few years, we are going to transition into another phase, the most likely scenario being a **long period of economic stagnation** reminiscent of the "Japanese winter". Japan suffered from sluggish growth, below the 2% mark, for twenty years simply because the Japanese Government failed to address with sufficient determination the country's primary problem, which was its banking industry. Europe today is in the same situation. Europe suffers from the fragmentation of its financial markets and from poor investor confidence, which means that the transfer of money from banks towards the real economy is only limited. The United States has returned rapidly to a growth situation because it recapitalised its banks in the very first year of the crisis. Europe, on the other hand, has taken **far too long to address the issue of a banking union**.

Thus both Pervenche Berès and Guy Verhofstadt argued that the crucial issue today is a banking union and, underlying it, **the ability to restore the long-term funding of the economy, which is essential in order to impart a fresh boost to growth and to stimulate job creation**. As Pervenche Berès stressed, in the EP's view the main question regarding a banking union - and it is a question that needs to be asked - is this: how do we reorganise the banking system after this crisis in order to allow it to play its role, which is to finance those long-term investment requirements that are so important on a European scale? Despite the progress made in the sphere of banking regulation in recent years, this crucial question has not yet been raised.

The first stage in the banking union has just been taken with the adoption of the Single Supervisory Mechanism; yet the banking union is missing important pillars, which are going to be one of the issues in the European elections. In the short term, **the banking industry needs to be restructured** by recapitalising certain banks and possibly by shedding others. But at the same time, progress must be made in connection with the adoption of a Single Resolution Mechanism comprising a single authority and a single resolution fund. The Commission has put forward a proposal but Germany has voiced certain reservations towards it. Guy Verhofstadt warned that **we must not waste another two or three years to achieve this second pillar of the banking union**, because all of this is crucial if confidence is to be restored in the European financial system, which would in turn allow the economy to pick up.

3. Stronger fiscal capacity for the EU and a new fiscal capacity for the EMU

Guy Verhofstadt pointed out that the debate on the inadequacy of Europe's budget resources is nothing new. While the US budget accounts for 24% of the United States' GDP, the EU budget accounts for only 1% of the European Union's GDP. Naturally, no one expects to see the kind of budget leap that would allow the EU to move significantly closer to the United States, yet it is obvious that **a "1% of GDP" budget cannot possibly be a budget of the future.** Guy Verhofstadt argued that the solution to this budgetary problem lies in the adoption of specific own resources. This would bring numerous benefits in addition to the increase in the budget. On the one hand, direct funding of the European budget by the citizen would mean that the citizen would ipso facto take a greater interest in Europe, and on the other hand, that the European Parliament would be responsible for monitoring not only expenditure but also revenue.

In connection with the European budget, Pervenche Berès also highlighted a calendar issue. As things stand today there is a lag between the budget timetable and the mandate assigned to the members of the Commission and of the European Parliament, which means that the members of the current EP are actually deliberating on their successors' behalf. This problem should be resolved by reducing the duration of multiannual financial frameworks to five years (i.e. the duration of the Commission and EP members' mandates).

The new contribution that the crisis has made to the debate on Europe's fiscal capacity is the need **for the euro area to have its own fiscal capacity** in view of the distinctive difficulties that countries with the same currency inevitably share.

Thus Guy Verhofstadt stressed that **the euro area needs a common treasury.** He pointed out that

even though the euro area's public debt is lower than that of either the United States or Japan (roughly 92%, 103% and 236% of GDP respectively), the countries in the euro area still pay higher interest rates than their two international partners. "We pay approximately 2% too much due to our lack of unity, to the absence of a common bond market", Guy Verhofstadt said. **The common management of at least a part of the debts would allow us to pay lower interest rates.**

Pervenche Berès, for her part, mentioned the establishment of a **cyclical stabilisation capacity at the European level**, a proposition already aired in the Werner Report yet it still does not exist. We need to reflect on the kind of tool that would need to be put in place to contribute to the correction of macro-economic divergences. Some people have mooted the creation of a budget for the euro area, others the establishment of a European unemployment insurance scheme. This is a debate that we must hold and, as Pervenche Berès put it, we must "avoid a divorce between what is devised at the theoretical level and the real-life experience of the man in the street". Thus the opportunity of the upcoming European elections must be seized to air these issues in political terms.

4. Towards a social Europe paying greater heed to its citizens' concerns

The current crisis is not simply an economic and social crisis, it is also **a crisis of confidence in the European project.** Reconciling Europe's citizens with the project is thus going to be one of the issues in the upcoming European elections. To this end, the construction of a more "social" Europe paying greater heed to its citizens' concerns is a matter of fundamental importance. The issue of employment, in particular, needs to be very seriously addressed and it demands a change in political direction compared to the direction pursued over the past four years.



Bernadette Ségol pointed out that the heads of state and government appeared to have set off in the right direction when, in the course of the European Council in December 2012, they asked Herman Van Rompuy to submit **a road map on the social dimension of the EMU and the role of social partners** to the European Council in June. Yet the deadline was not met and Europe's leaders postponed the debate on the social dimension to October, i.e. after the election in Germany. Having welcomed the good intentions, the ETUC now expects to see results, to see concrete proposals from the European Council (the ETUC published its [position on the social dimension of the EU](#) in April this year).

4.1. Does Europe listen to the social partners?

National trade unions - and the ETUC through its members - are especially well placed to understand the expectations, the concerns and the daily experience of Europe's citizens and workers. **Yet it is difficult to firm up the different national trade unions over a common position** because, as the ETUC's secretary general pointed out, there is a broad variety of different situations in Europe: "The experience of workers in Germany and in Spain is not the same thing; the experience of Greek trade unions is not that of trade unions in Finland. We have huge differences in the economic situations and trade union cultures in the various countries of Europe". Also, in view of the impact and management of the current crisis, trade union support for the European project has become an intellectual form of support rather than support based on deeply felt pro-European sentiment. According to Bernadette Ségol, **this gap between head and heart is extremely dangerous.**

Yet despite that, **the ETUC continues to be of a pro-European inclination** and it has been able to maintain this course in the recent crisis years for two main reasons. First, because the thing that unites trade unions in Europe is the existence of a European social model based on social relations, social protection and public services. While some people may question whether such a model really exists, the ETUC's secretary general pointed out that one has but to cross the Atlantic and meet with US trade unions to realise that the model really does exist, and the ETUC is committed to defending it. The second is that the EU is a potential source of jobs. Bernadette Ségol pointed out that Article 3 in the EU Treaty states that **the EU's goals are full employment, social progress, the struggle against social exclusion and social protection.**

Bernadette Ségol wound up her analysis of the state of trade unionism in Europe by stressing that while **the ETUC today is not fighting against more extensive cooperation at the European level** - which is neither an easy nor an uncomplicated position to adopt - there is considerable tension among the members of the ETUC over withdrawal from participation in the institutions in order to build a different, more social Europe. Thus the ETUC's pro-European stance is not carved in stone, a position which the ETUC's secretary general summed up with a metaphor: "European trade unionism is in a tense relationship but it has not yet filed for divorce, and I hope that it is not going to do so".

4.2. What kind of social Europe?

Without claiming to be exhaustive, the speakers highlighted certain factors which must be a part of this social Europe and which would make it possible to help **reconcile Europe's citizens with the European project.**

First of all, the kind of social Europe that the ETUC's secretary general would like to see is a Europe that does not define itself solely as a market and that adopts the measures required to prevent **the market from turning into unfair social competition.** In a similar key, Guy Verhofstadt stressed that while no one is demanding harmonisation among the member states - it would be unrealistic to do so - it is nevertheless necessary to bolster a policy designed to further both economic and social convergence among those states: **"What we need is for all the economies to be moving in the same direction;** we need to define a set of minimum values to prevent social dumping and maximum values to ensure the competitiveness of Europe's businesses".

Bernadette Ségol added that **a genuinely social Europe considers that social dialogue, negotiation, social protection and social law do not constitute an economic hurdle for Europe.** She said: "Back in the 1980s and '90s we were treated to a foretaste of just such a Europe, because even in periods of crisis new European legislation was introduced on social and employment issues". As things stand today, there is currently a European directive which is in the process of being negotiated and which is crucial in defining this social Europe. The measure in question is a review of the directive on the posting of workers, which Pervenche Berès argued is going to be a major issue in the European election campaign.

In order to strike the right balance between economic and social concerns, Pervenche Berès also

aired the need **to define clear indicators making it possible to identify social imbalances** and to take them into consideration in the context of the procedure for monitoring and correcting macro-economic imbalances.

It is necessary also to address the **problem of the divergence between the economies in the centre of the euro area and those on its peripheral edge**. This is an issue of crucial importance for the EU's future. Pervenche Berès pointed out that the prospect held out to young people in peripheral countries today in order to offer them a future is simply to move. While it is true that mobility is a measure lying at the heart of the European treaties, the free movement of people in Europe must continue to be a right rather than turning into an obligation. Thus it is necessary to foster the conditions for young people in the peripheral countries to be able to live and work in their countries of origin if that is what they wish to do.

And lastly, while the construction of this more social Europe includes new initiatives at the European

level, it also has to rest on compliance with the principle of subsidiarity and thus on national spheres of responsibility. In this connection, the ETUC's secretary general stressed that the debate on salaries at the European level is a red line as far as the trade unions are concerned: "There can be guidelines at the European level, but thrashing out the actual figures must stay at the national level". The contribution that the EU can make to salary-related issues should rest, rather, on **the definition of a minimum wage** for European countries.

Winding up the debate, Bernadette Ségol argued that this new, more social Europe is rejected by Europe's current leaders because their priority is to re-establish financial stability. The European elections may prompt Europe's leaders to become more aware of the fact that **Europe cannot move forward without its citizens' backing**.

On the same themes...

BLUEPRINT FOR A CYCLICAL SHOCK INSURANCE IN THE EURO AREA

Henrik Enderlein, Lucas Guttenberg and Jann Spiess, *Studies & Reports No 100, Notre Europe - Jacques Delors Institute, September 2013*

A SOCIAL DIMENSION FOR THE EMU: WHY AND HOW?

Sofia Fernandes and Kristina Maslauskaitė, *Policy Paper No 98, Notre Europe - Jacques Delors Institute, September 2013*

EUROZONE AND DEMOCRACY(IES) : A MISLEADING DEBATE

Yves Bertoncini, *Policy Paper No 94, Notre Europe - Jacques Delors Institute, July 2013*

TOWARDS A MORE SOCIAL EUROPE?

Marie Billotte and Sofia Fernandes, *Synthesis, Notre Europe - Jacques Delors Institute, July 2013*

AVERTING TWO PITFALLS: ILLUSION AND INERTIA

António Vitorino, *Tribune, Notre Europe - Jacques Delors Institute, June 2013*

SOCIAL COMPETITION IN THE EU: MYTHS AND REALITIES

Kristina Maslauskaitė, *Studies and Reports No 97, Notre Europe - Jacques Delors Institute, June 2013*

Managing Editor: Yves Bertoncini • The document may be reproduced in part or in full on the dual condition that its meaning is not distorted and that the source is mentioned • The views expressed are those of the author(s) and do not necessarily reflect those of the publisher • *Notre Europe - Jacques Delors Institute* cannot be held responsible for the use which any third party may make of the document • Translation from French: Stephen Tobin • © *Notre Europe - Jacques Delors Institute*

