

## The Federalist Debate

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### **For a European Social Pact**

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Compared to former years, 2013 seems to be a better year for the European Union. More and more signs point towards an easing of the sovereign debt crisis: the interest rates for bonds of the troubled European economies are decreasing and the competitive gap between northern and southern European countries is narrowing. Ireland successfully borrowed money from the capital markets and even in Greece there are signs of substantial improvement as well, which brought the rating agency Standard and Poor's to upgrade Greece's credit rating by six notches at once in December 2012. The relatively good news, however, must not bring us to the conclusion that the work is done. Another crisis is still ravaging in Europe without losing any of its severity: the ongoing social crisis.

After the financial crisis originating in the US had spread, governments all over the world were forced to bail out financial institutions, which had gambled away hundreds of billions of Euro at largely unregulated financial markets, bringing the states themselves in fundamental difficulties and even on the brink of payment defaults. The Eurozone, being an incomplete monetary union, didn't have the institutional means to react adequately and was therefore hit particularly hard, but the EU and its Member States showed flexibility and some improvements have been realized or brought on their way over the past years: the establishment of the European Stability Mechanism (ESM), the strengthening of the economic governance (European Semester, "six-pack", "two-pack"), the strengthening of the fiscal rules (reinforced Stability and Growth Pact, Fiscal Compact) and the start for a banking union, with a single supervisory mechanism and a common resolution scheme. Never again should the tax-payer suffer for the irresponsible behaviour of large parts of the financial industry. All of these measures were important, but they are mainly targeted on solving the Member States' budgetary problems and preventing similar crises in the future. They are not, however, sufficient to guarantee social fairness.

The main paradox of the multi-crisis we are facing in Europe is that the ones who had caused most of the problems, the banks, were able to cash in huge profits, but could pass on the losses to the tax-payers, when the risks allegedly justifying the profits actually occurred. In the same vein, the ones most severely hit by the austerity measures imposed to reduce public spending were the socially weak, especially the elderly, the youth and the unemployed. Thus the hardships of an economic recession with a difficult job market and high unemployment were accompanied by significant cuts in public social spending, leading to social tensions and even unrest and posing an existential threat to many Europeans. In some EU-countries every second young citizen is without job and without perspective.

According to the *EU's Employment and Social Developments in Europe Review* of 2012, unemployment is hitting peaks not seen for 20 years and the risk of poverty and long-term exclusion is on the rise. For those affected, the EU doesn't seem to safeguard their well-being, but is rather seen as one of the main drivers of austerity and its adverse effects on the population.

The year 2013 is the European Year of Citizens, and it is indeed high time to direct our full attention towards the citizens in Europe. Article 3 TEU states that the European Union shall “work for a highly competitive social market economy, combat social exclusion and discrimination and promote social justice and protection”. But while the EU and the Eurozone in particular made considerable steps forward regarding the completion of a genuine economic and monetary union, a European social policy is almost non-existent. How can we expect to win the hearts and minds of the youth, Europe's future, for the European dream, if every second of them is unemployed? For someone blaming the EU for his miserable situation the promises of a “European dream” must sound like a bad joke. There are thus three main reasons to establish a European framework of social rules. Firstly, we have to help the people out of their desperate situation. Secondly, we have to establish a new narrative of European integration. The EU must become the guardian of the citizens' social rights and their well-being. And thirdly, we have to prohibit a ruinous competition for the “best” investment environment through social dumping.

When arguing in favour of a more integrated Europe we, rightly so, bring forward three dominant arguments: The EU preserves peace on our continent, only the EU has the critical size to influence international politics in a globalized world safeguarding European interests and values, and we need to stand together to defend our model of a social market-economy, the “European way of living” so to speak. And indeed, there is an undeniable difference between the market economy of the US and the welfare states of Europe. But although the Member States of the EU share a common understanding that solidarity and burden-sharing are defining elements of a just society, the social standards are varying massively among the Member States and it is time for the European level to act.

Luckily we don't have to start from scratch. The progressive forces in the European Parliament presented key actions for a new European social strategy and the workers' unions and other NGOs enriched the debate with their own proposals. Just very recently the European Parliament asked the Commission to present a proposal to guarantee the information and participation of workers in restructuring processes and due to the Parliament's constant pressure the Commission in December 2012 presented its *Youth Employment Package*, which includes a recommendation for national job guarantees for the youth, that could partly be financed through the European Social Fund, and the launch of a public consultation on a Quality Framework for Traineeships.

A lot more has to be done. To restore the social balance, we need to make sure that the costs of the crisis don't fall disproportionately on the lower and middle class. Hence, the EU needs to intensify its fight against tax-evasion and tax-fraud, also to secure the Member States' tax base. In the long run only a gradual harmonization of corporate and income taxes will provide a fair competition for investments between the Member States and prohibit tax dumping. In the global arena the EU should urge its partners to shut down the remaining tax havens. With the *Thyssen-Report*, which gave recommendations to the “Group of

Presidents” responsible to draw up a roadmap for the completion of the Economic and Monetary Union, the European Parliament called for a social pact to balance the tightened budgetary rules and austerity measures. This pact should promote a high quality and appropriate financing of public services, universal access to essential health services and access to affordable and social housing. Austerity and spending cuts must not lead to the termination of basic social and public services. Furthermore it asks for the implementation of a social protocol to protect fundamental social and labor rights and to ensure equal pay and equal rights for work of equal value for all. Minimum standards for decent living wages, working hours and unemployment benefits should also be codified on the European level.

Not everything can be realized within the current Treaties. According to Art. 4 (2b) TFEU, the EU shares the competence in the area of social policy with its Member States, but is restricted to matters specifically referred to in the Treaties. Furthermore paragraph 5 of Art. 153 TFEU, which lists the social policy areas the EU can become active in, prohibits any European legislation regarding pay, the right of association, the right to strike or the right to impose lock-outs. Nevertheless the Lisbon treaty provides some flexibility. A first step would be the activation of the *passerelle clause* of Art. 153 to abolish the unanimity requirement in the Council and make the ordinary legislative procedure applicable to all social policy legislation. The next Treaty revision, which will take place after the next European elections in 2014, should thus not only focus on institutional reform, but also introduce more competences for the EU in social matters, extend the scope of Art. 113 TFEU about the harmonization of indirect taxes and introduce a legal base for the gradual harmonization of direct taxes. The European level must be enabled to set minimum standards, which can be exceeded and over-implemented by the Member States.

Social rights, however, are only one side of the coin. People are best helped, if they have a decently paid job and can live off their own work and income. The restoration of sustainable growth and the creation of jobs must thus be on top of the agenda. The EU has to play an active role in fostering investments and thereby also needs a realistic budget. In the negotiations for the next Multiannual Financial Framework (MFF), decision-makers should keep in mind that in some regions of Europe the EU structural funds are literally the last sources of investments left. In the long term an evolved federal political entity as the EU needs a real federal budget including the possibility to issue EU-bonds, in order to be able to react adequately to exceptional circumstances, e.g. asymmetric economic shocks.

Even more important is to adjust the fundamental understanding of the EU's purpose. There were good reasons to focus on the economy in the beginning of European integration, since a political union was not achievable through a single big step. But we are way beyond the times of the European Coal and Steel Community. The EU is more than a free trade area, it is also more than an economic or monetary union – today the EU takes decisions that affect every single European citizen in many ways. As an evolved federal political system, the EU's primary purpose is thus not to complete, defend or govern the Single Market. Its main purpose has to be to serve its citizens. The single market is not an end in itself, it is an instrument to foster economic growth and produce wealth for the people.

Still, the judgments of the European Court of Justice in the cases “Viking” and “Laval” show that not only the mindset of the people, but also the European law has to be adapted to reality. In both cases companies wanted to transfer jobs from old Member States to new

Member States, in order to profit from significantly lower wages. The workers and their unions, fearing for their jobs, were prohibited to use collective measures opposing the companies' plans, because that would constitute an infringement of the freedom of establishment. Not only for the affected individuals the EU again seemed to turn its back on the people in favor of free market rules.

The Single Market is a great achievement and its completion is imperative, but even more important is to put the people first and to establish the supremacy of social rights over economic rights. Ultimately the EU needs to introduce a horizontal social progress clause, either due to a Treaty change or an over-arching regulation, to ensure that the economic freedoms are interpreted subsidiarily to fundamental social rights in case of conflict. In the meanwhile any legislation on the implementation of Single Market rules should include such a reference. Only then we can revive the "European dream" and build a political union that is characterized by a high identification and the active involvement of its citizens. If we want the citizens to show interest in the European Union, the European Union has to show interest in its citizens.