FUNDACIÓ CATALUNYA EUROPA

Guidelines for a sustainable and shared prosperity

December 2014

The Greens | EFA
in the European Parliament

Policy paper requested by MEP Ernest Maragall i Mira

Policy paper

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Guidelines for a sustainable and shared prosperity

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Decembre 2014

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Summary

Presentation

As a result of the recent elections to the European Parliament and J.C. Juncker taking control of the new Commission, the European Union is entering a new phase. In these circumstances, greater examination is being made of the events of recent years associated with the economic crisis. The nature of the "Stability and Growth Pact" is being revised (until now it has leant too far towards the former) and a "Juncker Plan" of investment and stimulus for growth is being announced.

In this context, the parliamentary group of the European Greens has commissioned Fundació Catalunya Europa to produce a document of analysis and recommendations to aid it to take a position on this new parliamentary task. With this statement, FCE confirms this commission which was carried out according to the following methodology:

A. To give an initial reflection that helps to build a framework upon which to organise the body of work. This reflection led us to see the extent to which the plan is the product of a moment of particular political intentions and a particular EU institutional structure, both of which are factors that limit the plan's chances of success to an extraordinary degree. For this reason we have not limited ourselves to making recommendations related to the Juncker Plan, as was the original intention, but have examined the subject much more broadly, considering more general themes and making suggestions of greater depth with regard to the future of the European Union.

B. To ask a group of qualified people (Mr. Comín, Mr. Coello, Mr. Ximeno and Mr. Coderch) for their expert opinion on the four questions posed, which are included as a conclusion of the initial reflection.

C. To make shared recommendations, collecting the various opinions and synthesising a response that includes their points of agreement, draws out the nuances of their divergences and gives cohesion to the whole. These recommendations refer, as has already been said, not only to the implementation of the plan, but also to its deficiencies and the reasons behind what we consider to be structural problems, which, if they are not tackled, will greatly impede the materialisation of the expectations they are creating.

D. To ask a member of FCE's Advisory Council (Mr. Majó) to supervise as rapporteur and to ask Mr Angusto to coordinate the work. This document includes the complete texts of the contributions made by the four experts chosen by FCE, preceded by an initial reflection and some shared recommendations commented upon by all six, but which, shall, ultimately, be the exclusive responsibility of the rapporteur and coordinator.

We would like to put on record that the richness and success of the four contributions means that they should not be considered as annexes to the document but as integral parts of the whole, containing, as they do, analysis, ideas and proposals that are highly detailed and of great value. The time constraints of a policy paper such as this did not allow for their conversion into a single account.

Joan Majó

1. Initial reflection

A snapshot of the EU today would show: extremely high levels of unemployment, above all among those newly of working age; startling poverty, with hundreds of thousands of children with food problems; inequalities such as have never existed before, with a small percentage of people amassing the same wealth as several million others; growing regional divergence from a south where the worst statistics are concentrated; economic growth that is nil or nearly nil, with a not negligible risk of deflation; and finally, there is a lack of aggregate internal demand barely compensated by a colossal external trade surplus.

It is a disastrous situation that is the result of two seven-year periods of opposing character: uncontrolled economic growth between 2000 and 2007, above all on the periphery, fed by a credit bubble and debt facilitated by negative rates of interest in many countries; and, since the bursting of the bubble in 2007, an economic recession exacerbated by austerity policies meant to minimise the risk of default on debt accumulated in the previous phase, and the associated risk of the breakup of the euro and the EU itself.

In spite of the predominant interpretation, which makes guilty parties of the countries that suffer most, what is certain is that upon joining the monetary union, all countries gave the main levers of their economic policy over to EU control, which is to say, those relating to rates of interest and exchange, with which, until then, they had contained or, in the end, compensated for inflation differentials and, along with this, possible recurring external deficits financed by foreign debt. Without these resources, the capacities of member countries to avoid imbalances were slight, not to say non-existent.

They did have recourse to political and industrial policy. But, in a context of absolute freedom of movement of capital and of fiscal dumping to attract it—with the case of Luxembourg paradigmatic—fiscal policy did not have and still does not have any other recourse than to "punish" already-castigated worker's incomes, with more taxation and/or lower socially compensatory salaries. As far as industrial policy goes, the hope that, by itself, it would balance the inflation differentials with the profits of productivity seems rather disproportionate.

On the other hand, a half-baked EU, more economic than political, with a budget that is little more than 1.1% of GDP, surely does not have the political and economic resources sufficient to first avoid or, later, to manage, a crisis of global dimensions such the recent one. By means of comparison, though the USA was also unable to avoid the crisis, it did manage to handle it in a more efficient manner and achieved results that were considerably more positive than those in the EU.

In light of all this, the current proposal by the Juncker Commission—putting an investment plan of up to €300bn in place, beginning with a public contribution of just €21bn—may very well amount to nothing, as was the case with the plan announced in 2012 that had a value of €120bn.

In fact, both of these are based on a single principle that may need to be questioned: as there is a private investment gap and abundant private money that is almost dormant, we encourage its productive investment by minimising its risk and putting a range of viable large projects on the table. Chiefly, these are projects of a public nature, such as transport, telecommunications and energy networks oriented to the single digital market of mobility and energy, and which, in order to maintain the fiscal stability criteria and not to increase the public debt, will have to take the form of concessions or public-private partnerships.

The Castor project in Spain grew out of this approach and we have already seen how that ended—with a greater burden on domestic taxpayers and little or no traction effect on economic activity. It may be an exception, but it remains paradoxical to resort to projects of a public nature seen as secularly myopic in order to "guess" where future demand will arise and to seek to finance them with private resources incentivised by eliminating the risks of their investment. Who will be interested in evaluating this? Who will then invest in risk-bearing ventures?

It may be necessary to approach things from the opposite angle: was the growth and bursting of the bubble not due precisely to an excess of savings and investment without the demand to justify it? With regard to private investment, it is only necessary to bring to mind the millions of homes without buyers, and where public investment is concerned, of the passengerless airports and trains. And if there is currently no private investment, is that not because of the scant or non-existent expectation of future demand, given how feeble current demand is?

In this last case, would it not be better to increase consumption where the excess of savings is greatest? That is, with a significant increase in employment income, which would be the best way to induce subsequent investment growth. And as far as public projects go, would public financing by increasing tax receipts from capital gains and profits not be preferable?

Along with all of this, the crisis has meant the de facto abandonment of the role of the EU as the leader of the policies against climate change and for world peace, that is to say, of the global problems that jeopardise the welfare of the whole of humanity. On the one hand, techniques such as fracking have lengthened the life of fuels that, despite being pollutants, apparently compromise our competitiveness if we give them up; and on the other, the need for more export markets to maintain the current surplus puts geopolitical equilibriums at risk.

At the same time the EU has abandoned the leadership of social welfare and the preferential management of the common good in favour of a competitiveness that supposedly must be achieved by reducing social rights in order to face the threat of the Asian giant. Is this threat real? And what about that of cheap energy?

In attempting to answer this and other questions, FCE called on a group of experts from diverse disciplinary backgrounds to give their views in response to the following four questions:

1. What is the EU's responsibility and what is that of the member states in the current recession?

2. What would be the ideal distribution of competences between the EU and the member states in order to avoid crises such as the current one and to improve their handling?

3. What measures should be taken in order to return Europe to its original goal of peace, sustainability and shared prosperity?

4. What assessment can be made of the Juncker Plan, and what warnings would stop it being perverted?

2.
Shared recommendations

It was European shrewdness, claimed Jacques Delors, that meant that the construction of the EU advanced while avoiding the ex-ante taking of decisions to which member states would surely never agree given the loss of sovereignty they might bring about, while letting the weight of events make such changes inevitable. It is certainly possible that, otherwise, the EU would not have been created or that it would be even more half-baked than it is. But it is also certain that advancing in a reactive manner facilitates construction in jerks, and makes the putting of patches upon patches nearly inevitable.

The latest patch, the Juncker investment plan, is a timid response that seeks to bring Europe out of the secular stagnation in which austerity has left it, without giving the austerity up, and is the inevitable result of current circumstances—German hegemony, the absence of a government and a real European federal budget, a conservative parliamentary majority and a ruling neoliberal paradigm.

In consequence, the authors of this report did not seek to focus their reflection exclusively on the Juncker Plan. They also analysed the circumstances that made it both necessary and at the same time highly questionable, looking at which of these need to be changed and in what way, in order to advance more effectively towards the prosperous, fair and sustainable Europe that was the inspiration for the EU's creation.

The experts' recommendations are, for this reason, grouped along four main axes: the distant origin of the crisis, the main characteristics of the European crisis, the measures necessary to straighten Europe out and the criteria to take into account with regard to the Juncker Plan.

Global crisis:

- It is necessary to look for the distant origin of the extensive recession that began with the 2008 financial crisis in the "neoliberal" principles that dominated worldwide economic thinking from the 1980s onwards, which privileged the free working of the market over its regulation by states.

- Among other consequences, the dominance of this thinking established the separation of fiscal and monetary policies, thereby limiting the capacity of the states to make truly integrated economic policies. It is a separation that the EU made itself at Maastricht with the creation of an ECB whose exclusive goal is price stability.

- At the same time, faith in the linear nature of profit-investment-growth created the appropriate conceptual framework for rolling out fiscal policies that greatly favoured profit from capital over those from work, a fact that brought about a concentration of wealth as never before and an excess of savings wasted in speculation and property bubbles.

European crisis:

■ The economic asymmetries of the member states require—in order to make them compatible with monetary union—that all of them stick to the same path of nominal and real growth, a condition that it is almost impossible to fulfil (between 2000 and 2007, for example, Spain accumulated a negative inflation differential of more than 20% relative to Germany).

■ Ongoing inflation differentials, uncorrected by the interest rates established by the ECB according to the European average and not compensated by now impossible devaluations, had to result in external imbalances, in the form of symmetrical deficits and surpluses, and the aggregation of these resulted in an unsustainable concentration of debts and credits.

■ Promoting monetary union without the political union that is necessary to complete the fiscal union meant the instruments necessary to avoid the previous imbalances and/or to manage them when they came into effect were left in no man's land.

■ Seeking to resolve a problem that was the result of the Union's inadequate design with policies that were exclusive to the member states and exclusively centred on the debtors via "austerity" has sunk the whole of the Union into deflation and impoverished the debtor countries.

■ In fact, the giant public debt that justified austerity—a large part of which originated in the public absorption of private debts—has multiplied instead of shrinking as an effect of the recession induced.

Measures to put Europe back on track:

■ Advance decisively towards political union and, therefore, towards fiscal union, banking union and federal power that is concerned for the collective of European states and citizens.

■ Subordinate the ECB's sole objective of price stability to that of full employment, making use of all the tools available to it (quantitative easing, outright monetary financing, etc.) in order to achieve this.

■ Jointly resolve the management of peripheral debt and, in any case, condition it to growth without hobbling it.

■ Stimulate aggregate internal demand via consumption and investment and reduce the current European dependence on exports and surpluses, reducing in passing the expansionary pressure that this implies.

■ Hold on to European leadership of the world on matters of the green economy, while reducing dependence on foreign energy, surpassing the limited objectives for 2030 recently approved by the European Council.

■ Decisively stimulate the distributed generation of energy from renewable sources, which is today fairly competitive with oil at its "normal" price and at any price when all its costs are taken into account and internalised.

■ Increase European energy interconnection, towards building a genuine energy union, thereby surpassing the above-mentioned 2030 objective of 15%.

■ Recover and maintain European leadership on social welfare, incorporating this into the EU Scorecard and in the EU system of alerts.

■ Maintain relative European competitiveness with regard to the rest of the world through efficiency and increased productivity, which means through R+D, innovation and education and in no case via social or labour dumping.

■ Correct regional asymmetries with intelligent specialisation and new industrial policy, to the end of avoiding increased aggregate demand bringing about new external imbalances.

■ Significantly increase the EU's own resources that are not or shall not be seen to be contributions made by the states.

■ Harmonise corporate and capital taxation to the end of avoiding fiscal dumping, and eradicate fiscal paradises, beginning with those in Europe itself.

Criteria related to the Juncker Plan:

■ It is necessary to avoid the risk of socialising losses and privatising profits, as well as that of expelling the most interesting alternative investment with a rigorous process of project selection and monitoring.

■ It is equally necessary to avoid projects being conditioned as much by public lobbies calling for state's quotas as by private oligopolies seeking to maintain their privileges.

■ Complement the current top-down plan with bottom-up governance, building a network with the regional investment bank.

■ Prioritise energy transition: renewables, efficiency, interconnection, digital development and an economy underpinned by R+D+I, education and training.

■ Roll out the plan with the participation of regional investment funds for projects at a small and medium scale (energy efficiency in municipalities and in homes, for example).

■ Take advantage of the plan to reduce regional economic asymmetries through the equalisation of productivities and intelligent specialisation in sectors and activities that underpin respective comparative advantages.

■ In Catalonia, define and stimulate projects to improve competitiveness and ensure energy transition:

With regard to demand:

■ Investment that creates employment, and not only employment of the highly-qualified, but at middle or lower levels in order to reduce the enormous number of unemployed people of these characteristics.
■ Make investment to improve the acquisitive power of people on low incomes so that all income growth is transferred to consumption.

With regard to supply:

- Investment that improves the energy efficiency of buildings used as dwellings, for commercial and/or industrial activities and those that bring about energy savings.
- Investment that leads to transformation towards final energy that comes from renewable sources, reducing dependence on external energy materials and at the same time reducing CO_2 emissions.
- Investment to increase the energy efficiency of industrial processes and/or allow for better use of natural resources, reducing the obsolescence of industrial products and favouring the reuse of materials.
- Investment that brings about R+D+I and the productive fabric with which to achieve comparative advantages.

3.

The Fundació Catalunya Europa policy papers

Fundació Catalunya Europa (FCE) is a private, not-for-profit foundation that is ideologically plural, independent and financed by contributions from businesses and individuals. FCE was founded according to the will of President Pasqual Maragall, with the mission of promoting debate generating knowledge about Europe in Catalonia based upon four main axes of analysis: Economy and Welfare, Governance and Democracy, Society and Culture, and Cities and Territories.

Within the framework of FCE's lines of work, the Foundation provides political and consultation analysis services, among which the new editorial line of the European Policy Papers (EPP) stands out.

A. Objectives of the EPPs

The EPPs have the objective of encouraging debate starting from informed, updated positioning on specific areas of sector-specific European policy and provide recommendations oriented to the taking of policy decisions, with particular attention given to the effects of European policies within the territory.

They are executive documents addressed to political decision-makers, activists, the media, etc., with a vocation that is more proposal-based than analytical.

The authorship of the EPPs may be individual or collective and always relies on an expert rapporteur who is responsible for guaranteeing that the EPP is a rigorous and relevant contribution, and a coordinator in the case that a collaborative work is concerned. With regard to authorship, the EPPs seek to combine expert knowledge from academia with expert knowledge from political action and praxis.

B. Thematic axes:

The EPPs have sector-specific focuses and prioritise the following thematic axes:

i) Poverty and social exclusion
ii) Unemployment, youth and lifelong learning
iii) Sustainable development and energy debates
iv) European cities
v) Europe-Mediterranean: security, cooperation, migration.

C. Format:

A. Presentation of the expert-rapporteur
B. Main axes of debate
C. Recommendations
D. Note on the authors' CVs

The length of the EPPs varies between 25 and 40 pages.
Trilingual publication: Catalan, Spanish and English.