EUROPE 18.12.2018 | Susanne Wixforth & Lukas Hochscheidt

EU turn

Instead of merciless competition, Europe needs a social union to create solidarity

Read this article in German.

The debate about migration, the Brexit negotiations, the infringement procedure against Poland: for several years now, the EU has been fighting to stop the erosion of European unity. Nationalist and right-wing-populist movements are now verbally attacking Brussels all the time: their manifestos and campaign speeches demand the dissolution or the retrenchment of the union in order to 'restore national sovereignty'.

At the same time, a less visible, but far more serious threat is looming in the background: in its current institutional set-up, the eurozone would not be able to survive another shock like the financial crisis in 2008. The only response to these twin threats: an economic government for the eurozone with a social policy for the whole of the Union.

When, at the end of October 2018, the European Commission rejected the Italian government's budget, it resulted in a moderate political earthquake: while a lack of respect for Brussels' strict budget rules is nothing new, the idea of a founding member of the EU – and indeed the third largest economy in the eurozone – being told to be buck up its act adds a new level of complexity to the problem. The example of Italy shows that two distinct phenomena – the rise of populists on the one hand and a lack of fiscal harmonisation on the other – can combine to create a dangerous synergy.

This development is driven by the EU's failed neoliberal policy approach to the economic crisis. For citizens, reducing state spending leads to cuts in benefits, healthcare, and pensions while taxes on wages and other forms of income rise. At the same time, taxes on wealth, inheritance, and gifting are being reduced or abolished. And precarious employment structures are increasingly becoming standard practice across EU economies. Article 3 of the Treaty on European Union, which proclaims the creation of a social market economy, is looking more and more illusory with every passing day.

Italy's new path

In Italy, the current coalition government consisting of the left-wing populist *Movimiento Cinque Stelle* (M5S) and the conservative Lega Nord have deviated from the paths of previous governments, jettisoning debt reduction as a political goal and eschewing budget savings. Instead, they advocate an unconditional citizens' income and a pensions reform, both intended to ensure that all Italians remain above the poverty threshold.

Rome is fully aware of the danger of Brussels deficit sanctions and – just like the Polish and Hungarian governments, currently under investigation for infringements against EU treaties – is prepared to run the risk. It's selling its breaches of European law as a fight against Brussels' unwarranted interference in internal matters.

The German Confederation of Trade Unions demands progressive 'economic governance' for the eurozone.

Since the EU has failed to live up to the promise of prosperity and economic integration between its members, its citizens are increasingly prepared to follow this line of argument. Indeed, the single market is being seen more and more as a threat rather than a promise. To put differently: the institutional weakness of economic and fiscal governance at the European level has proven a fertile bed for the seeds of populist anti-European sentiment.

What can be done?

So how can we reform the currency union so that it no longer propels nationalists to electoral success? The EU's institutional framework must deliver on the European treaties' promises of prosperity and stability. It needs to foster social progress. This requires a common safety net against asymmetric shocks since, after all, the European Central Bank (ECB) exists for every country in the eurozone.

We need a strong macro-economic adaptation mechanism on three levels: firstly, there should be an automatic stabilising mechanism (e.g. in the form of a joint unemployment insurance scheme which is, however, not financed by employee contributions or from national out-of-work benefits). Secondly, we need a tool to stabilise investments within the eurozone which should be controlled by the European Parliament. Thirdly, the European Stability Mechanism must become a full-fledged monetary fund.

If enacted, these reform proposals would not only make the currency union better equipped to weather future macro-economic storms, but also render the current system more democratic. The current systems was created through multilateral agreements outside of the EU Treaties. It therefore lacks parliamentary oversight. If the legitimacy crisis facing the EU is to be surmounted and European solidarity fostered, more democratic involvement, more citizens' participation will be needed.

Gustav Horn, academic director of the Macroeconomic Policy Institute (*Instituts für Makroökonomie und Konjunkturforschung*, IMK) at the Hans-Böckler-Foundation, has called the EU in its current form 'not sustainable'. In his view, the lack of fiscal harmonisation has created incentives for an erroneous currency policy: the ECB is essentially 'buying time' with its monetary expansion, devaluing the Euro is only a temporary sticking plaster unable to make up for the lack of a full fiscal union. Sooner or later, the ECB will return to a more restrictive policy while the structural problems afflicting the eurozone will not have been solved.

Different kinds of debt

For this reason, the German Confederation of Trade Unions demands progressive 'economic governance' for the eurozone, essentially a currency and fiscal union equipped with stabilisation mechanisms. This new set-up would have to, as a matter of urgency, reject the current mantra of austerity and the obsession with public debt.

The latter is no indicator of the economic health and prosperity of a country anyways: in 2016, Italy's sovereign debt was running at 132 per cent of GDP, yet the Italian economy booked a trade surplus of €52bn in the same year, making it the third biggest exporter in the EU. Since 2009, Japan has national debt north of 200 per cent of GDP. Ireland and Singapore have both over 100 per cent; the debt levels of the USA (233 per cent) and China (217 per cent) are also sky high. At the same time however, Singapore has the seventh-highest per capita GDP on the planet, while Ireland posted 7 per cent growth in 2017. Japan, meanwhile, has one of the worldwide lowest unemployment rates (2.9 per cent).

The 'European machinery' must be fundamentally reworked: the ideal of a Europe united in peace,

What's more important than debt levels is the manageability of the debt – and who the creditors are. The more foreign debt a country holds in other currencies, the more it depends on the confidence of international investors. Only 50 per cent of Japanese debt, for instance,

freedom, and prosperity isn't dead. Yet.

is held by non-Japanese creditors; in China, that figure is 9 per cent. Costs for servicing Italy's sovereign debt are, at 5 per cent of GDP, a long way from condemning the Italian state to financial ruin. In other words: not all debts are alike.

Reworking the European machinery

Yet how are we to alleviate the other real problem here: the rise of nationalism and populism across Europe? Although an institutional restart for the eurozone won't be enough by itself, the idea of more solidarity between member states retains its relevance. Europe must stop appearing to be a neoliberal bureaucracy which produces inequality and, instead, start living up to its promise for those struggling in today's economy.

A cursory glance at the figures is enough to show that it's above all young people who are still suffering from the effects of the 2008 financial and economic crisis. Youth unemployment is currently at 14.8 per cent in the EU as a whole, with member states posting figures ranging from 39.1 per cent in Greece, 33.6 per cent in Spain, and 31 per cent in Italy through to 11 per cent for the UK and 6.2 per cent in Germany. Moreover, in a 2017 survey for the European Commission, 84 per cent of Europeans said that they thought income disparity in their country was too high.

That's why unions want to move away from a purely liberal single market, with its race-to-the-bottom when it comes to tax revenue and social standards, towards a 'social union'. This would mean member states once again cooperating to improve workers' lots rather than playing them off against each other.

One central idea would be a European minister for labour who would act as a counterweight to the planned European minister for the economy and finance. Such a minister would champion Europeans' rights to social welfare and work to achieve comparable employment conditions across the continent so that huge disparities in job security and benefits between member states are smoothed out. The most important task here would be to tackle cross-border wage dumping, using the European Labour Authority and the European Court of Justice to protect social and employment standards. This European minister for labour could well be a vice-president of the European Commission or, alternatively, follow the trail blazed by the High Representative for Foreign Affairs who has, de facto, become an EU foreign minister.

In an interview with the German daily *taz* back in 2016, Beppe Grillo, the founder and long-standing chairman of M5S, was quoted saying that 'Europe today is an idea in which not even those who are part of the European machinery still believe.' If we are to once again inspire confidence in Europe and the European Union, we cannot succumb to the destructive discourse of populists such as Grillo and his allies in the right-wing populist Lega Nord. The 'European machinery' must be fundamentally reworked: the ideal of a Europe united in peace, freedom, and prosperity isn't dead. Yet.



Susanne Wixforth
Berlin

Susanne Wixforth is head of unit in the department International and European Trade Union Policy of the German Trade Union Confederation (DGB).



Lukas Hochscheidt
Berlin

Lukas Hochscheidt has been a research assistant in the Department of European and International Trade Union Policy atthe German Trade Union Confederation since October 2018. He is currently studying Political and Social Sciences at Sciences Po Paris and the Free University of Berlin.