



Rethinking economic reconstruction in Europe

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Only a true paradigm shift can make Europe's economies crisis-proof and address the increasing wealth gaps. The European Union needs to turn away from restrictive fiscal rules, and expand its own resources as well as public investment.

The famous board game Monopoly teaches children the driving principles of modern-day capitalism from the earliest age: to win the game, one must have more than the others. One rule is of paramount importance: when everything goes wrong, you just "pass Go" and the game starts again with new luck and fresh money. However, recreating equal conditions by "passing Go" only works in board games. In real life, rising inequalities end up in wealth accumulation for some and bankruptcy for others. **In Europe, social inequality has been growing continuously since the 1980s. More than half of the wealth in the eurozone is concentrated in the hands of the richest 10 per cent.** At the same time, millions of Europeans suffer from badly equipped health and social security systems, as well as unemployment and poverty. To reduce the deepening wealth gap between Member States, we need to change the rules of European economic governance fundamentally.

| LESSONS FROM CORONAVIRUS

The Covid-19 pandemic has shown once more that the EU lacks resilience in times of crisis. The crises of the future – be they economic, financial or pandemic crises – will

be European and global phenomena. Even though they do not hit all Member States in the same way, they still weaken the European project as a whole. Europe needs more solidarity: the promise of upward social convergence between Member States must be kept. In addition, the Union must fight inequalities within Member States by creating minimum standards for social security and strengthening the Member States' revenue side. Europe needs more own resources – but it also needs its Member States to finance themselves through **taxation rather than depending on financial markets.**

The architecture of the Economic and Monetary Union remains incomplete. While the monetary integration of the eurozone is fully accomplished, the euro countries still pursue their own fiscal and economic policies. This leads to a race to the bottom in which Member States bargain with lower levels of taxation, social protection and wage costs in order to attract companies. Instead of economic and social cohesion – as pledged by Article 3 of the Treaty on European Union – the neglected question of redistribution inside the Member States translates into decreasing solidarity between them, especially in the eurozone. **Social inequalities and wealth gaps undermine peoples' trust in European cooperation.** More and more Europeans

deprived from upward convergence and confronted with increasing poverty and inequality in their own countries are asking themselves, 'why should we support the others before helping ourselves?'

The debate about imbalances between Member States, important as it is, tends to overlap fundamental questions about fair distribution within our societies. The gap between income and wealth is increasing dramatically in many EU Member States. **In Germany, for example, the richest one per cent possesses more than 30 per cent of the overall German private property.** The risk of poverty and the number of poor people is increasing all over Europe. In Germany 15.5 per cent of the population lives in poverty.

| FUTURE-PROOF STRUCTURES

To counter this dangerous trend, we need to create resilient and solidarity-based structures which meet two main criteria: the structures must stabilise the Union in times of crisis and consolidate social protection in the Member States.

This dual function could be fulfilled by a **European unemployment reinsurance**

scheme. On the one hand, this mechanism would act as an automatic stabiliser which backs up national unemployment insurance systems in case of major recessions. On the other hand, the reinsurance scheme would sustainably strengthen the Member States' unemployment systems by linking its grants to the condition that national schemes are financed in a robust and solidarity-based way. The temporary Support to mitigate Unemployment Risks in an Emergency (SURE) the European Commission and Council have agreed upon is a first step in this direction but cannot replace the initial idea of a reinsurance scheme: **SURE is entirely based on loans (instead of grants) and it merely protects already existing jobs (by backing national short-time work schemes). An unemployment reinsurance scheme, on the other hand, could act as a macroeconomic stabiliser when unemployment starts skyrocketing.**

Another instrument capable of stabilising and creating helpful conditionality is a common European debt mechanism or, as proposed by the Spanish government, perpetual bonds. Fair conditionality could lead to a new and crucial step of European integration: completing economic governance with criteria for the revenue side, for example in the field of tax fraud and aggressive tax avoidance.

| FISCAL RESTART

Fiscal policy is still the most delicate part of economic governance and needs to be fundamentally reformed. The current fiscal rules are too restrictive and deprive Member States of the necessary leeway to react to the onset of recessions. The rules therefore exacerbate crises instead of preventing them. Now that Member States have been allowed to use the emergency clause to temporarily exit the rules, **Europe needs a fresh start for its economic governance, focusing on sustainable and inclusive growth as well as the fair distribution of wealth.**

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In addition, the instruments described above can only develop their stabilising effects when they overcome the unequal possibilities of Member States to support their economies in times of crisis. These instruments must therefore be financed by European own resources. While there has been some debate on how to generate the required funds – be it through corona-recovery-bonds, perpetual bonds or existing mechanisms like the European Stability Mechanism – the importance of European own resources and therefore fiscal capacities has been underestimated. The proposals under consideration (like single market levy, a simplified VAT, plastic taxes, a carbon border adjustment mechanism, digital taxes, wealth taxes or a common consolidated corporate tax base and minimum tax rate) would not only help fight tax evasion but also open up unprecedented fiscal leeway for the EU.

| PUBLIC GOODS FOR EUROPE

Moreover, the European economic model needs a strategy for public investment. Despite the fact that the Covid-19 crisis has put our economies on hold, problems that we had prior to the pandemic will not disappear once it is over. The recovery measures must therefore clearly address issues such as climate change, digitalisation, increasing inequalities and demographics. **Europe must seize the current crisis as an opportunity to implement comprehensive and transformative public investment.** This is only feasible if we promote crucial investment via a 'golden rule', which would allow Member States to exempt public investment in future-oriented projects – such as the green and digital transformation – from the European fiscal rules. This would

then ensure that all Member States, including those with high debt ratios, are able to make the necessary future investment and contribute to the overarching goals of the EU.

Protecting and creating public goods for all Europeans must be the core of our political reasoning: strengthening social infrastructure, education, childcare, research and development as well as a European agenda for public health crises.

| SHAPING THE FUTURE

The success of these ideas will greatly depend on who is going to be involved in the relevant decisions. As the situation currently stands, the price of an economic recession is once again being paid by those who suffer most from the crisis: workers, young people, and the unemployed. In order for them to have their say in European politics, trade unions need to participate more actively in economic policy decisions. The Conference on the Future of Europe is a welcome opportunity to get people involved from across the continent to enhance solidarity in Europe and to make it more just and resilient. **Changing the European Treaties must not be taboo if that is what is needed.**

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