

# CONFERENCE REPORT

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## BEYOND AUSTERITY: BUILDING EUROPEAN SOLIDARITY

ANALYSIS BY GIOVANNI COZZI, EWA KARWOWSKI AND CHRISTOPHE SENTE

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Nowhere seem the repercussions of the global financial crisis as severe and persistent as in Europe. Five years after the implosion of financial markets and the freeze-up of credit in the most advanced and financially sophisticated economies the crisis is still lingering in the Eurozone.



Malcom Sawyer

Policy responses since 2008 have been very abundant but less effective. The financial sector bailout after the collapse in 2008 was fast, internationally coordinated and decisive. The subsequent attempt at stimulus packages was less assertive, short-lived and finally reversed. Therefore, the symptoms of the financial crisis were healed but a deeply seated economic and social malaise emerged in the

EU. Once again the credit markets froze up but this time for government borrowing by economically weaker EU member states. This time the mere treatment of symptoms was insufficient. The diagnosis blamed fiscal profligacy in crisis-hit countries, bringing about their loss of competitiveness. This living-above-your means life style had to be stopped – according to the conservative diagnosis – through the implementation of austerity, that is severe cutbacks in government spending, the welfare state and public-owned assets.

Austerity policy has not been able to ease the symptoms, let alone heal the underlying structural and long-term causes of the lingering crisis in Europe. Instead it transformed the economic malaise into a full blown economic, social and political crisis of the European Union.

These troubled times call for alternative, effective and bold policies which would allow Europe to embark on a new developmental trajectory where growth, job creation and equity are achieved across all regions of Europe. With the aim to provide visionary and inclusive alternatives to austerity the Foundation for European Progressive Studies (FEPS) called upon academic experts, democratic representatives and civil society. Together they discussed an alternative social and economic approach for Europe and the importance of building European solidarity among citizens and countries.

## The quest for wage-led growth



Engelbert Stockhammer & Özlem Onaran

Wage-led growth is an academic concept, which stresses the importance of wages as economic factor behind domestic demand. A more equitable income distribution can be a powerful engine of growth since more money in the pockets of the less-well-off boosts economic activity. Fact-based research provided at the 3<sup>rd</sup> Call to Europe conference shows that wages have made up a shrinking share of national income across European economies (and globally) over the past three decades. Indeed, since the early 1980s the significant increase in the profitability of capital has been accompanied by a sharp decline in labor bargaining power and a global race to the bottom of wages.



Gustav A. Horn

An important root of the financial crisis and today's European troubles are high and rising income inequalities. Therefore, differentiated policies encouraging increases in wage shares

across Europe could generate the equitable growth so urgently needed in the EU to put people back into employment and pay off heavy public debt burdens.

Such a strategy could strengthen solidarity among EU economies since it would allow for a symmetric policy response towards trade imbalances accumulated between weaker and stronger member economies. In the past, export competitiveness has been gained at the cost of stagnating domestic wages. So-called export-led growth resulted in the international indebtedness of the importing countries.

Unlike on the global level, within the EU there is a strong bond between these surplus and deficit economies because most exports are part of intra-European trade. Consequently, member countries with export surpluses, such as Germany, should have the responsibility to boost domestic wages in the attempt to stimulate domestic demand and imports.



Antigoni Papadopoulou

Practically, this more equitable growth strategy requires the strengthening of organised labour, the introduction of a EU living wage (differentiated by country), and supranational labor authorities. Trade unions and other employee institutions have been persistently undermined over the past decades in favour of labour market deregulation. In order to strengthen crisis-resilience of the European economy precarious labour conditions have to be prevented and flexibility based on employment security as known from German industry promoted. This would strengthen

domestic demand encouraging productivity growth.

### Innovation and growth in Europe



Stephany Griffith-Jones & Mariana Mazzucato

Innovation is an ephemeral creature, hard to define and even harder to fabricate. From an academic perspective, it can be described as an uncertain, collective and cumulative process. As highlighted at Call to Europe III these characteristics impede access to finance for innovators. Private sector lenders are often not willing to take risk, commit to a project and be patient. Therefore, there is a major role to be played for governments in the process of innovation, going well beyond the lifting of red tape.



Patrizia Toia & Werner Wobbe

We need public investment in areas where the private sector cannot or is not willing to be active and we need public support for innovative private investment. This public support has been until recently mainly organised in public private partnerships (PPPs) where public bodies had to bear the brunt of the investment risk while private partners

pocketed the majority of profit. Such parasitic constellations have to be prevented in favour of more balanced investment arrangements where governments can share in the profit.

Politically there is more space for such policies than previously. The taboo of innovation and industrial policy has been broken after years of debate contrasting state and market starkly. The insight has been made that state and market activity can be complimentary in promoting growth. Public investment banks, which support private investment in innovative and therefore privately often underfunded areas, have become an increasingly popular tool to foster investment. The success stories of the German KfW and the Brazilian BNDES attract followers. The latest announcement to launch a new public investment bank was made by the French President in August.



Gerhard Huermer & John Evans

There is scope for innovation in all sectors of public provisions. Education must become more progressive especially since it is vital in passing on and creating knowledge, forming the base of innovation. Administrative and health services can be improved to support innovation by enterprises. To finance public services tax avoidance and tax evasion should be addressed. Closing tax havens and legislative loopholes could contribute to levelling the playing field between large corporations and SMEs somewhat since the latter have very limited possibilities to circumvent taxation.

Importantly, the workforce should be more involved and better included in innovation since it represents one of the most important resources of companies – its human capital. Workers and employees will be most productive and innovative when they enjoy social and employment protection. This should be part of a human work place where workers enjoy job security and decent working conditions.

Finally, innovation might be a competitive process but solidarity among EU countries should not be left behind. Currently, there is a strong divergence among European economies concerning their innovation performance, which has become more pronounced since the on-set of the financial crisis. Financial resources of the EU should be used to support innovation in structurally lagging areas. The Horizon 2020 project, EU Structural Funds combined with EIB lending offer suitable policy tools to address regional divergence while promoting innovation EU-wide.

**Building European Solidarity: value-based policies**



Luc Soete & Terry McKinley

What is the message that the European Left has to deliver to European citizens? It is becoming increasingly clear that the European left must convince people that political and economic choices in Europe are not between “Nation states” and the EU but between a solidarity-based Social Europe and a conservative regional governance of globalization defined by austerity.

If the progressive parties fail to deliver a convincing European political project in 2014, the first consequence will be the consolidation of the hegemony of a macroeconomic management of societies focused on the balancing of budgets and not on solidarity, defined at least in terms of job creation, equity and growth.



Zita Gurmai & Josef Weidenholzer

To this end, and in the run up to the 2014 European elections, the Left cannot pay people with words and a vague new European political promise of solidarity. Solidarity should be clearly defined and should encompass concepts such as creation of high-quality jobs (for all age groups and for both men and women), equitable and sustainable growth and empowerment. But more importantly, these concepts should be translated in real progressive policy proposals alternative to both austerity and to the neoliberal agenda that has dominated Europe in the past four decades.



Nat O'Connor & Ania Skrzypek

## CONFERENCE BACKGROUND

On September 17<sup>th</sup> 2013 FEPS with the support of the S&D Group, Policy network, Fondation Jean Jaurès, Italianeuropei, SAMAK, Kalevi Sorsa, ECLM and TASC organised its Annual Conference *Call to Europe* in Brussels, on the theme of “Beyond Austerity, Building European Solidarity”.

This third **Call To Europe** conference brought together leading progressive economists, political scientists, civil society organisations, as well as high-level European politicians, to discuss an alternative social and economic approach for Europe as well as the importance of building European solidarity as a whole.

### **Session 1 – The quest for wage-led growth in Europe**

What is wage-led growth and why does Europe need to move from finance-led capitalism to a wage-led growth model? (Academics)

What economic policies and institutional changes have been implemented both at European and at national level to create a wage-led growth strategy? (MEPs)

What are the consequences of wage competition between European countries and how can it be overcome? (Civil Society)

### **Session 2 – Innovation and growth in Europe**

How does innovation come about, and how should it be financed? (Academics)

What economic policies and institutional changes have been implemented at EU and national level to make sure that finance supports and fosters innovation and growth in Europe? (MEPs)

What policies (financial, macroeconomic and structural) are needed to stimulate innovation and technological development of SMEs in Europe? (Civil Society)

### **Session 3 – Building European solidarity: value-based policies for equitable growth and employment**

How can welfare and income policies positively influence employment creation in Europe? (Academics)

What socio-economic policies and institutional changes have been implemented at EU and national level to achieve a more equitable growth and to strengthen labour markets? (MEPs)

What social policies are needed to tackle youth unemployment and job insecurity for women? (Civil Society)



**Martin Schulz**

*“Europe is the richest part of the world with the highest income per capita as an average. But the reality is if you are with your left leg in an oven and with the right foot in a fridge the average temperature is very good but it is very difficult to walk. The average says nothing.”*

**László Andor**

*“A sustainable recovery can only come if the strategy includes major steps towards a new model of the monetary union. The reconstruction of the EMU is on the table of practically everybody today. It has been widely recognised that the status quo cannot last. The only options are reconstruction or deconstruction.”*



**Massimo D'Alema**

*“Brussels institutions seem increasingly detached from the life of European citizens who feel they cannot exert influence on EU bureaucrats. Following the last Eurostat polls more than two thirds of our fellow citizens believe that their vote does not count for the future of Europe. While we are talking about an economic and social crisis what we are living is a democratic crisis of the EU.”*

**Sergei Stanishev**

*“Our goal should be simple. We have to make Europe the most innovative region in the world once again. We have to bring back the past importance of Europe. This is the key for developing our small and medium-sized enterprises (SMEs), our economy and our society.”*



**Hannes Swoboda**

*In his speech Hannes Swoboda, President of the S&D Group, highlighted that solidarity is not only a goal for governmental policies, but a key word in electoral discourses in the context of the growing unpopularity of the European project. (not a quote)*