



On the Conditions of **Social Europe**: Upward Convergence, Full Fiscal Capacity and Social Redistribution

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“Social Europe”

- ▶ The concept “social Europe” is ambiguous and contradictory at least in two different ways.
- ▶ The concepts of “social dimension” and “social Europe” were launched by French socialists in the 1980s, but were opposed by the British conservatives and the rising tide of neoliberal forces.
- ▶ “Social Europe” makes reference to the **European social model** that was developed within national states during the heyday of social democracy, but came under heavy criticism from the 1980s onwards.
- ▶ In the Maastricht Treaty (1992) and other agreements, the meaning of these concepts and related ideas is ambiguous, because all formulations are results of complex negotiations and bargaining
 - ❑ often conservative: Charter of Fundamental Social Rights of Workers (1989):
“[T]he aim of the Charter is to **consolidate** the progress made in the social field”
- ▶ The Maastricht Treaty established the single (free) market and outlined the third phase of the EMU, with euro at its heart; but it also implies the **absence of fiscal and redistributive capacity** at the EU level.

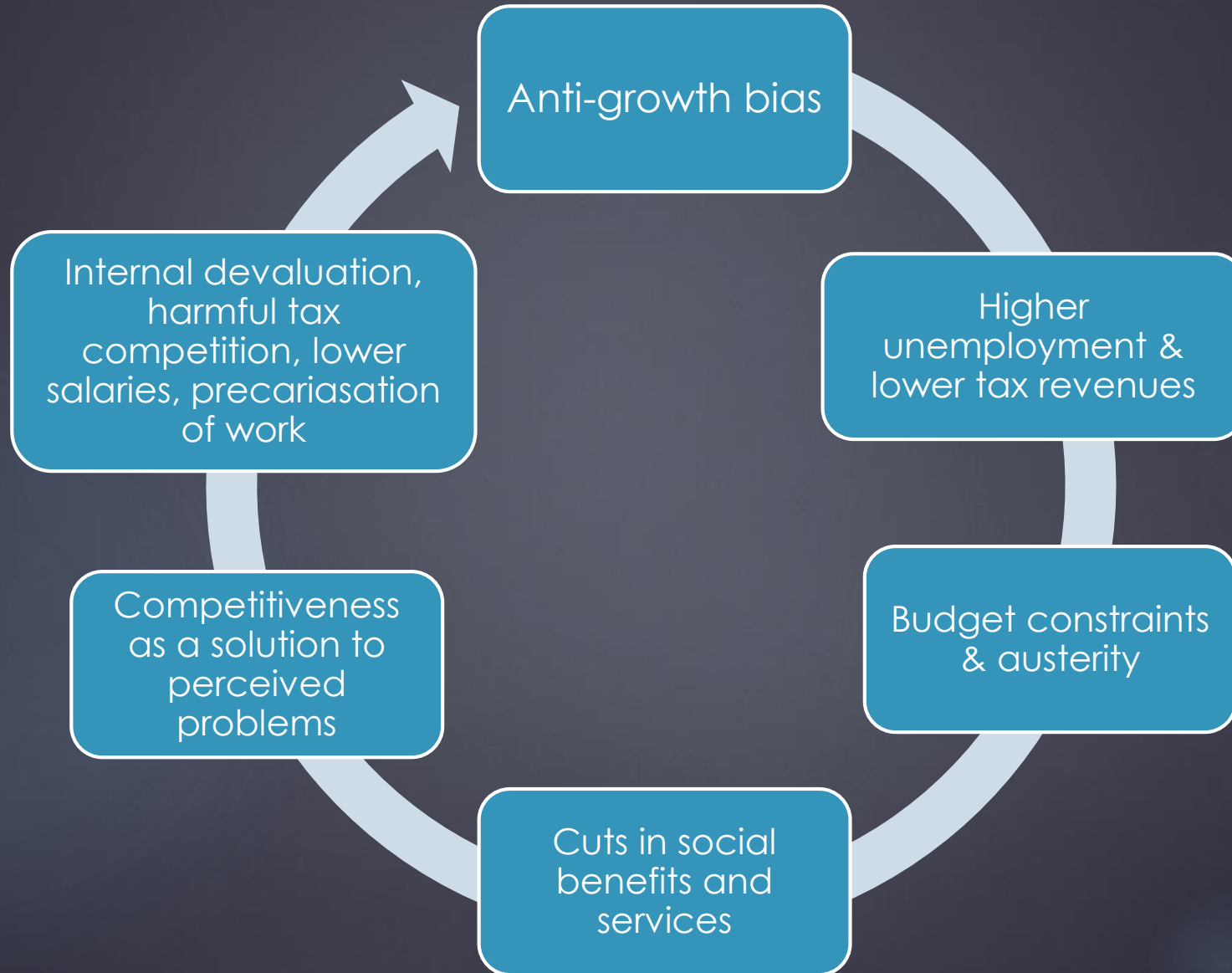
Anti-growth bias of the EMU

	<i>Region</i>	<i>1961– 1970</i>	<i>1971– 1980</i>	<i>1981– 1990</i>	<i>1991– 2000</i>	<i>2001– 2008</i>	<i>2009– 2016</i>
Average GDP growth rate at 2010 market prices (%)	EZ-12	5.3	3.4	2.4	2.2	1.8	0.3
	EZ-19					1.8	0.4
Average unemployment rate (%)	EZ-12	2.3	4.0	8.6	9.8	8.3	10.7
	EZ-19					8.5	10.7

Sources: Statistics from European Commission (2017, 14, 28); table adapted from Palley (2017, 3).

- ▶ The adoption of Chicago School macroeconomics has led to an exclusive focus on monetary policy, while limiting its explicit targets to low inflation
 - the Euro's monetary policy institutions have diminished the space for national fiscal policy and exposed government finances to market discipline and instability
- ▶ For the first time in history, a monetary union has been created without a state or political community; the EMU took away the power of its member states to borrow directly from a domestic central bank and to influence interest rates
- ▶ The EU itself has no right to levy taxes or to decide on fiscal policies.
- ▶ This combination of arrangements made the Eurozone an especially vulnerable part of the world economy in the aftermath of the global financial crisis 2008–2009.

A tendency: EMU vicious circle



Social consequences of the vicious circle

- ▶ Contradictions occur not only at the level of ideas (struggles over hegemony etc), but also at the level of social systems.
- ▶ “Social Europe”: the EMU vicious circle and related logic of competitiveness tends to undermine the European social model, including through internal devaluation, tax competition, welfare cuts, deregulation and privatization
 - ▣ this is a slow process process as institutions are deep-seated and there are countertendencies too
 - ❖ the attempts to downsize the state can also be counterproductive
- ▶ Single market, but separate national accounting systems & no mechanisms to balance trade or current accounts → structural vulnerability to crises at the level of the whole.
- ▶ Crises in the overall context characterized by low growth → austerity = cuts in social spending, degradation of working conditions etc.
- ▶ Complex capitalist market economy cannot function reasonably without state powers and active fiscal policies.

The need for EU-level solutions

- ▶ Contradictions can be overcome by means of collective actions and by building better common institutions.
- ▶ Already the Treaty establishing the European Community (TEC) set down some social objectives, and it has been followed by further agreements and decisions.
- ▶ The European Pillar of Social Rights is the latest attempt to counter the prevailing tendencies generating the vicious circle and race to the bottom.
- ▶ In autumn 2017, Commission President Jean-Claude Juncker has appealed for an agreement on the Pillar “to avoid social fragmentation and social dumping”.
 - ❑ An example of the new rhetoric: “Today we commit ourselves to a set of 20 principles and rights. From the right to fair wages to the right to health care; from lifelong learning, a better work-life balance and gender equality to minimum income: with the European Pillar of Social Rights, the EU stands up for the rights of its citizens in a fast-changing world.”
- ▶ The rhetoric may be changing, which is a good sign, but so far there seems to be little concrete by way of overcoming the main contradictions of the EMU
 - ❑ most proposed measures seem to be about identity-based equality of opportunity with regard to labour-markets, still consistent with “flexicurity”...
 - ❑ in addition, and more positively, there may be the idea of an insurance union
→ e.g. European-wide unemployment benefit scheme

How to overcome contradictions?

- ▶ The upwards convergence of social standards requires that harmful competition is stopped.
- ▶ The EU as a whole must enable and encourage upward convergence of social standards; thus preventing:
 - tax competition (especially corporate, capital, finance and wealth taxes)
 - attempts to increase “competitiveness” through internal devaluation
 - attempts to increase “competitiveness” through weakening labour standards
- ▶ Furthermore, the EU must have full fiscal capacity and practical means for economic policy and redistribution across regions and social classes.
- ▶ The main problem: it is very difficult to change the EU, as its current institutional arrangements are “locked in” by neo-constitutional means.
- ▶ The question is: what are the measures that can be taken within the present Treaty; and what are those changes that require a new Treaty?

Politics of fiscal 'sovereignty'

- ▶ Fiscal policy capable of having significant macro-impact: requires a common budget that is at least 7-8 times the current EU budget.
- ▶ Possible sources: taxes, debt and central bank funding.
 - however: "the power to levy taxes is central to the sovereignty of Member States"
 - Germany & some other member states are against Eurobonds
 - the current policies of the ECB may in fact violate the prohibition of central bank funding; **AND YET** only the most courageous are proposing the use of central bank powers to fund public investments or expenditure
- ▶ A possibility: **a common and consolidated corporate tax**; a part of revenues to EU's 'own resources', replacing current contributions
 - justification: we need a common European system to alleviate some of the problematic features of the current unsustainable system of taxation
 - more national revenues <--> more legitimacy to common EU budget
 - however, even the most ambitious current plans would fall short of increasing the EU budget or creating European fiscal 'sovereignty' – and contributions would still be coming from the member states

”Political realism”

- ▶ Corporate tax has fallen dramatically (tens of percent) in most countries
 - in addition, large multinational companies engage in aggressive tax planning, which further reduces tax revenues by at least a hundred billion euros a year
 - So far the EU has not been of any assistance in overcoming the tax war between member states; if anything, the tax “competition” has been more severe in Europe than elsewhere or globally
- ▶ Moreover, for political reasons, the original CCCTB proposal has turned out to be ‘too ambitious’
 - thus the CCCTB as a two-stage process – first only a CCTB should be created
 - the C(C)CTB is even less connected than the CCCTB to the notion of developing genuine EU fiscal capacities (‘sovereignty’)
- ▶ Member states are fighting over the size of the EU budget and over their own net position – though Brexit may create a bit more room.
- ▶ Mere attempts at tax harmonization are often seen by the member states as attempts to limit their ‘fiscal sovereignty’.

Taxes in a world historical perspective

- ▶ Do we want to repeat the tragedies of the past – in Europe and globally?
- ▶ The sustainability of the Union requires, in all likelihood, full fiscal capacities; without them, disintegrative tendencies will gain further strength.
- ▶ A further problem: Thomas Piketty (2014) argues that “we can now see [world wars] as the only forces since the Industrial Revolution powerful enough to reduce inequality”
 - ▶ he also gives ample evidence about the impact of the world wars on the level of taxation and inequalities
- ▶ New solutions are required both in the EU and globally; the key question is: how to tax corporations, capital and wealth in the world economy?
- ▶ It is time to question many of the wisdoms of the neoliberal era: from competition and competitiveness to cooperation and common good.

Political realism from a different angle

- To make the Union sustainable – also in view of the next major crisis – a treaty revision is necessary.
- Full fiscal capacities for the EU must be created; and decisions about taxation and common debt should be democratized.
- This way the aims of common tax systems could be made more ambitious.
- For instance, a CCCTB should involve a common minimum tax rate, for instance at the level of 30%.
- This should be coupled with an attempt to create first a European and then a global capital or wealth tax.
- It is indeed time to question many of the wisdoms of the neoliberal era
 - ❑ e.g, has it really been a good idea to broaden the corporate tax base (also to compensate for lower levels), if the result is a decline in real investments and rise in inequalities?

Possible practical-political solutions

- ▶ The **enhanced cooperation procedure**: a coalition of willing member states can start a system of common taxation by negotiating a treaty
 - a part of the revenues to a fund for EU purposes, e.g. public investments
 - a moral dilemma: the outsiders benefit both from (i) the common budget and (ii) often, simultaneously, also from the tax war against other EU-members
- ▶ A further possibility: **creating a treaty outside EU law**, perhaps following the (problematic) example of the European Stability Mechanism
 - in which case it could also be open to non-EU countries
 - a global corporate, capital etc tax would be better than a EU tax
- ▶ Any good plan should **give impetus to attempts to revise the EU Treaty** – Treaty revision is necessary for the sustainability of the Union.

Other sources of common funding

- ▶ Central bank funding: unconventional monetary policies have revealed the power of central banks in the world of fiat money.
- ▶ However, EU Treaty articles 123-125 prohibit the use of central bank funding for public purposes and common debt
 - in practice, these principles are already being violated
- ▶ There are technical ways in which central funding could be, to some degree, channelled to support public investments for instance via the EIB.
- ▶ But clearly: a treaty change is required!
- ▶ Must also be mentioned: public investments can be productive and bring funds, over time, for common purposes.

Key issues for decision-makers

- ▶ "Social Europe" can only be real if it involves tangible benefits from the EU itself, including through solidarity and redistribution
 - ▣ any form of EU-level social insurance would be a step in this direction
- ▶ Common economic policy and redistribution in the EU should be conceived functionally and in terms of social classes, not in terms of nations or member-states
 - ▣ EU-funding must be made independent of the member-states
- ▶ Thus all steps toward proper EU-budget based on EU's own resources and towards common debt are important.
- Common taxation is most likely to be acceptable and legitimate in those areas where member-states are gradually losing their tax-competence (e.g. corporate tax, FTT, capital or wealth tax)
- To have significant macroeconomic effects, the EU should develop a transformative programme of public investments, which aims at reindustrialisation in a regionally balanced way.

More on democratic reforms: (i) short-term and (ii) those that require treaty-revisions



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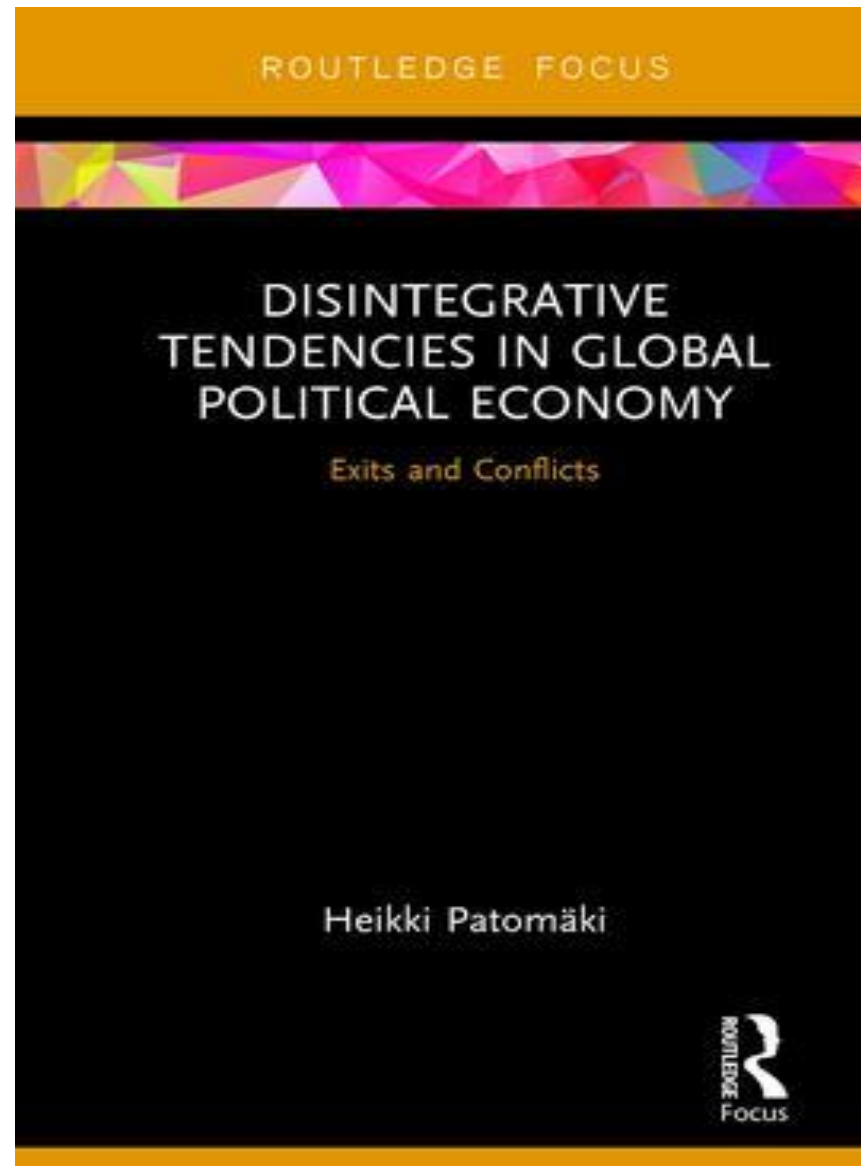
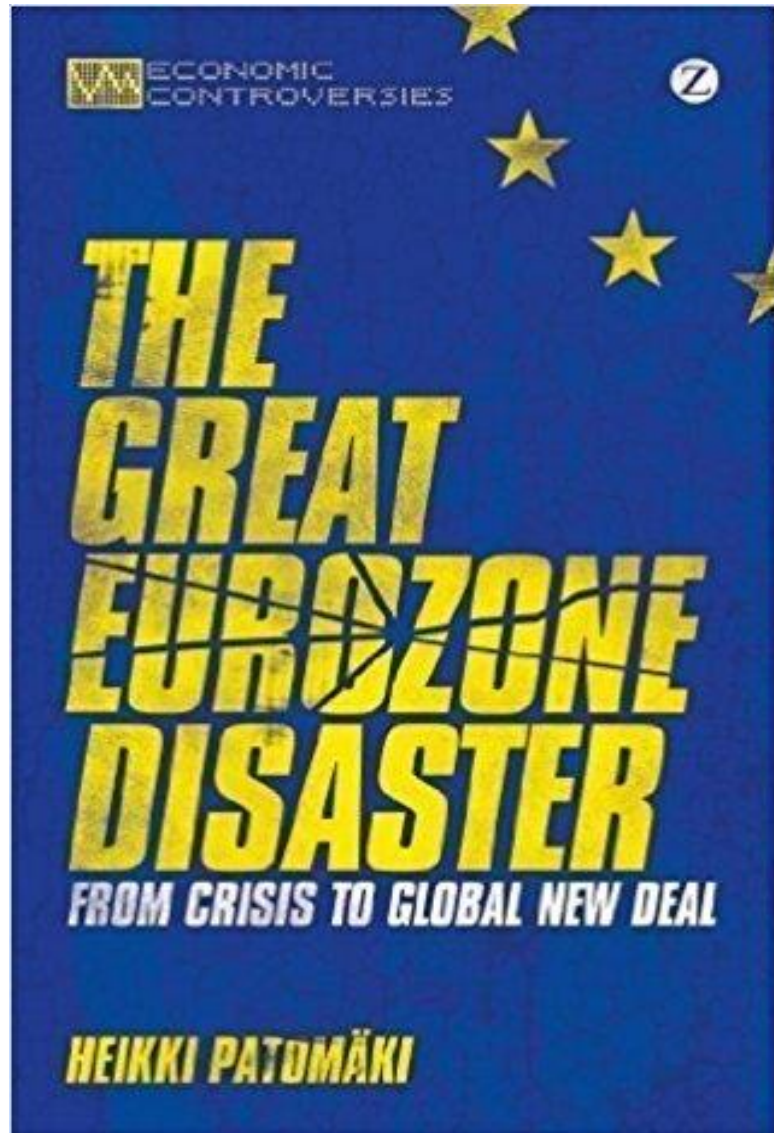
Governance of the EU: Problems and Reform Proposals

Progressive Economy, August 2016

by James Galbraith, Henning Meyer, Heikki Patomäki *

We take as our premise that the "democracy deficit" in Europe has become a crisis of legitimacy for the European Union, requiring early and dramatic action to begin to restore the trust, faith and confidence of European citizens in European institutions. The steps outlined below are feasible. And they are urgent.

Explanations and scenarios:



Thank you!