

FOR PROGRESSIVE RECOVERY PLAN IN THE EUROPEAN UNION

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We are now facing a crisis of an unprecedented nature: not only financial, but also economic and social, and not only in some of our Member states, but also across the entire European Union and worldwide. Socialist, labour and social democratic European governments and political parties have the responsibility to make their approach prevail in defining the way out of this crisis, based on a strengthened European Union rather than a weakened EU.

There is a substantial added value for all of us, by doing things together and at the same time within the European Union. We should therefore propose a comprehensive, European Plan to tackle the financial and economic crisis as a first but necessary step for international joint action.

A coordinated European position is now crucial to avoid that the response to the crisis becomes a sum of national plans for financial stability or for economic recovery, with potential conflicts and costs, undermining the Single Market, Economic and Monetary Union and weakening Europe as a global actor. The EU is the largest and strongest economy in the world. Social democrats want a European financial market which is transparent, cost-effective, competitive, and stable to finance our investments in the European economy.

The real economy and financial markets are linked and must be tackled simultaneously. This should be the essence of all proposals. It would be short-sighted, and fail to make the most of the EU's value-added, if we limited ourselves to ad hoc Member State economic recovery plans in these times of uncertainty. We need to maximize our efforts - all European Member States need to act together and simultaneously. The plan by Prime Minister Gordon Brown, which presented clear and concrete policy proposals to stabilize financial markets, was a key first step. We succeeded in taking joint action on this basis. We now need a second and third step where again social-democrats should take the lead. Several important steps for coordinated action have already been taken over the last weeks, but much more needs to be done. National action should be framed and complemented by strong European action regarding not only the financial crisis but also economic recovery. Joint European actions will create many spill-over effects and increase the growth rate. It is in these difficult moments that Europe needs to stick together and to present solutions to people's problems.

A progressive European response to this crisis will be the top priority in the period to come. The addition of national recovery plans is not enough. A comprehensive and coordinated response at European level is needed if we want to open a new path for prosperity in the reshaped world which will emerge from this crisis. The European recovery plan requires:

1. A coordinated and urgent response to the recession combined with an ambitious strategy for smart and green growth;
2. Swift action to activate and regulate the financial systems;
3. International cooperation for a more balanced development at international level.

We need a stronger political Europe to support this progressive response to the crisis.

1. A coordinated response to the recession

The response to the recession should aim at the following objectives:

- a/ Counteracting the slowdown and supporting effective demand by households, companies;
- b/ Promoting the transition for a smarter and greener economy;
- c/ Protecting people and supporting their move to new and better jobs.

This response to the recession should combine a fiscal stimulus, more ambitious policies to promote structural change and social policies providing more security to change.

1.1. A fiscal stimulus for growth, jobs and structural change

These three objectives should be central to design the European fiscal stimulus to support demand, either from private and public investment or from consumption. Member States should coordinate their economic policies by combining public investments with tax incentives according to common set priorities, which are already included in the Lisbon integrated guidelines but which should be more concrete such as:

- a/ Speeding up the construction of new energy and broadband networks
- b/ Promoting the greening of products and services, including houses and cars;
- c/ Developing comprehensive programmes to support SMEs;
- d/ Improving the coordination of research and education programmes with innovation in new areas of investment and jobs creation;
- e/ Providing tailor-made access to new skills for new jobs ;

f/ Supporting the development of family care services.

The particular mix between increase in public expenditure and selective tax cuts should be decided by each Member State according to criteria of effectiveness and fairness and to its national specificities, notably its level of debt and deficit and the scope of its problems. But the aggregate effect of all the Member States initiatives should go beyond 1% of the EU GDP, to be reinforced by European initiatives up to a total which should aim at approaching 2% of the EU GDP.

Therefore, the available instruments should be clearly adapted for this purpose:

1. In the framework of the revised Stability and Growth Pact, the Member States able to redirect their public expenditure and tax structures according to these priorities should be allowed to run higher public deficits, provided they can demonstrate they will contribute to consolidate their public finances by fostering growth rate.
2. Selective tax incentives can be considered such as: tax incentives for green products and services, for labour intensive services such as personal or catering services or reductions in the tax burden in lower incomes or in some basic products.

The financial instruments at European level should also be redeployed to cope with the recession:

3. The implementation of the Structural Funds needs to only to be stepped up by reprogramming or by reducing the national co-financing, but should also be streamlined and refocused on these priorities;
4. The Globalization Fund should widen the scope of its action not only to respond to lay-offs connected with globalization but to prevent them with proactive actions;
5. The European Investment Bank needs to strengthen its capital base in order to go further in its support to infrastructures, green technologies, innovation and SMEs
6. Last but not least, Member States should consider new tools to issue public bonds. In the present conditions of consolidation of the EMU and of international competition for financial resources, the possibility of converting national bonds into Eurobonds by organizing a Euro-area of bonds can be useful to reduce the increasing spreads which are being paid by the public debts, to support business in general by decreasing the cost of capital and to attract domestic and foreign savings and prevent hostile take-over's by foreign investors.

1.2. More ambitious policies for smart and green growth

Structural policies for smarter and green growth should also be strengthened, turning the recession into an opportunity to new investment and jobs and to foster structural change for a more balanced and promising development.

Even in recession, Europe can create employment in several areas which will keep an important potential for new jobs: increasing energy efficiency, spreading low carbon technologies, urban renovation, transport renovation, health services, personal services, business services, biotechnologies and nanotechnologies, creative and cultural industries and modernizing manufacturing sectors according to new standards of energy, design, safety and quality. This will particularly important not only to absorb the European young people which has raising educational levels but also the workers which might lose their jobs in more outdated activities.

This will require a better coordination of innovation, industrial, research, education and employment policies at European, national and regional level:

1. At European level, a single strategic platform for growth, innovation and jobs in each sector should coordinate the existing instruments: the technology platforms, skills expert panels, joint technology initiatives, lead markets, clusters and high level industrial groups.
2. Member States should also improve the coordination of these policies, in particular to support regional partnerships for growth, innovation and jobs as well as cross border initiatives
3. Regarding the infrastructures for a smarter economy, a European broadband network should be extended to all regions, allowing the access to the last generation Internet, by combining private and public resources, at national and European level

1.3. Social Policies to provide more security to change

Social policies should be clearly adapted to cope with the recession, protecting people while supporting them to move to more promising employment and living conditions. Fairness in the response to the recession should be our main guiding principle and a special concern should be kept with the most vulnerable, those who always suffer more during a crisis. Against this background, the priorities for social policies should be:

1. To promote the access to jobs should remain the central priority, requiring a stronger pro-active action as proposed above. In the labour markets, the bargaining mechanisms are supposed to play an important role in keeping wages aligned with productivity gains and in protecting jobs and purchasing power;

2. The access to new skills for new jobs should be the goal of major programmes providing tailor-made solutions of education and training to those who will need a "knowledge lift" to get a new job;
3. In parallel, unemployment insurance should be strengthened in connection with more effective labour market policies. Employment in the social economy sector should also be supported to provide solutions;
4. The housing market due to its social importance and its spillover effects on the whole economy should be as much as possible protected from recession with measures such as: reducing the cost of mortgages, supporting first house buyers, promoting the social housing sector, encouraging the greening of houses;
5. Elderly people require special attention regarding the protection of their savings by guaranteeing the bank deposits and improving the sustainability of their pension schemes in the three pillars of the social protection system. The development of elderly care services should also be promoted;
6. Finally, the priorities agreed at European level for active inclusion will be under severe test to be delivered: inclusive labour markets, access to quality services and adequate income support. This is another reason to include them clearly in the Lisbon National Reform Programmes if these are to become effective programmes to respond to the recession and organize the recovery.

2. Swift action to activate and regulate the financial systems

2.1. Urgent measures for financial stabilization to protect saving, investment and jobs

The measures already adopted to avoid the financial meltdown are still far from being completely implemented and are crucial to re-activate the interaction between the financial system and the economic activity, which is at core of this crisis. We are speaking not guaranteeing deposits according to European coordinated principles and ensuring the necessary liquidity and support inter-banking lending, but most of all

1. Recapitalizing banks on the condition they will maintain their credit lines to companies and households, they will moralize their executive pay and they will comply with the improved regulation of the financial system;
2. Targeted interventions to support more vulnerable Member States which do not belong to the euro-zone;
3. Restructuring bank debts in order to isolate the effect of the non reliable assets
4. Revising the regulation of financial system covering all kind of financial institutions

3. International cooperation for a global response to the crisis and a more balanced development

The globalization of the financial, economic and social crisis and risks of contagion must also be controlled through swift joint international action. The EU Member States should define and coordinate a common European position for the various arenas of international negotiation. Again, regulating the financial system, counteracting the recession and promoting the necessary structural adjustments should be their main concerns.

1. These principles to improve the regulation of the financial system should be extended worldwide, if the process launched by the Washington Summit is to be successful;
2. The core competences and the composition of the IMF and FSF (Financial stability Forum) must be bundled and enhanced. The purpose should also be to raise the effectiveness of crisis prevention measures and early warning;
3. To work towards a real Bretton Woods II Reform, we can no longer continue with a “soft” regulation of Basel II. In the long term, we need a global regulatory framework to improve financial market efficiency through the establishment of a new “world financial organization” (WFO). Countries seeking access to foreign markets for financial institutions they charter would have to become members of WFO. The EU should take the initiative to propose this goal to our international partners based on close cooperation between the IMF and FSF;
4. The IMF has traditionally been a liquidity providing institution. We need to ensure its capability to rescue default developing countries and emerging economies and to provide them with short and long term credit;
5. The transnational schemes for cooperation with developing countries should stepped up by reducing the co-financing of the recipient countries, as a practical mean to pursue the Millennium Development Goals;
6. Credit lines for European foreign markets must be expanded;
7. A new momentum should be created to conclude the Doha WTO Round;
8. An organized discussion should be developed with the EU’s international partners on the conditions for recovery to be based on medium to long term adjustments towards more sustainable consumption and production patterns, sounder financial schemes and a more balanced structure of global demand.