Progressive reforms
Conclusions of the PES working group

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More than five years into the crisis, we, European Socialists and Democrats, got to a first victory by bringing a shift in the European debate towards more growth oriented policies. Consensus has now developed in the European Union that more investment is needed to create growth and jobs. But a battle of political ideas is taking place as to **what kind of reforms should accompany increased investment**. To fight unemployment, inequalities and to maintain our European social model, **we have to work together to adapt our economies and our societies**, boosting participation in a new growth model. But we need to so without creating additional deflationary pressures and economic insecurity, without downgrading social and labour standards. We are therefore committed to structural reforms that improve Europe's growth, strengthen sustainability and restore social cohesion and equality of opportunity.

Our proposals are for **progressive structural reforms** in line with the three following **objectives**:

- **To boost Europe's growth capacity and quality job creation;**
- **To improve economic, environmental and social sustainability of Europe's development;**
- **To reduce social inequalities and increase solidarity.**

We aim at proposing a coherent new set of progressive policies and measures. We want such reforms to put Europe back on track, to bring job-creation back, support re-convergence and leave no one behind. Our reforms will also reinforce the EU's credibility in bringing growth back and in answering the expectations of its citizens. Most of these reforms need to be implemented by Member States, but some of them concern the Eurozone or the EU as a whole.

1. *Business as usual* solutions to Europe's long economic crisis?

Since the onset of the crisis, the main answer put forward by the conservative majorities in the European Commission and the European Council was a combination of austerity and "structural reforms", in particular within the European Semester framework of policy coordination. In 2015, while the consequences of the crisis remain dramatic, structural reforms are still presented as a key way forward for growth and the European institutions again call for further efforts to implement them[1].

The concept of "structural reforms" long pre-dates the current crisis. Originally, it served as a reference for various political initiatives aiming at liberalising and privatising economies in Europe and in developing countries from the 1990's on, building on conditionalities of IMF financial assistance since the 1970s which were later on largely discredited. However, a biased approach predominates still today: most of the reforms put forward under the label "structural reforms" are pushing for competitiveness based on the price of labour, for the reduction of public expenditures, systematic privatisation and the limitation of the State's role in the economy. Consequently, the concept of structural reforms has generally been perceived as synonymous with dismantling the social acquis, with the deregulation of the labour market and with the aggravation of the social impact of the recent economic crisis. It is time to confine such "first-generation structural reforms" to history.

In Europe, neoliberal structural reforms have been too often invoked as an alternative to more growth-friendly fiscal and monetary policies, arguing that they could have an expansionary effect alone and suffice to reduce unemployment. However, recent experience shows that reforms geared towards cost-cutting and labour flexibilisation are merely a short-

[1] The European Commission's Work Programme for 2015 and the European Council conclusions of December 2015 both call for further efforts on structural reforms. The Commission's Annual Growth Survey, endorsed by the Spring 2015 European Council, envisages structural reforms as part of a policy mix with fiscal responsibility and increased investment, while monetary policy is expected to remain accommodative over the short term.

term adjustment and tend to have a pro-cyclical[2], deflationary impact without providing any real boost to productivity and long-term competitiveness. To prevent this deflationary impact without risking the creation of asset bubbles, **structural reforms need to be complemented with a credible fiscal stimulus.** Additional investment is needed to tackle unemployment and bring deficits down in a sustainable and fair way.

A good step towards a better concept of structural reforms has recently been taken by the European Commission which now defines (major) structural reforms in Member States as having *"direct long-term positive budgetary effects, including by raising potential sustainable growth, and therefore a verifiable impact on the long-term sustainability of public finances"*.[3] Such definition, focusing on sustainable growth, could encompass a rather broad scope of reforms that would thus be considered structural, in contrast with the austerity-driven approach that has predominated so far.

Today, after years of one-way reforms, unemployment in the EU remains at the alarming height of 9.3%, compared to 7.5 % before the crisis, and the proportion of long-term unemployment is on the rise. There are 7 million more people at risk of poverty or social exclusion than in 2009, meaning 122.6 million people in total. The banking crisis has turned into a public debt crisis, reducing many governments' fiscal room for manoeuvre, while in parallel, key challenges such as the demographic change, rising inequalities inside and between Member States, global competitiveness or climate change and environmental concerns remain to be addressed. "*Europe is increasingly a continent of division: of growth versus stagnation; rising real incomes versus falling real incomes; impressive jobs growth versus markedly higher unemployment*"[4]. **This clearly shows the need for a different kind of structural reforms, for "second-generation", progressive structural reforms that** put Europe back on track of convergence and of **a long-term, sustainable and fair growth.**

2. An alternative set of progressive structural reforms

Structural reforms should be understood broadly as organisational or institutional changes, which contribute to better economic and social outcomes. Reforms cannot replace investment, they rather are strongly intertwined with investment. We need "*long-term structural reforms that raise productivity, tackle new forms of inequalities and reinvent a sustainable growth model for our societies"*.[5] Moreover, we need to reconsider the range and the hierarchy of reforms to be made.

Our definition of reforms keeps the criteria of a *long-term positive budgetary effect*, a *verifiable impact on the long-term sustainability of public* finances or improved economic performance. It further adds the criteria of reforms that can immediately support growth, reduce social inequalities, and improve sustainability, when combined with investment.

We thus identify the three following **priorities** as central to our work for progressive structural reforms, echoing the aims the EU as set for itself in Article 3.3 TEU[6].

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[2] Olivier J. Blanchard ; Daniel Leigh in Growth Forecast Errors and Fiscal Multipliers, IMF working paper, January 2013; OECD forecasts during and after the crisis, a post-mortem, OECD Economics Department Policy Notes, N°23 February 2014

[3] Article 5 of Regulation (EC) No 1466/97, quoted in Com(2015)12 "*Making the best use of the flexibility within the existing rules of the Stability and Growth Pact"*

[4] Patrick Diamond, Roger Liddle and Daniel Sage *in "The Social reality of Europe after the crisis, trends, challenges and responses"*; Policy Network and Foundation for European Progressive Studies, 2015.

[5] Olaf Cramme, Patrick Diamond and Michael McTernan in Progressive Politics after the Crash, I.B Tauris Edition, 2013

[6] The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance.
It shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child.

- **A sustainable European social model**
- **Innovating for a new growth model and quality jobs**
- **Re-gaining the capacity to invest with a fair and efficient fiscal system**

Although structural reforms are usually considered as a national effort, we believe that a coherent set of measures would also require actions to be taken at European level, in particular as regards European socio-economic governance and the functioning of the Economic and Monetary Union. This is reflected in our proposals in the three areas highlighted above, as well as in a specific section dedicated to the reforms needed at European level.

3. A sustainable European social model

Budget consolidation over the past years has meant considerable cuts in public expenditures. The European social model was treated in this process more as a cost rather than an essential economic and social feature of our societies. A Europe that progresses, a Europe that performs, is not possible without a Europe that protects and enables. An exit to the crisis reflected only in a couple of improved statistics is not worth the current efforts. The crisis will only be over if Europeans across the board feel an improved economic situation in their daily lives.

A fair and sustainable welfare system is essential in this endeavour and we are convinced that reforms, along with social investment, should support the consolidation of our social model. The reforms we want to promote are complementary to our commitment for the introduction of a social clause in the European primary law and to the change in the European governance as detailed in the PES declaration “Towards a Social Union[7]. Our reforms focus on decent work, an efficient protection and on meeting the challenges of a changing economy.

3.1 Decent work in a fair labour market.

A more flexible labour market has been a core element of Europe's "first-generation structural reforms" so far and served as the rationale for loosening-up employment protection, for limiting workers’ and trade unions’ rights and for decreasing unemployment benefits. While the touted gains in productivity or competitiveness remain to be demonstrated, the increase of in-work poverty and precarious contracts which resulted from these reforms, as well as the persistently dramatic levels of unemployment and poverty evidence the need for another approach.

In particular, it is essential to **re-consider competitiveness in terms of innovation, resilience and productivity** rather than cost, and to refocus our efforts on quality work and decent wages to prevent a few benefitting from the presumed competitiveness gains and a majority losing. This is all the more important considering that international organisations now suggest that *income inequality has a negative and significant impact on growth […] may it be through demand, investment or deterioration of human capital*. [8] Policies to reduce income inequalities and guaranteeing social standards are therefore important to support long-term growth.

It is also important to recognize that enhanced social dialogue is a key to building competitiveness in the framework of a healthy economy. As underlined by the Commission: “In countries where social dialogue is well established, the economic situation tends to be

It shall promote economic, social and territorial cohesion, and solidarity among Member States.
It shall respect its rich cultural and linguistic diversity, and shall ensure that Europe's cultural heritage is safeguarded and enhanced.

[7] Declaration of PES Ministers for Social Affairs and Employment, adopted on 27 February 2013.
[8] Federico Cingano, in trends in income inequality and its impact on Economic Growth, OECD social, Employment and Migration Working Papers n°163.

more favourable and subject to less strain. Also, countries with strong social dialogue are among the most competitive in Europe."[9]

PES proposals:

- **Pursuing the upwards convergence of social standards** across Europe would prevent that employment and social policies are used as the variable for adjustment in case of economic shock. Furthermore, a reflection on harmonised standards could be started with a view to both ensuring strong social protection and preventing social dumping across Europe. A revision of the posting of workers directive could also strongly contribute to the latter.
- **The introduction of decent minimum wages** in all Member States, either by law or through collective bargaining, can strongly contribute to preventing in-work poverty and reducing inequalities. At the same time, unfair wage competition and low wages in some countries are one of the major reasons for reduced consumption and investment in Europe, while much of the excess savings accumulated at the top of the wealth distribution is invested outside Europe or used for speculative purposes. Maintaining or raising the purchasing power of wage-earners is crucial, in particular to combat deflationary trends, strengthen domestic demand and foster economic convergence between Member States.
- The **Youth Guarantee** is a comprehensive structural reform[10] as regards the functioning of employment services and education/training systems and their cooperation with enterprises, in particular SMEs. It still requires further effort to reach full speed and should thus be better monitored within the European Semester. To support its full implementation, an **increase of the Youth Employment Initiative's financing to 21 Billion a year**[11], as recommended by the ILO, should be considered, as well as an extension of its age limit to 30, to better support young people's transition from education to employment.
- The introduction of **minimum standards for active labour market policies** would ensure that they provide effective support to find a job, notably guidance and re-training suited for individual needs, rather than further penalising the unemployed and reducing their rights. The Youth Guarantee represents a useful benchmark in this respect.
- Ways to reduce the **segmentation of labour markets** without reducing rights should be explored to facilitate access to quality employment, to end precarious and zero hour contracts, and to support the upwards convergence towards common labour standards.
- **Measures helping to reconcile professional and private life** boost productivity by supporting workers' motivation and health. **Investment in quality childcare and elderly care is an important means to** enable more women and men to join the labour market.
- The **promotion of diversity and the fight against discrimination** within work structures, may it be in the case of LGBTI people or for people with migrant background, should be encouraged via dialogue and actions with trade unions, professional organizations and employers.
- **A binding target of narrowing the pay-gap by 2%** each year in every Member State would be a strong step forward for gender equality. A **revised Maternity Leave Directive** should guarantee a minimum level of paid leave and protection in the EU.
- **Strengthening social dialogue and collective bargaining** through workplace democracy within companies as well as greater social partnership within sectors, would help to build trust relationships between workers and employers. This would

[9] European Commission 2015: *"A new start for social dialogue*".
[10] *The EU Youth Guarantee* European Commission MEMO of 8 October 2014.
[11] *Eurozone jobs crisis: trends and policy responses*, International Labour Organisation, International Institute for Labour Studies, 2012.

also support the **identification of better models of work organisation** enabling initiative and creativity as well as decentralised, situation-adequate, flexible solutions for adapting to changing economic and social conditions, while preserving social peace and ensuring the respect of workers' rights.

3.2 An efficient protection for a fair growth

While social challenges and inequalities are on the rise in Europe, austerity has put strong pressure on social protection systems in Europe. If it is important to adapt social protection to the challenges of an ageing society and to contain its cost so that it remains sustainable, it is not acceptable nor economically desirable[12] to simply cut public social expenditures.

It is more than time to remind that **social protection, in addition to its positive social impact acts as an economic stabilizer both on demand and supply**[13]. Social expenditure contributes to fighting inequalities, to increased purchasing power and to higher domestic demand, and thus support economic growth. Social investments such as in education, vocational training and lifelong learning systems, labour market transitions, childcare or other social services are essential to ensure that well-skilled, highly motivated and healthy workers can contribute to economic progress throughout their lives. Minimum income schemes and similar safety nets have a vital purpose of supporting social inclusion and helping people to make a fresh start in their lives.

Fighting against the dismantling of our social protection systems and promoting investment in social protection are thus not only about social justice, but also about economic efficiency.

PES proposals:

- A European wide system of **minimum income schemes** would help reduce poverty and combat inequalities, while also helping to ensure that macroeconomic adjustment happens in a socially sensible way.
- **Ensuring universal access to primary healthcare** is a social investment helping to reduce unnecessary recourse to specialist and hospital care, thus lowering health expenses.
- A greater focus on **pre-distribution** is needed. High-quality education and social services must be accessible to all to strengthen people's skills and capacities to participate fully in employment and social life from cradle to old age. Combined with robust re-distributional safety nets, a **social investment approach** helps to strengthen people's resilience to deal with economic shocks.
- Demographic developments drive the need for **pension system reforms.** While increasing effective retirement ages is important to ensure pension systems' sustainability and adequacy, in full respect of national specificities, it is important to calibrate pension reforms in a way to better reflect differences in the **arduousness of work across occupations**, notably its impact on life in good health, real life-long learning opportunities and the effective possibility of older workers to remain in employment until retirement age. At the same time, trainings, services and pension system arrangements supporting **active ageing** need to be promoted, so as to encourage more people to remain economically active beyond their statutory retirement age if they want.
- The **gender pension gap** should be tackled by reducing the gender employment and pay gap but also by better taking account of care activity, whether for women or men.

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[12] "*It would still be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable."* Jonathan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides, *Redistribution, Inequality, and Growth, IMF Staff Discussion Note*, February 2014 SDN/14/02

[13] See for example *Social Protection budgets in the crisis in the EU*; European Commission; DG EMPL Working Paper 01/2013

- **The orientation of public and private pension funds towards longer term investment**, with lower risk level could be envisaged to prevent both short term financial gambling and contributors' risk of losing their pensions.
- **The limitation of exemptions to employer's obligations** to finance the social security systems through social contributions could be considered to ensure the sustainability of social protection. When such exemptions are used, they should systematically be compensated. More progressive formulas for social security contributions may be needed in light of increasing income inequalities.

3.3 Meeting the challenges of a changing economy

Social economy, characterized by both the provision of good and services to society and the pursuit of general interest goals, can strongly complement public services and widen the supply of social services. It also constitutes a high-potential sector for job creation and it significantly contributes to the economic development and wellbeing[14]. **Although social economy can not replace the state's role in providing public services, social economy is a relevant economic sector and a source for new approaches to the delivery of such services**. The practices it develops, its contribution to social innovation can fruitfully contribute to the further development of public services in general.

At the same time, other forms of economy, work organization and entrepreneurial models are developing. They open new opportunities and bring new challenges for the European social model.

In order to ensure the sustainability of the European social model, to prevent the rise of jobs that do not give access to social protection and to improve and widen the supply of social services, it is important that the European social model meets the challenges and seizes the opportunities the changing economy creates.

PES proposals:

- **Investment in social services and the social economy and an easier access for social economy organisations to financing** can strongly support the creation of jobs, including for disadvantaged workers, while contributing to the well-being of the entire population and a stronger cohesion.
- The **promotion of the social economy, the provision of assistance and advice** via adequate support networks and infrastructure, such as strategic planning and consulting services, business incubators, can support the further development of the social economy.
- A **clear legal framework and more homogeneous legislation** in Europe would lift barriers to the development of social economy activities.
- **Balanced partnerships between public authorities and social economy actors** can develop effective ways to provide services to the public and to finance innovation and thereby contribute to economic growth and job creation. They would also strengthen the sharing of practices between the public and private sector.
- Furthermore, **new entrepreneurial models**, favouring the reinvestment of gains, the mutualisation of ownership of companies, and the workers' participation in the companies' governance should be supported as innovation friendly measures.
- **The sharing economy** opens new approaches to economic activities and notably new models of both consumption and provision of services. Nevertheless it poses challenges in terms of compliance with social legislation and tax policies and thus **calls for an adequate legal framework to be developed** focusing on the commercial aspects of the sharing economy to ensure legal certainty and fair competition for operators, especially with respect to working conditions and taxation.

[14] European Commission Social Economy and social entrepreneurship , Social Europe guide Volume 4, March 2013

- The **companies' corporate social and environmental responsibility should be reinforced** and associated with appropriate sanctions, in particular throughout the supply-chain liability. All companies in a sub-contracting chain should be made potentially liable for environmental or social abuses, including if those happen outside the EU.
- To adapt to changing employment patterns and working conditions, **social partners' involvement** is essential for a transition to a new productivity and competitiveness model that reinforces rather than weakens social standards and workers protection.

4. Innovating for a new growth model and quality jobs

The crisis is still a bitter reality for Europeans and the threat of a deflationary spiral with long lasting social consequences is ever more present. This shows that sound public budget management is not sufficient on its own to exit the crisis. Instead, smart investments are needed to create jobs and improve Europeans' quality of life, both in the short and longer term. Innovation must be a core feature of our answer to the crisis, may it be in terms of new technologies, new ways to address new societal needs and new ways to organise work and companies.

Improving the framework conditions for innovation in the areas of **knowledge, industry and green economy** needs to go hand in hand with increased investment. It is crucial that investments in fixed assets and technology on the one hand and investments in vocational training and education on the other hand are well coordinated.

The European Fund for Strategic Investment, as well as the EU structural and investment funds should contribute to generating innovative and sustainable growth and decent jobs. However, even their combined effect is unlikely to be sufficient to close the EU's 200bn per year investment gap identified only in the areas of broadband, energy and transport infrastructure.

4.1 investing in education for real progress towards an innovative, knowledge-based economy

Sustainable growth in modern society requires an ever-better-educated population. Investment in education infrastructure and people, to develop skills, competences and knowledge is essential for all to participate in the labour market and in society.

The success of Europe's economy depends increasingly on the success of transforming it into a knowledge-based economy. Innovation is a central feature of this process, as it gives added value to knowledge, leads to the creation of new products and services, and can become the main engine for smarter growth with more and better jobs. It is essential to **enable companies to provide the most innovative products and services with the highest quality for the largest number of consumers**.

If the private sector has a clear role to play to increase Europe's innovation capacity, the entrepreneurial state is also a crucial actor of innovation, either directly through public research and education or indirectly providing a strategy for innovation as well as the conditions for the private sector to innovate, when ensuring the quality of employment, and securing the legal environment. Thus, both the private and public sector should support the upgrade of the skill levels of European citizens, invest in human capital, in quality education and in research and development.

PES proposals:

- **Education is a public good in which to invest**. Member States should invest at least 6% of their respective GDP in education and training, while aiming at maximising this investment's social and economic output.
- Promoting a **convergence of standards in higher education and vocational education** can help its better recognition and contribute to bridging the skills

mismatch both workers and companies are confronted with. In particular, digital literacy and more advanced ICT skills need to be promoted.

- **The introduction of dual training schemes in all Member States should be supported**, also in the context of the Youth Guarantee. It should nevertheless never prevail over education's aim of favouring one's self development as an individual and a citizen and providing a solid basis for life-long adaptability to economic developments. Combining classroom education with practical training and work experience is a proven method of boosting students' skills. It should be based on quality standards for training places and incentives or obligation for companies of a certain size to provide apprenticeships opportunities. Vocational education and training should ensure access to training and apprenticeships; permeability between education systems, higher education and the labour market; and personal development for students
- The setting-up of **in-work educational programmes** designed with companies from high job-creation potential sectors can strongly support employment by addressing existing skills mismatches and by establishing direct relations between employers and beneficiaries of such programmes.
- New investment and measures should also support the **elimination of gender biases** in education and on the job market, particularly to encourage more women to pursue science, technology, engineering and mathematics (STEM) curricula.
- Research and development, innovation, are essential for the productivity and competitiveness of the European economy. The **Europe 2020 target to invest 3% of the EU's GDP in R&D** is the key objective in this respect. Such investment would not necessarily be limited to new, future sectors, but also include traditional and mature sectors, such as the steel, chemical and automotive sectors. The use of national and **European funds, notably the EFSI and Structural funds, could be targeted more towards overcoming regional imbalances in innovation**, especially in peripheral regions, amongst others by supporting regional innovation clusters and European-wide investment platforms
- **Cooperation between the state and the private sector on innovation** should be reinforced to ensure a strong interplay between public and private sector, between companies and research as well as between supply and demand for innovative solutions.
- **Life-long learning as a right** for every worker in Europe could permit adaptation to a constantly changing working environment and fast technological progress. Employees cannot be considered as a commodity that can easily be made redundant but rather as direct contributors to the success of a company.
- The **recognition and validation of skills and competences** acquired through non-formal and informal learning can support further learning and employment opportunities.
- Setting **quality standards and decent minimum working conditions for internships** and apprenticeships is important to improve transition from education to work.
- A **closer coordination of innovation, competition, industrial, education, employment, environment, climate, trade and research policies** at European, national and regional level could favour cross-sector synergies.
- **Improved work organisation, allowing for a genuine workers' participation** rather than an overspecialisation of tasks can strongly contribute to the motivation of workers and to increased innovation.

4.2 A European industrial policy

The industrial sector is central to Europe's economy. It generates 15% of the EU's GDP[15] and employs about 40 million people.

Its interactions with the rest of Europe's economic network extend far beyond manufacturing, spanning upstream to raw materials and energy and downstream to business services (e.g. logistics) and consumer services. Nearly one in four private sector jobs is in industry, often highly skilled, while each additional job in manufacturing creates 0.5 to 2 jobs in other sectors. Industry accounts for over 80% of Europe's exports and 80% of private research and innovation[16]. Industrial policy also has a central role to play in finding solutions for other key challenges, such as climate change.

This is why we are convinced of the central role of industry for creating jobs and growth in Europe and we believe that **innovation (both in production methods and in creating new products) can contribute to a European industry that does not compete only on the price but especially on the quality of its products**. Among other evolutions, the digitalisation of industries brings new chances for European industry to gain such competitive edge. Special attention will have to be paid both to the chances and the risks involved in digitalisation.

PES proposals:

- The EU and Member States could **develop long-term planning of industrial policies** and strategies, which anticipate economic, industrial, employment and technological developments and support the development of European industrial "champions" through cross-borders projects.
- Providing a high-quality infrastructure for all industrial actors is a precondition to attract more investments for European industry and to overcome industrial imbalances in Europe. This could be done via **increased investment in developing, maintaining and renewing physical and economic infrastructure** (access to energy, transport networks and ICT), favouring environmentally friendly solutions. EU funding must focus on such projects and support the convergence of infrastructure development levels across the EU. For instance, energy infrastructure projects of common interest should be financed by EU funds.
- Incentive measures to **reinforce the supply chain, to create new interconnections between companies**, such as technology platforms, as well as to support organizational innovation, can greatly contribute to an innovative industry in Europe.
- **European rules on state aid could be revised to allow governments to actively support industry** in becoming more innovative. For example they could allow public authorities and public procurement procedures to pay more attention to the quality of products and services procured as well as social and environmental criteria, instead of basing decisions solely on prices. This would support the setting of good standards.
- **A level playing field between SMEs and large companies, in terms of taxes, public support and regulations,** could help SMEs, considering that they constitute a huge pool of employment. The **review of the Small Business Act** is an opportunity to address such issues.
- **Small and medium-sized enterprises should receive more support** to overcome the crisis and to start creating new jobs. European and national micro-credit and SME finance programmes are important instruments on this path. The potential **of digital technology** both as a sector and a tool to modernise production, better

[15] European Commission, Communication For a European Industrial Renaissance COM(2014) 14 final

[16] Rueda-Cantuche, José M.a, Sousa, Nb., Andreoni, Va. and Arto, Ia. "The Single Market as an engine for employment growth through the external trade", Joint Research centre, IPTS, Seville, 2011

addressing people's needs, could also be further explored and supported. This digitalisation needs to be flanked by active industrial education and training policies for the skilling, re-skilling and up-skilling of the workforce. The coordination of economic, social and scientific stakeholders would contribute to making the best use of digital technologies.

- **The transition towards digital working environment must not undermine European working and employment standards**. We must ensure adequate social protection, working conditions and workers' rights in the transition towards a digital labour market and working environment.
- A **safe digital environment**, ensuring the security of both private and corporate data is an essential feature of the digitalisation of the economy and the industry.
- The re-industrialisation of Europe can be closely linked to **a shift to a greener economy**, maximising the potential for resource efficiency (see next section).

4.3 A shift to a greener economy as a source for growth

At international level, the EU has played a key role in the fight against pollution and climate change. Turning this international commitment into an economic reality is not only relevant to regain a global leadership on these issues, for the EU's credibility in reaching its CO2 emission reduction goals, but also to improve the performance of our economies.

Green technologies, in particular for energy, are key for the sustainability of our economic model. They are also an important potential source of short-term growth and job creation. **Sectors such as renewable energy, energy efficiency, recycling, green transport solutions, indeed have a large job creation and innovation potential**.

At the same time, resource constrains, especially on natural and rare resources will demonstrate the limits to our current consumption patterns. Greater resource efficiency will reduce Europeans' ecological footprint on greenhouse gas emissions, as well as on land, materials and water use. It will help avoiding the consequences of mineral and metal extraction, incineration and landfill while also decreasing Europe's external dependence on certain resources.

We are convinced that the EU should ambitiously invest in these sectors to create growth and jobs and change the European energy and resource consumption pattern. Europe must take use of a first-mover advantage in these policies, enabling the EU's industries to profit from its positive effects on competitiveness and job creation.

PES proposals:

- Increased public and private investments **to improve buildings' and houses' energy efficiency** would allow up to 80 % savings in energy consumption and create considerable numbers of jobs in the building sector, while relieving lower income population from the burden of energy expenses. Subsidies for poorer households' energy efficiency investments represent one of the smartest forms of redistribution.
- **Tightening regulation** could better support the transformation of European energy production and consumption, together with **green taxation on greenhouse gases emissions**. Such green taxation would both create additional revenue for investment and a strong incentive for a shift towards more renewable energies in the energy mix and a low carbon economy. Its potential disproportionate burden on vulnerable consumers should be compensated with adequate social and energy policy measures to prevent energy poverty, including subsidies for energy efficiency investments in poorer households.
- The number of carbon certificates emitted in the frame of the **Emissions Trading System** could be reduced with the rapid **creation of a market stability reserve** to withdraw a substantial amount of such certificates. This would strongly support an increase of the price of the certificates, currently at around EUR 7 per tonne, generating a stronger incentive for a shift in energy consumption.

- Completing the European internal energy market would support the energy transition. This could be done with an **Energy Union that has energy efficiency, renewables and smart infrastructure as its backbone**, and supports the development of a sustainable and competitive EU industry.
- Investments in **energy efficiency, renewable energy and other green technologies** should be one of the main priorities of the European Fund for Strategic Investments
- A shift to a **more decentralised and more democratic energy model** could enable citizens to take part to local energy production, profit from it and contribute to the shaping of the European energy transition.
- A transition towards a comprehensive, **resource efficient circular economy** that does not only focus on waste management but also on the prevention of waste could protect our natural foundations of living and make our industries more competitive. With its labour intensity, the circular economy requiring collection, sorting, testing, refurbishment and reselling furthermore offers job-creation potential across all skills levels, contributing to inclusive growth.
- The "waste hierarchy" principle to avoid unnecessary disposal of waste[17] should be better implemented, for instance by **discouraging the use of landfills and waste incineration** through taxation.
- Consumers and the environment alike would profit from revised **eco-design rules** that promote the reparability and re-usability of materials to avoid waste as well as energy efficiency.

5. Re-gaining the capacity to invest with a fair and efficient fiscal system

Taxation is needed as a contribution from each and every one to make society work. It is not only a civic duty, but also a tool for social fairness, to change our growth model and shape our societies. In fact, taxation is a major determinant of the allocation of rights and resources within and across societies. It is also a crucial instrument to fight inequalities, achieve social justice, strengthen well-being in our societies and promote sustainable economic development.

The sovereign debt crisis and the resulting budget consolidation processes on the one hand, and large-scale tax avoidance and aggressive tax planning on the other hand, have strongly limited the capacity of public authorities in many Member States to invest in sustainable growth and to act as public services providers. To restore this capacity, it is essential that European public authorities are given back the means to accomplish their missions. As we are committed to exercise budgetary responsibility, it implies that tax collection must be decisively improved, new sources of revenue need to be found and the best use made out of tax revenue.

5.1 New, better and fairer taxation

Taxation, either as a cost or an incentive can have a strong impact on growth and on employment. For instance, for many years, the Council has agreed on the importance of reducing taxation on labour as a way to increase competitiveness and employment.[18] Different realities exist in the EU and the "Nordic model" shows that high rates of taxation are compatible with high employment rates. Still, considering that taxation on labour, among other factors, can impact the functioning of the labour market, differentials in labour taxation could be introduced. For economic and social justice reasons, they could increase

[17] Policies should aim at preventing waste, preparation of waste for re-use is the second best option, followed by recycling of waste, recovery of waste and lastly incineration and disposal of waste

[18] See for example European Council conclusions of 14-15 March 2013.

progressively with wages as a way to avoid loss in public revenue in order not to affect social security[19], contrary to what could often be observed.

So far the structural reforms agenda mainly involved shifting taxes from labour to consumption (notably VAT). This however tends to reinforce inequalities[20], which in turn tends to dampen growth. Moreover, the European Commission has concluded that the Member States with the highest labour taxation have not significantly decreased it at all in recent years.[21]

In general, margins of manoeuvre for the implementation of growth and employment-friendly taxation should be sought in **more effective taxation of capital gains and wealth, focusing on the top of the distribution, as well as in more effective corporate taxation**. This requires limiting tax competition between Member States and preventing the social dumping and the race to the bottom for public revenues[22] it generates. Double non-taxation should be prevented and the principle that taxes must be paid where economic value was created should be fully applied. **Gradual fiscal convergence will help to install more social justice in the European Union and strengthen governments' ability to support sustainable growth** and should go hand in hand with significantly reinforced fight against tax avoidance and aggressive tax planning. There is also a very positive potential in increasing environmental taxes, including those aimed at reducing greenhouse gas emissions. Seeking to get as much as possible out of the double benefits of green taxation should be a key element in any tax policy strategy.. Additional fiscal measures, taxes or incentives, aiming at regulating the financial sector can be envisaged to complement this taxation shift.

PES proposals:

- The adoption of a **Common Consolidated Corporate Tax Base** in the EU is an essential and long overdue step to reveal the actual level of taxation of companies, to identify potential tax fraud and effectively tackle aggressive corporate tax planning.
- The OECD recognises that tackling inequality through tax and transfer policies does not harm growth.[23] Ensuring the **progressivity of income taxation** in the EU, stronger **wealth taxation and consistent inheritance taxation would help ensuring all citizens contribute according to their capacities to the societies they live in** and help preventing unfair tax optimisation.
- **Progressive real estate taxation, taxation on bonuses, dividends and stock options** can also generate additional fiscal revenue, while reducing inequalities.
- The EU and its Member States could work towards the **convergence of corporate taxation rates** to prevent further fiscal competition, with an agreement on harmonised minimum taxation levels. Such corporate taxation would be progressive enough not to over-burden small and medium enterprises and should take into account the need for economic, social and territorial convergence.
- **Eradicating the practice of "sweetheart deal" tax rulings**, i.e. bilateral company-to-country specific fiscal agreements which unfairly lowers the effective tax rate of the company, would be a way to ensure both the transparency and the efficiency of the taxation on multinationals. It would limit aggressive tax planning, as well as tax competition between Member States.

[19] The tax wedge, the difference between labour costs to the employer and the corresponding net take-home pay of the employee is generally composed of social security contribution from the employer and the employee, and personal income taxation.
[20] Raising indirect taxes, for instance, is often regressive where these taxes fall on the consumption of goods and services that make up a larger share of the budgets of poorer than richer households
[21] European Commission, Tax Reforms in EU Member States 2014, European Economy 6|2014
[22] ETUI, in Benchmarking Working Europe 2015, p.17 has evidenced a massive overall drop of corporate taxation from 1995 to 2014
[23] http://www.oecd.org/els/soc/Focus-Inequality-and-Growth-2014.pdf

- Ambitious **environmental taxation on energy**, linked to CO2 emissions are a way to increase public revenues and address environmental challenges. Taxation on environmental impact is also a relevant tool to use as new source of revenues supporting a shift to a more sustainable economic model.
- The **use of fiscal incentives** can be envisaged to **support specific policies** (for example with clear objectives in terms of youth employment or energy consumption). Special attention should be paid for such incentives **not to create distortions** between different kind of benefiters, notably between multinational corporations and SMEs, nor to affect the progressivity, consistency and efficiency of the tax system.

5.2 An efficient fiscal system that ends tax fraud and regulates the financial sector

Tax fraud, tax evasion and tax avoidance are estimated to cost EU governments EUR 1 trillion a year[24]. The average of the tax lost in Europe today exceeds the total amount that Member States spend on healthcare, and it amounts to more than four times the their spending on education in the EU. This amount of tax avoided is not available for governments to invest in jobs, growth creation or to contribute to balanced public budgets. It prevents them from implementing their economic and social policies with consequences both on public services and the economy.

Tax fraud and tax evasion also distort competition between those who can avoid taxation and their responsibilities to society and those who play by the rules. It is not responsible to keep allowing multinationals to evade taxes, may it be from the economy perspective or the budget one.

The European Union has to work actively to **close loopholes**, **eliminate distortions in tax policies and regulations**, notably by implementing the OECD's Base Erosion and Profit Shifting (BEPS) action plan, and **crack down on tax havens**. This is essential to ensure new revenues for investment in growth- and job-creation, to ensure that our social security system can be funded and to ensure the fairness of our tax systems.

Considering that the rescue of the financial sector has cost 1.6 trillion Euro of taxpayers' money between 2008 and 2011[25], preserving public revenue also implies ensuring that the financial sector focuses on investment in the real economy. Further financial instability must be prevented through sound regulatory principles avoiding that financial shocks affect public finances. This strongly calls for adequate regulation to address the unresolved too-big-to-fail problem, and for completion of the banking union.

PES proposals:

- The **Financial Transaction Tax** should be swiftly implemented and its extension to all EU Member States encouraged, as a way to increase public revenue.
- A **compulsory and transparent country-by-country reporting** by multinational companies in all sectors would help reflect the level of taxation companies actually pay.
- To better reflect the reality of tax fraud, tax evasion and tax avoidance, **an EU inventory of income, wealth and tax regimes** could be put in place. Such inventory would reflect the difference between the legal and the actual tax rates on companies and individuals.
- The adoption of **EU rules on mandatory exchange of personal and corporate financial information** that cover all types of income, including dividends, capital gains, other financial income and account balances would allow greater transparency too. **Strengthened cooperation between tax authorities**, in full line with the principle of sincere cooperation, could also reinforce the fight against tax fraud.

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[24] http://ec.europa.eu/taxation_customs/taxation/tax_fraud_evasion/index_en.htm

[25] *Report from the Commission, State Aid Scoreboard, Report on state aid granted by EU Member States, Autumn 2012 Update*; COM(2012) 778 final

- The country of profit for a company must be the country of taxation. **Transfer pricing regulations** that prevent transnational companies to artificially reduce the amount of tax they pay can help a more efficient tax system.
- The creation of a **convincing definition and of black list of tax havens**, associated with **sanctions** would strongly reinforce the fight against tax evasion.
- At both national and European level, **financial regulation and supervision that ensure transparency and prevent tax dodging** could be adopted together with **stricter sanctions** on tax evasion and tax fraud. Increasing transparency would also contribute to **regain investor's trust and render the financial sector stable and credible.**
- Similar **regulation increasing transparency, supervision and reducing risks within the shadow banking sector** could further complement financial regulation and prevent a transfer of activities from the regulated banking sector to shadow banking.
- **Reducing interlinkages between the shadow and the regulated banking sector**, specifically by limiting exposure of banks to Alternative Investment Funds, would reduce the risk of contagion and contribute to deleveraging of shadow banks.
- **Adequate capital requirements** ought to be implemented throughout the financial sector as an effective regulatory tool to internalize risk, reduce modelling risks exposure and, thereby, increase financial stability.
- To enhance economic resilience **the debt-equity bias should be eliminated**.
- The **sovereign-bank-loop must be addressed effectively**, not least by completing Banking Union and by means of strengthening large exposure limits.
- The financial sector could be made more socially responsible, **by limiting information asymmetry and conflict of interest as well as enhancing consumer protection.** Innovative financing mechanisms such as crowdfunding and peer to peer lending should be promoted within a sound regulatory framework. Criteria on human, social and environmental sustainability, reflecting the concerns of a broad set of stakeholders, need to be much better integrated in rating reports, risk analyses and assessments of investment products.

5.3 Making the best use of tax revenue

In most EU Member States, health care, education, social services and elderly care are mainly or partly in the hands of the state. While submitted to budgetary pressure, these public services play an important role in social protection and inclusion, if they are affordable and accessible to all citizens. It is therefore essential to guarantee the highest minimum standards, universal and equal access for citizens, and the quality, the local autonomy with adequate geographical and social equalisation principles of such services.

Public services benefit all citizens, and in particular the most in need. On the one hand, considering existing challenges and opportunities, it is important that public services adapt to the needs of the citizens to guarantee the level of protection. On the other hand, in its interaction with economic actors, an efficient, transparent and accountable public administration is an important factor for, among other things, productivity and growth.

In our view, it is crucial that the State shows clear sense of public interest, that it answers the concerns of taxpayers on how their contribution to the fiscal effort is used. It is essential to ensure a good debt management, to enhance the quality of public spending, to cut out waste and to **direct expenditure where it can get the best value for citizens**. This is all the more important that public investment shapes choices about where people live and work, influences the nature and location of private investment and affects quality of life. Good governance, the rule of law, accountability and transparency are thus the pillars of strong public authorities and effective public administration.

PES proposals:

- Introducing a culture of **permanent independent evaluation of public policies, in terms of both economic and social outputs**, could help reinforce and improve the design and implementation of future reforms and ensure greater democratic accountability.
- **Modernisation of public services,** notably via their digitalisation or the generalisation of one stop shops can offer solutions that bring in more transparency, more efficiency contain administration costs and benefit both citizens and economic actors. However, such modernisation should not hamper the quality of services provided, nor reduce their scope.
- The **simplification of procedures, the smart organisation of public services** in an integrated way can contribute to better answering the needs of citizens and economic actors.
- **Citizens' participation** in decision-making and spending choices can strongly improve citizens' understanding and acceptance of public decisions.
- **Reducing duplicated administrative structures and burdens, increasing transparency on public expenditure, streamlining and rationalizing bureaucratic processes can** facilitate the interaction between the state, citizens and private companies. It should nevertheless never undermine existing rights, in particular social rights. Improving transparency in particular could take place through more regular dialogue with civil society and representative associations.
- **The simplification of legislation and striving for the efficiency and promptness of the justice system** to guarantee both the protection of citizens' rights and a safe economic environment can contribute to improved economic governance and public trust.
- The **cooperation among public institutions**, the **sharing of resources**, **means and knowledge** can strongly contribute to the efficiency of the public sector and to fostering and innovative dynamic in their delivery. To facilitate this cooperation it is important to develop experiences of shared services and extend them to new areas.
- **Fighting against all kinds of corruption**, with the development of effective preventive policies and adequate control mechanisms to manage corruption risks and conflicts of interest[26] are essential to re-establish people's trust and ownership of democracy, and to ensure the credibility of public action.
- To ensure the **effectiveness of public investment**, public authorities should coordinate their investment across levels and policies, strengthen their own capacity for public investment and ensure proper framework conditions for public investment, in line with the OECD's recommendations on public investment[27].

6. Making progressive reforms possible: a real European Socio-economic governance

To ensure the refocusing of structural reforms from its cost-cutting orientation to real progressive reforms favouring social cohesion, efficient taxation and innovation, resource-efficiency and a sustainable industrial pattern, it is essential for the EU to develop a real socio-economic governance based on a long-term strategy for sustainable growth. We want European policies and tools to ensure re-convergence in Europe as well as national ownership of reforms rather than one-size-fits-all measures.

Contrary to the current disproportionate focus on fiscal consolidation and labour flexibility, the EU urgently needs to develop real socio-economic governance, with a new policy mix where social issues are on par with economic considerations. This is particularly crucial

[26] As outlined in the Council Conclusions on the EU Anti-corruption Report, adopted at the Justice and Home Affairs Council meeting in Luxembourg on 5 and 6 June 2014.
[27] OECD, Recommendation of the Council on Effective Public Investment across Levels of Government, adopted on 12 March 2014.

within the Economic and Monetary Union, to ensure that competitiveness and growth are pursued through improvements in employment and productivity, rather than through internal devaluation and persistently contractionary fiscal policies.

The concept of socioeconomic governance implies rebalancing instruments such as the European Semester towards more delivery on the Union's employment and social objectives, as well as a change in the political structures responsible for its implementation. In this context it is important to **continue reviewing European fiscal rules and governance mechanisms so as to enable greater counter-cyclicality and ensure that public budgets** (social protection mechanisms as well as public investments) **can play their role as economic stabilizers**. The set-up of a fiscal capacity within the Economic and Monetary Union would also constitute a clear step in that direction.

This new balance in socio-economic governance should also be reflected in the review of the Europe 2020 Strategy.

PES proposals:

- The **objectives and headline targets of the Europe 2020 Strategy** should be reaffirmed as the overall framework for the EU's sustainable development and socio-economic governance. The Integrated Guidelines, Annual Growth Survey, National Reform Programmes and Country Specific Recommendations prepared during the **European Semester** should then all be aligned with this Europe 2020 framework. Recommendations in the context of the Stability and Growth Pact and the Macroeconomic Imbalances Procedure must also be consistent with Europe 2020 objectives.
- **Investment should be distinguished from current expenditures when assessing public deficits**. The Commission’s Communication “Making the best use of the flexibility within the existing rules of the Stability and Growth Pact”[28] is an important step in the direction of more room for manoeuvre for investment. However, a **broader investment clause** should be envisaged, treating countries in the preventive and corrective arm of the EDP equally.
- **It is crucial to ensure that the EFSI and the MFF together constitute** an adequate **investment capacity enabling to restore economic convergence** at European level. The EFSI is not only another instrument to finance projects, but if implemented properly it can pave the way to a change in paradigm in the future. Our goal is to make investments a permanent pillar in the EU governance framework.
- In the framework of the mid-term review of the Europe 2020 Strategy an indicator relating to the rate of non-residential investment should be included to the macroeconomic imbalances scoreboard in order to focus policies on closing the current gap in productive investment.
- The European Semester should involve **systematic monitoring, recommendations and support for countries facing greatest employment and social challenges**, building on the scoreboard of key employment and social indicators**.** The Macroeconomic Imbalance Procedure should also involve deeper analysis of the interplay between social, employment, macroeconomic and financial indicators, such as the links between inequality and indebtedness, labour cost-cutting and deflationary pressures, or fiscal consolidation and unemployment.
- **EU economic governance must become more democratic, more transparent, and must enable stronger accountability** for decisions taken. Early publication of country reports in the European Semester allows for deeper dialogue between the Commission, European Parliament, national parliaments and social partners as well as regional and local authorities in preparation of National Reform Programmes and

[28] Com(2015)12

Country-Specific Recommendations, thus reinforcing national ownership on the reforms to be made. However, steps need to be taken towards European Parliament and Council co-decision on the Integrated Guidelines and Annual Growth Survey priorities.

- **The role of the Employment, Social Policy, Health and Consumer Affairs Council** in the European Semester and the debate on EMU completion must be upgraded and cooperation with the Economic and Financial Affairs Council improved. A social Eurogroup should be established to coordinate ways of addressing key employment and social challenges in the Eurozone.
- Decent wages are important not only for social cohesion, but also for maintaining a strong recovery and a productive economy. The introduction of **a European pact for minimum wages, established at national level, either by law or collective bargaining** would help address the challenge of low wages. It should ensure that all workers and employees receive a wage of at least 60% of the respective national median wage.
- Ensure that the Commission to **in all of its recommendations and policy instruments, including the European Semester, respects and promotes collective bargaining and its coverage.**
- The worrying trend of growing poverty, its potential for self-perpetuation and for increasing divergence in European living standards make it crucial to put the fight against poverty and inequality back on the agenda. A European legal framework guaranteeing every **European universal access to health care, income support and subsistence security** would be a considerable step towards less poverty and renewed upward social mobility.
- Reaching social and employment objectives might strongly depend on the economic situation of a country and require immediate reforms with only long term impact**. To ensure that Member States can act and finance such reforms, an incentive mechanism could be created,** supported by a common Eurozone budgetary capacity and a workable democratic decision making mechanism at the Euro area level. Such Eurozone budget should not be detrimental to the existence of the current EU budget. It would act as an automatic stabilizer for countries going through an economic contraction, and help to absorb negative shocks. It would be used for boosting investment in particular in social infrastructure, for preserving social protection levels, and for supporting labour policies when a country is under fiscal stress.
- Many Member States' room of manoeuvre in the fiscal sphere is restricted as they struggle to repay old debts. Higher growth would make it easier to reduce the debt burden, but a high debt burden can itself be a drag on growth. **Organised debt management** is therefore essential in order to pave the way for growth-oriented policies. A redemption scheme that Member States could join by subscribing to a debt sustainability plan could address such challenges.
- In the context of a Eurozone budget, the possibility of establishing a complementary **European unemployment benefit scheme within the Economic and Monetary Union should be explored**, reinforcing the power of national economic stabilizers by spreading the cost of cyclical unemployment among Member States and reinforcing both the EU's cohesion and link with its citizens.
- **Equipping the European Globalization adjustment Fund with more financial means would help** better support workers affected by layoffs.
- Ensuring the stability of the euro and the European financial sector is essential. **The completion of the Banking Union,** including a robust Deposit Guarantee Scheme and **separation of** risky investment, banking from retail and banking activities[29],

[29] Along the lines set out in the Liikanen report: Final report of the High-level Expert Group chaired by Erkki Liikanen on reforming the structure of the EU banking sector, Brussels, 2 October 2012.

would further increase the credibility of the Union in safeguarding citizens' deposits and would also restore the flow of credit to the real economy.

Conclusion: European Socialists and Democrats, actors of change

We, European Socialists and Democrats, stand for positive reforms. We offer a detailed, **progressive agenda of reforms and investments** addressing key structural challenges Europe faces. Our reforms are geared towards competitiveness based on increased productivity and employment and well-functioning public sector, as compared to conservative reforms, which focus mainly on labour cost-cutting and privatisation and which have resulted in near-deflation and rising inequalities.

We are committed to act to bring back a growth that benefits all Europeans. We are aware that some of our proposals for reforms would imply structural changes in European economy, a structural change in the answers provided to the crisis, and that they would need to go hand in hand with new investment. This is why our proposals include both national and European reforms.

We are convinced that the EU and Member States need such shift in their policies and we will make sure they adopt and implement bold, progressive structural reforms that not only permit economic recovery, but also set Europe on a sustainable growth path that benefits all its citizens.