IS Growth

INNOVATION-FUELLED, SUSTAINABLE, INCLUSIVE GROWTH

**Working Paper**

# How Can Europe Change?

## Civil Society Proposals for Policy Alternatives on Socially Inclusive and Sustainable Growth

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**Civil society proposals for policy alternatives on socially inclusive and sustainable growth**

**by Thomas Fazi**[1]

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### Abstract

The challenge to develop a growth model for Europe that is innovation-fuelled, sustainable and inclusive is at the core of the activities of the ISIGrowth project. This Report addresses the way Europe's civil society has viewed and addressed such challenge, contributing to Europe's policy debate. It offers the most comprehensive overview to date of the wide range of proposals for policy alternatives developed in recent years by European civil society. The policy areas covered in the text include: macroeconomic policies; tax policy; finance; trade and investment policy and the TTIP negotiations; industrial policy; environmental sustainability and climate change; technology; labour, employment and wages; inequality; and economic governance and democracy. Each chapter includes a critical analysis – from the perspective of European civil society and of progressive movements in general – of the key problems relating to each macro area, followed by an overview of the policy alternatives that have been proposed. Where applicable, a list of actions and mobilisations organised around each specific is included. The evidence presented in this Report has come from a careful monitoring of the initiatives carried out and from reviewing the vast body of work produced by European civil society organisations, trade unions, think tanks and scholars associated with them, with particular attention to the organisations that have accepted to be members of the Civic Action Network of the ISIGrowth project.



### JEL codes

E00, E23, E50, E52, E60, E62, F13, F60, G01, G10, H12, H00, H20, H26, H50, H60, I30, J01, J30, J50, L30, O38, O44, Q58

### Keywords

Civil society, macroeconomic policies, tax policy, finance, privatisation, trade and investment policy, industrial policy, environmental sustainability and climate change, technology, labour and employment policies, inequality, economic governance and democracy.


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## Introduction and summary[2]

The challenge to develop a growth model for Europe that is innovation-fuelled, sustainable and inclusive is at the core of the activities of the ISIGrowth project. This Report addresses the way Europe's civil society has viewed and addressed such challenge, contributing to Europe's policy debate. Even though there is no commonly accepted or legal definition of the term 'civil society organisation' – the European Commission, for example, makes no distinction between consumer groups, trade unions, employers' organisations, professional associations, etc. (European Commission, 2016b, 2016c; EESC 2016a) – in the context of this study, civil society organisations should be understood as organisations that are independent from governments and firms, and operate on the basis of common European values such as human rights, peace, democracy, individual freedom, equality, solidarity, tolerance (European Commission, 2012b).

Since the start of the crisis in 2008, an intense discussion has emerged in Europe, challenging official policy priorities. Civil society organisations, trade unions, think tanks and grassroots campaigns have given 'voice' to demands for ending austerity and restoring shared prosperity, for reducing inequality and making Europe more inclusive, for achieving environmental sustainability and reacting to climate change with green economic alternatives. A wide range of protests, critical analyses and proposals of policy alternatives have emerged on these issues at the European level, with a variety of approaches, political projects, social actors and ideological orientations (see Kaldor and Selchow, 2015; della Porta, 2015a; Gerbaudo, 2016).

However, most civil society activities, attention by policymakers and public opinion debates have focused on national developments – the economic and social effects of the crisis, specific policies introduced by governments, etc. The European dimension that binds together national dynamics has been the object of comparatively modest mobilisations by civil society and limited policy responses by EU authorities; moreover, the weakness of democratic processes at the European level has constrained the scope for a wide ranging and inclusive discussion for deliberating the necessary policy responses to Europe's crisis (Pianta and Gerbaudo, 2015).

Still, the relevance of European-wide concerns in civil society activities is greater than what is generally perceived by public opinion, portrayed in the media and acknowledged by policymakers. Also, a large part of national mobilisations in EU countries has indeed a vision or a project for a changed European Union that relates to some of the Europe-wide debates and campaigns – for a Europe that is more dynamic, less unequal, more sustainable and more democratic.

The objective of this Report is to document the extent of this debate – focusing on developments after the 2008 crisis – considering the views, activities and proposals of civil society organisations, trade unions, think tanks and campaigns. Each chapter addresses one policy field and starts with an

[2] This report is produced as part of the ISIGrowth project on Innovation-fuelled, Sustainable, Inclusive Growth that has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No. 649186 – ISIGrowth. The Lunaria working group for this report included Grazia Naletto, Sara Farolfi, Cristina Povoledo and Duccio Zola. We thank Mario Pianta and Giovanni Dosi for their comments and support. A draft of this report was presented by Grazia Naletto at the Civic Action Network session of the ISIGrowth meeting in Brussels in June 2016. We thank all the participants for their comments and feedback, in particular Sergio Andreis, Fiona Dove, Aline Fares, Susan George, Martin Myant, Giulia Porino, Werner Raza and Markus Meinzer.

assessment of the 'problem' faced by Europe, summarising the key facts and the analyses and interpretations coming from civil society. The second part of each chapter reviews the specific policy proposals emerging from civil society. In fact, no survey of the analyses and policy suggestions that have come from Europe's civil society is currently available. In the final chapter some suggestions for a research and policy agenda based on such experiences are also presented. In preparing this Report important contributions have come from the analyses and activities of the organisations that have accepted to be part of the Civic Action Network (CAN) of the ISIGrowth project[3].

The Report draws upon a number of studies realised within the context of the ISIGrowth project, which investigates the dynamics of Europe's growth, the role of innovation and industrial policy, the evolution of employment and inequality, the impact of finance, and the policy scenarios that could be coherent with the Europe 2020 objectives of smart, sustainable and inclusive growth. These studies build on previous work by ISIGrowth scholars – see in particular Dosi (2012) and Mazzucato (2013a). Recent relevant papers by ISIGrowth scholars on policy alternatives for Europe include macroeconomic studies on alternatives to mainstream models, such as Dosi et al. (2016a, 2016b, 2016c), including studies on the negative impact of labour market flexibility on aggregate demand, on the effects of financialisation on industrial performances, and on the effects of labour market reforms upon unemployment and income inequalities; and Roventini and Fagiolo (2016), on the pitfalls of the dominant DSGE-based approach to policy analysis. On the topic of industrial policy, see Mazzucato (2015) on the dependence of long-run strategic investments on well-crafted public policies; Lucchese et al. (2016) on industrial policy and technology; and Bogliacino et al. (2016a) on the 'virtuous circle' between innovative inputs, outputs and economic performance.

This study offers several contributions. First, it provides researchers of the ISIGrowth project, economists and scholars with an effective overview of analyses that are little known outside academia and that open up a pluralist debate on Europe's crisis and policy alternatives, sometimes with anticipatory views. Second, to European and national policymakers, this Report provides a summary of policy debates that deserve closer scrutiny and consideration, in particular where alternatives on shared prosperity, social inclusion and environmental sustainability are concerned. As the European Economic and Social Committee (EESC) acknowledges:

> To achieve political progress in a modern and democratic society, it is vital to have the support of active and committed citizens and their organisations. With the growth of globalisation, power can seem to be more and more distant from individuals. So enabling people at the grass roots to take an active role in policy-shaping and decision-making is key to the democratic legitimacy of public institutions and their work. Policies will be more successful if they are based on consensus, and work in the general interest. The current challenges facing the EU, and their growing complexity, mean that the consent of civil society organisations is more important than ever. The experience and specialised knowledge they embody can make political decision-making better and more credible. This helps the wider public to understand and engage with decisions, and therefore to implement them more effectively (EESC 2016a).

Third, to the broad world of civil society this Report provides a comprehensive view of the state of ideas, actions and proposals, bringing together in a unified context the many initiatives that have emerged – and that often fail to build bridges with similar activities due to the fragmentation of civil society organisations, the frequent focus on 'single issue' campaigns and the difficulty to have a Europe-wide perspective.

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[3] Organisations that are member of the Civic Action Network of the ISIGrowth project include ATTAC Europe, ETUI, EuroMemorandum Group, Finance Watch, Friends of the Earth Europe, Kyoto Club, New Economics Foundation, Sbilanciamoci!, Tax Justice Network, Transnational Institute and WWF Europe. We thank them warmly for their participation, interest and feedback.

The policy themes that are addressed in this Report include those that have a direct bearing on the goals of the ISIGrowth project. This explains the absence from the study of several policy topics that are highly relevant in Europe's agenda – such as migration, ethnicity, gender issues, foreign and neighbourhood policy, conflict resolution and peace, organised crime, corruption and the rule of law. For similar reasons, within the economic, social and environmental issues that are relevant for the ISIGrowth project, the perspectives and views that could bring a more direct contribution to the research and policy agenda of the project have received particular attention. More in general, the national and international civil society organisations presented in this Report should be understood as being simply the tip of a much larger iceberg; all European countries possess an invisible critical mass that on various occasions has proven capable of wielding a significant international impact.

The policy areas covered in the text include: macroeconomic policies; tax policy; finance; trade and investment policy and the TTIP negotiations; industrial policy; environmental sustainability and climate change; technology; labour, employment and wages; inequality; economic governance and democracy. Each section includes a critical analysis – from the perspective of European civil society and of progressive movements in general – of the key problems relating to each macro area, followed by an overview of the policy alternatives that have been proposed. The evidence presented in this report has come from a careful monitoring of the initiatives carried out and from reviewing the vast body of work produced by European civil society organisations, trade unions, think tanks and scholars associated with them, with particular attention to the organisations that have accepted to be members of the Civic Action Network of the ISIGrowth project.

Seven main conclusions can be drawn from the study. First, there is no denying the intellectual vitality of European civil society. The range and depth of the analyses and policy alternatives proposed by civil society that emerge from the Report are indeed remarkable. There is a 'subterranean' knowledge and understanding of the impact of Europe's crisis and of the possible ways out of the crisis that needs to be recognised and fully integrated in the academic and policy debate. Indeed, the study covers only a fraction of a very large production of analyses and initiatives. Still, the major streams of activism and search for alternatives at the European level – covering an extensive policy ground – clearly emerge from the study.

Second, when we look at the analyses and forecasts on the impact of the crisis in Europe, the accuracy of many civil society evaluations is notable. In hindsight, we can see that critical scholars and poorly funded civil society organisations have predicted the (negative) outcome of several European economic policies with a much greater accuracy than the official forecasts of bodies such as the European Commission, ECB or IMF (OFCE et al., 2015, 2016; EuroMemo, 2015, 2016; Pianta and Bramucci, 2013).

Third, as noted by Joseph Stiglitz, many of the criticisms made by civil society in recent years and initially ignored or dismissed by governments and mainstream academics – on issues such as the impact of austerity, the rise of inequality, too-big-to-fail banks, etc., to name just a few – are now increasingly shared by mainstream organisations, think tanks and government agencies (Stiglitz, 2012a). The most striking recognition has come from the IMF, which in a series of recent works has reversed several of its standard policy recommendations, on the basis of the evidence provided by its own research. In a summary of policy suggestions derived from studies on fiscal austerity and liberalisation of capital flows with the unexpected title 'Neoliberalism: oversold?', IMF authors argue that 'these findings suggest a need for a more nuanced view of what the neoliberal agenda is likely to be able to achieve. The IMF… has been at the forefront of this reconsideration' (Ostry et al., 2016, p. 41):

In sum, the benefits of some policies that are an important part of the neoliberal agenda appear to have been somewhat overplayed. In the case of financial openness… [for] short term capital flows the benefits to growth are difficult to reap, whereas the risks, in terms of greater volatility and increased risk of crisis, loom large. In the case of fiscal consolidation, the short run costs in terms of lower output and welfare and higher unemployment have been underplayed, and the desirability for countries with ample fiscal space of simply living with high debt… is underappreciated (ibid., p. 40).

In addition, the IMF has also recognised that high inequality is bad for growth and that trade unions and centralised wage bargaining are good for limiting inequality. An IMF Staff Note concluded that 'lower net inequality is robustly correlated with faster and more durable growth' and that 'redistribution appears generally benign in terms of its impact on growth' (Ostry et al., 2014, p. 4). Other IMF research found that 'if the income share of the top 20 per cent (the rich) increases, then GDP growth actually declines over the medium term' (Dabla-Norris et al., 2015) and that the decline of unionisation is a major factor in rising income inequality (Jaumotte and Osorio Buitron, 2015). The IMF policy advice to countries has long been that growth had to be sustained by lower taxes and public expenditure aiming at redistribution and that unions were a major problem for the efficient operation of labour markets. A change in views and in economic policy recommendations thus appears to be possible, even in the centres of global economic power. This could encourage a rethinking of European policies in these fields. Two recent additional examples of critical reconsiderations are also relevant. In July 2016 the UK Commission chaired by Sir John Chilcot published its report documenting how flawed the decision by the then UK prime minister Tony Blair to start the Iraq war was – a war which was heavily opposed by European civil society. The July 2016 announcement by former European Commission president José Manuel Barroso that he was joining Goldman Sachs International has set off a strong reaction among many EU politicians and organisations, generating a renewed interest in the need to avoid the 'revolving door' effect and the conflicts of interest arising when European officials move to and fro the business sector and major financial groups.

Fourth, on the issues of environmental sustainability and action on climate change, the arguments that 'green' organisations have developed for decades have obtained a significant recognition in the policy agenda emerging from the conclusions of the COP21 conference held in Paris in late 2015, where the European Union played an important role. Such developments are encouraging lessons also for other domains.

Fifth, the wide variety of themes that are reviewed in this study shows that the scope of civil society activities on European policy issues has indeed been broad and significant. One of the contributions of this Report is to bring them all together in a coherent framework and with an integrated perspective. In fact, a close reading of these highly diverse views and initiatives allows to identify a number of common, persistent, shared values and views that are key drivers of a large part of civil society activities in Europe. They include the criticism of neoliberal policies, from liberalisation of finance to austerity; the need to protect labour and welfare rights and to reverse inequality; the need for putting environmental sustainability at centre stage; the need for greater democracy and participation at the European level. As such, these demands reflect many of the core values on which European integration has been constructed, which are widely shared by Europe's citizens. However, Europe's policies have shown a striking lack of responsiveness to such demands.

Sixth, even though national developments are outside the scope of this Report, there is a clear evidence that some civil society views and activities in particular countries emphasise the need for a return to national authority and policy processes in several fields – abandoning the euro and the monetary union; emphasising domestic fiscal authority; rejecting Europe-wide welfare and labour rules, etc. This is a result of the failure of European policies in these fields to adequately respond to the crisis, making Europe unpopular as never before – as documented by the Eurobarometer surveys (European Commission, 2015e). A new space has opened up for national political processes, including the rise of populism in many countries. A major novelty in this regard has been the outcome of the British referendum on the country's membership of the European Union held in June 2016, with a majority of voters supporting the 'Brexit' option.

The large majority of civil society views and policy proposals that are reviewed in this study have a Europe-wide focus – that was the scope of the investigation – and share the ambition of changing European policies rather than 'opting out' of them. This, however, is not an attitude that can be assumed to continue indefinitely, regardless of the content of Europe's policies. Opinion polls – including the aforementioned ones from the Eurobarometer surveys – clearly indicate that trust in the European institutions by European citizens has fallen dramatically compared to pre-crisis levels. Growing mistrust is linked to a dramatic increase in the number of citizens for whom the EU conjures up a negative image. The proportion of those who are optimistic about the future development of the EU has dropped meanwhile from two thirds to half of the population, with the percentage of pessimists reaching two thirds in southern European Portugal, Greece and Cyprus. The decline in trust indeed accompanies the shift in assessment of the situation of the national economy, with a steep increase in those who consider it as totally bad – approximating 100 per cent in southern European countries (European Commission, 2015e; della Porta, 2015b). Unless European policies become more responsive to the demands of civil society that are summarised in this Report, the disenchantment with Europe – and the desire to return to national priorities and horizons – are likely to spread also among civil society organisations that have long been active players in Europe's policy debate.

Seventh, on the whole there is no denying that many of the proposals reviewed in this study have had little – or much delayed – reception in policymaking circles. There are various reasons for this. On the side of European and national institutions, policymaking has become increasingly distant from society and unwilling to take into consideration widespread social concerns. On the civil society side, it could be argued that the intellectual vitality of European civil society is hindered by its weaknesses, including the fragmentation of its organisations and campaigns, the frequent inability to combine action at both the national and European levels, the limited relationships with political forces and the lack of lobbying power in European circles. Bridging this chasm between the institutional dimension of Europe and the social dynamics is one of the major challenges facing European civil society – and European democracy itself.

# 1. Macroeconomic policies

## The problem

*Long-term economic damage*

Europe's response to the crisis that begun in 2008 has been a combination of fiscal austerity, supply-side structural reforms and expansionary monetary policies. Up to now these actions have failed to restore growth and employment on the continent. While other crisis-hit economies such as the US and the UK have experienced a significant recovery, overall the euro area has experienced a stagnant annualised growth rate since the beginning of 2012 (following a brief post-crisis recovery). Over the same period, various countries – such as Greece, Italy and Portugal – have experienced near-zero or even negative growth rates. As a result, real GDP in the European Monetary Union (EMU) as whole is still below the pre-crisis peak. A few countries, most notably Germany, have been able to recover from the crisis-induced GDP contraction, but their recovery is far from imposing. For the worst hit countries, the contraction has been staggering: compared to pre-crisis levels, Greece's GDP in is down more than 25 per cent, Spain's more than 5 per cent, Portugal's more than 6 per cent and Italy's GDP has shrunk by as much as 10 percentage points. Inevitably, unemployment has shot up to record levels. At current or projected growth rates, it will take countries such as Greece, Italy, Portugal and Spain many years (or decades) for their GDP to make up the loss caused by crisis (and post-crisis policies) and return to pre-crisis unemployment levels. Moreover, industrial production in the euro area is down more than 10 per cent compared to pre-crisis levels (the EU28 fared only slightly better), while investment remains below 2007 levels in 21 of 28 countries. The euro area's debt-to-GDP level, on the other hand, has reached a record-high 93 per cent, compared with a pre-austerity level of 79.3 per cent at the end of 2009. Despite a timid recovery in the EMU as whole, there is a serious likelihood of the monetary union remaining trapped in a situation of persistent low growth and low inflation or even deflation, also known as secular stagnation. Such a trap would entail sustained downward pressure on wages and employment, exacerbating the social crisis and the centrifugal political tendencies that we are currently witnessing. For an assessment of the short- and long-run damages of fiscal austerity see Dosi et al. (2016d).

*Ineffective monetary policy*

In early 2015, the ECB launched its own asset-purchasing (quantitative easing) program, with the stated aim of averting the looming threat of deflation. But the program – totalling 700 billion euros throughout 2015 and early 2016 (equal to roughly 7 per cent of the eurozone's GDP) – has thus failed to avert the deflationary tendencies. Many argue that this is because the European economy has fallen into a so-called 'liquidity trap' (Constâncio, 2015). Other unconventional monetary policies, such as negative interest rates, have also failed to provide a meaningful economic stimulus.

*From unemployment…*

The euro area's unemployment rate stands today at 10.5 per cent (17 million people), while the youth unemployment rate is 21.5 per cent (3 million people) – up from 7 and 15 per cent respectively in 2008. The figures for the EU28 are respectively 10.6 per cent (22 million) and 20 per cent (4.5 million people). Among the member states, the highest unemployment and youth unemployment rates are recorded in Greece (24.6 and 49.5 per cent) and Spain (21.4 and 47.5 per cent). This has been accompanied by a rise in the rates of long-term unemployment, implying that a large number of unemployed face increasing difficulty in finding a job, while the danger of their sliding into poverty and material deprivation correspondingly increases. This is complemented by a lack of public sector opportunities. On the contrary, cuts in public spending are accelerating this trend (ETUI, 2015, 2016).

*… to social crisis*

Poverty (including in-work poverty) and at-risk-of-poverty rates have increased significantly in all European countries since 2008, reflecting an overall decline in terms of social justice. Nearly one-quarter of EU citizens (24.6 per cent) are regarded as being at-risk-of-poverty or social exclusion – an extremely high and worrisome value. Measured against today's total EU population, this corresponds to approximately 122 million people. The gap between northern European countries and southern European countries remains very large (Eurostat; see also Schraad-Tischler, 2015; Caritas Europa, 2016). Various studies have concluded that the increase in poverty, at-risk-of-poverty and social exclusion rates is a direct result of the policies of fiscal austerity and internal devaluation pursued in recent years (Caritas Europa, 2013; ILO, 2014a). Research has also shown that austerity has increased inequality by fattening the tail of the income distribution, implying a redistribution from workers to asset owners (i.e., from the bottom majority of the distribution to the top minority) (Schneider et al., 2015).

*Fragile banks and inefficient*

Private debt is still very high in several member states as well, partly because the ongoing crisis has hampered the private sector's 'deleveraging' process (Koo, 2014). This is has resulted in the growth of non-performing loans (NPLs) across the continent. NPLs are particularly elevated in some southern countries, such as Italy, Greece, Portugal and Cyprus. And they are generally concentrated in the corporate sector, most notably among small and medium-sized enterprises (SMEs). This is reflected in the fact that, despite the cost of borrowing falling quite substantially since 2008, total loans to households and non-financial institutions remain stagnant. This has worrying implications not only for the financial stability of the euro area but also for the prospects of economic recovery, given that 'higher NPLs tend to reduce the credit-to-GDP ratio and GDP growth, while increasing unemployment', a study has found (Aiyar et al., 2015). This is also attributable to the austerity policies, which have exacerbated the recession in a number of countries, further deteriorating the balance sheets of families and businesses and, in turn, those of banks. Various researches have pointed out that the banking union, the first pillar of the European establishment's plans for a more tightly integrated and centralised Europe – which essentially prescribes that (i) the use of public funds in bank resolution should be avoided under all but the most pressing circumstances, and even then kept to a minimum, through the application of a strict bail-in approach; and that (ii) the primary fiscal responsibility for resolution should remain at the national level, with the mutualised fiscal backstop serving as an absolutely last resort – does little to resolve the 'vicious circle between banks and sovereigns' and is likely to exacerbate it (Hadjiemmanuil, 2015; Fazi, 2016). This is now being acknowledged even by high-ranking officials in a number of EU countries, including the governor of the Bank of Italy Ignazio Visco (Za, 2016).

*Current account imbalances*

As for intra-EMU current account imbalances, arguably one of the leading causes of the crisis, the rebalancing has been significant, but the adjustment has been shouldered entirely by deficit countries (through decreased imports, not increased exports). That is, deficit countries have sharply reduced their current account deficits, but surplus countries have not reduced their current account surpluses, with Europe's overall adjustment essentially premised on demand emanating from outside of Europe. The result has been that the EMU as a whole, which had an overall balanced external position in 2007, in early 2016 registered a record-high – and growing – current account surplus of 3.7 per cent of GDP (Eurostat). The net result has been a deflationary bias for the euro area (and particularly for periphery countries), as well as for the world economy (US Department of the Treasury, 2013; OFCE et al., 2016). As global demand experiences a dramatic slowdown, an export-led solution to the crisis appears more unlikely than ever (Saraceno, 2015). Yet, there seems to be little awareness of this at the institutional level, as governments and European institutions continue to push for competitive liberalisation as an alleged solution to the crisis, most notably through the proposed Transatlantic Trade and Investment Partnership (TTIP).

*Completing the EMU?*

The global financial crisis exposed the euro's original sin of depriving member states of their fiscal autonomy without transferring this spending power to a higher authority. This left member states utterly defenceless in the face of economic crises, as the 2008 booms-gone-bust made amply clear. There are now a number of high-level reports on the table – most notably the European Commission's *Completing Europe's Economic and Monetary Union*, also known as the 'Five presidents' report' (European Commission, 2015d), which echoes similar reports prepared by the European Council, the European Central Bank and the Eurogroup (see, for example, European Council, 2012) – that propose to address this structural flaw by creating a fiscal and political union. The basic premise of all these reports is that the current architecture of the EMU – that of a 'currency without a state' – is untenable. That is, it is not realistic to maintain a monetary union with a centralised monetary policy but lacking a common fiscal and economic policy capable of addressing the systemic macroeconomic imbalances that are bound to arise between member states. So, in order to survive, the eurozone needs to swiftly move towards a banking, economic, fiscal and ultimately political union. This would be a welcome development, were it not for the fact that the union envisioned in these proposals falls very short of the kind of fiscal and political union advocated by progressive federalists and raises a number of worrying issues from both political and economic standpoints. As noted by Philip Arestis and Malcolm Sawyer, an effective fiscal union would require tax-raising powers at the EMU level in the order of at least 10 per cent of GDP; fiscal transfers from richer to poorer countries; a federal authority with the capacity to engage in deficit spending; the support of the ECB in the operation of fiscal policy; a proportionate transfer of democratic legitimacy, accountability and participation from the national to the supranational level; etc. (Arestis and Sawyer, 2012). The European Commission's proposed 'fiscal union', on the other hand, if the German finance minister Wolfgang Schäuble's recent call for a 'fiscal and political union' backed by a 'euro budget' (echoed by the governors of the German and French central banks, Jens Weidmann and François Villeroy de Galhau) is anything to go by, is likely to revolve around the creation of a European budget commissioner with the negative power to reject national budget – a supranational fiscal enforcer – while providing little (if anything) in terms of federal-level funding (Varoufakis, 2015; Lamers and Schäuble, 2014; Villeroy de Galhau and Weidmann, 2016). Such a development would likely be politically unsustainable, further exacerbating the union's centrifugal tendencies.

## Proposals of civil society

*Ending austerity*

In recent years, much effort has focused on the need for alternatives to Europe's macroeconomic policies. Most proposals have revolved around the need for reversing the austerity policies. Austerity (fiscal consolidation) has been the subject of intense debate ever since it became the focus of Europe's crisis-response policies in 2010. Despite claims by the then president of the ECB, Jean-Claude Trichet, and other members of the European establishment, as well as a number of prominent economists and academics, that austerity would not harm growth – in fact would *boost* growth, in line with expansionary fiscal contraction (EFC) theories (Giavazzi and Pagano, 1990; Trichet, 2010) –, various critical and non-mainstream scholars and economists (including Paul Krugman, Joseph Stiglitz and Paul De Grauwe) pointed out at the time that austerity would trigger and all-out recession and kill the fragile post-crisis recovery (Krugman, 2010; Stiglitz, 2010, De Grauwe, 2011). They argued that basic economic theory suggests that other things being equal, cutting government spending causes the economy's overall output to fall, tax revenues to decrease and spending on welfare benefits to increase; almost invariably, the end result is slower growth (or a recession/depression). Moreover, they noted that in countries with already anaemic economic growth, austerity could engender deflation. Such austerity packages can also cause a country to fall into a liquidity trap, causing credit markets to freeze up and unemployment to increase.

Events would appear to have proved them right: following the introduction of fiscal consolidation measures across the EMU (particularly in those countries subject to bail-out programmes), the euro area fell back into recession in the third quarter of 2011. Various studies, mostly based on the latest research into 'fiscal multipliers', have attributed the euro area's below-average post-crisis economic performance (compared to the rest of the world) to the policies of fiscal consolidation of recent years (Truger, 2015)[4]. The fiscal multiplier measures the negative impact of fiscal consolidation on growth, and specifically how much a country's economic output changes for each euro of budget cuts and/or tax increases. The multiplier typically used by the IMF and other international organisations in 2010 to forecast the impact of austerity on economic growth was 0.5, meaning a 0.5 per cent reduction in GDP for every 1 per cent of fiscal consolidation. This in itself should have been a reason for concern, given that in early 2010 Europe was still reeling from the post-crisis economic shock. Late 2012 and early 2013, though, marked the beginning of a growing ideological divergence between the IMF and the other two members of the *troika*, the European Commission and the ECB. Two IMF officials, chief economist Olivier Blanchard and economist Daniel Leigh, admitted that the Fund had wildly underestimated the impact that the radical austerity measures prescribed to the countries of the periphery would have on economic growth (Blanchard and Leigh, 2013; IMF 2012a, 2012b).

They estimated that in the case of the European austerity and structural adjustment programmes started in 2010, the multiplier was between 0.9 and 1.7, meaning that in some cases 1 per cent of fiscal consolidation resulted in GDP contracting by as much as 1.7 per cent. In light of these findings, one study concluded that fiscal consolidation in the eurozone over the 2011-13 period reduced GDP by 7.7 per cent (Gechert et al., 2015). Another study concluded that, had the peripheral economies of the EMU implemented fiscal austerity only half as severe over the 2010-13 period, Greek GDP would be nearly 14 per cent higher, Spain's GDP would be nearly 10 per cent higher, whilst Portugal's and Ireland's economies would have shrunk by 5.5 per cent and 3.5 per cent less respectively (Oxford Economics, 2013). The study also concluded that across the five PIIGS, the number of unemployed would be 1.2 million lower if fiscal austerity had been less severe.

It is worth nothing that the alternative narrative of the crisis put forward by critical scholars and academics from 2010 onwards – centred around the notion that the root cause of the euro crisis lies not in the alleged profligacy of governments, but in the fundamental economic imbalances that have resulted from three decades of financial deregulation and neoliberal economic policies, further exacerbated by the EMU's architecture – has today been taken up by a growing number of mainstream economists and political institutions. In 2014 Progressive Economy, the think thank of the Socialists and Democrats Group in the European Parliament, launched a 'Call for Change', supported by renowned economists such as Jean-Paul Fitoussi, Peter Bofinger, Stephany Griffith-Jones and others (Progressive Economy, 2014). It stated that '[y]ears of devastating austerity policies did not limit or shorten the downturn; they made it deeper and longer than it would otherwise have been', and called for a 'a comprehensive policy involving income stabilisation, a more considered and growth-oriented approach to fiscal consolidation, increased social and infrastructure investment, debt restructuring, and social support would have produced both stronger economic performance and a better debt and financial outlook'.

[4] Truger (2015) offers an exhaustive overview of the recent (and less recent) literature on the fiscal multiplier.

In November 2015, dozens of leading economists undersigned a document aimed at establishing 'a consensus-narrative of the causes of the eurozone crisis' (Rebooting Consensus Authors, 2015). It states that 'the eurozone crisis should not be thought of as a government debt crisis in its origin – even though it evolved into one' and that 'the real culprits were the large intra-eurozone capital flows that emerged in the decade before the crisis'. When the financial crisis hit, this led to a 'sudden stop with monetary-union characteristics', which was then exacerbated by 'the incomplete institutional infrastructure' – in particular the lack of a lender of last resort and the impossibility for countries to resort to currency devaluation.

Over the years, as the crisis deepened, the appeals for a radical change of course coming from groups of critical economists, trade unions and civil society organisations have proliferated. In recent years, a wide range of concrete proposals for reversing austerity has been developed by groups of critical researchers such as:

- The EuroMemo Group: a pan-European network, founded in 1995, that includes critical economists from a wide range of European countries. It holds an annual conference and publishes an annual *EuroMemorandum* which provides a critical analysis of recent developments in the European Union and is available in several European languages. The 2013 edition of the annual *EuroMemorandum*, backed by 350 European economists, called for limiting the freedom of action of the financial sector, enhancing the role of the European Central Bank as lender of last resort, replacing austerity with policies of increasing public demand, wage support, full employment and shorter working hours.
- The European Progressive Economists Network (Euro-pen): Euro-pen brings together groups of economists and other researchers, institutes and civil society coalitions who are critical of the dominant economic and social policies.
- Les Économistes Atterrés: organisation of French critical economists that in 2010 authored an anti-austerity manifesto that was undersigned by more than 700 economists and went on to become a bestseller in France. The *Manifeste d'économistes atterrés* (Économistes Atterrés, 2010) dismantles the 'false certainties' of the virtuous functioning of markets and proposes severe restrictions on those financial activities that brought speculation and crisis. In a second book, the same group denounced the Fiscal Compact: with its requirements for balanced budgets and the reimbursement of the public debt in excess of 60 per cent of GDP, the French economists argued that the Fiscal Compact is contributing to the depression of Europe's economy (Économistes Atterrés, 2012).
- Sbilanciamoci!: Italian campaign involving 46 associations, NGOs and networks working on globalisation, peace, human rights, environment, fair trade, ethical finance and development cooperation. Since 1999 Sbilanciamoci! has proposed alternatives to the Italian budgetary policies, arguing for social and environmental priorities. In 2012, Sbilanciamoci! launched a debate on 'Europe's course' (Rossanda and Pianta, 2012), hosted by *openDemocracy* (www.opendemocracy.net/can-europe-make-it) and other European groups. A forum on 'The way out of Europe's crisis' was attended by 800 people in Florence on 9 December 2011, at which the idea of a European appeal was first discussed. The appeal 'Another Road for Europe' was then launched in May 2012 by a large number of European intellectuals and activists. The Appeal called for a debate on these issues at the European Parliament, which was subsequently held on 28 June 2012, at the same time as the European Council meeting.
- ATTAC: founded in France in 1998 with the aim of promoting the Tobin Tax, today the association is active in some 40 countries, with over a thousand local groups and hundreds of organisations supporting the network.
- The New Economics Foundation (NEF): the UK's leading think tank promoting social, economic and environmental justice.
- The Transnational Institute (TNI): the long-established think tank and campaign group, chaired by Susan George, has carried out work on power and democracy in the EU and on several specific campaigns (George, 2012).

- Corporate Europe Observatory (CEO): a research and campaign group working to expose and challenge the privileged access and influence enjoyed by corporations and their lobby groups in EU policymaking.

Similar initiatives have been launched by organisations that are linked in various ways to European political forces:

- Progressive Economy: the think thank of the Socialists and Democrats Group in the European Parliament, created in 2012 with the aim of generating a truly public and informed debate on economic and social policy at national, European and global levels and actively promote progressive thinking at academic and at political levels.
- The independent Annual Growth Survey (iAGS): the iAGS is supported by the Socialists and Democrats Group in the European Parliament and brings together a group of internationally renowned economists to provide an independent alternative to the Annual Growth Survey (AGS) published by the European Commission. Its partners are OFCE (Observatoire français des conjonctures économiques), the French Economic Observatory; IMK (Institut für Makroökonomie und Konjunkturforschung) from Germany and ECLM (Economic Council of the Labour Movement) from Denmark.
- The Rosa Luxemburg Stiftung: as the foundation affiliated to Die Linke party in Germany, it is one of the largest political education institutions in Europe today. It has 17 regional offices around the world.
- Transform! Europe: the political foundation of the European Left Party (GUE/NGL) at the European Parliament is a network of 28 European organisations from 19 countries, active in the field of political education and critical analysis.
- The Green European Foundation: the research foundation of European Greens has produced several studies on policy alternatives named 'A Green New Deal for Europe', including a green investment plan.

Alternative economic policy proposals have also been developed by trade union organisation such as:

- The European Trade Union Confederation (ETUC): a Europe-wide organisation comprising 90 national trade union confederations from a total of 39 European countries.
- The European Trade Union Institute (ETUI): the independent research and training centre of the ETUC, which conducts studies on socio-economic topics and industrial relations and monitors European policy developments of strategic importance for the world of labour.
- The European Public Service Union (EPSU): federation of more than 250 independent trade union organisations representing more than 8 million workers in public services in Europe.

A consistent position of these groups throughout the years has been that the key to a sustained recovery is fiscal policy, both to stimulate internal demand and to boost investment levels. These studies have generally anticipated the negative effects of austerity on growth and have identified several ways in which a fiscal stimulus could be launched. The broadest contributions that have come from civil society voices on alternative economic policies for Europe include George (2004, 2008, 2010, 2012), EuroMemo (2015, 2016), Économistes Atterrés (2012), Marcon and Pianta (2013). A technical assessment of the negative effects of 'discipline-guided' fiscal rules, and the need for counter-cyclical fiscal policy and employment-targeted monetary policy to overcome deep recessions, can be found in Dosi et al. (2015). Specific contributions by such organisations and researchers will be discussed below in the relevant sections of this report.

*A Europe-wide investment programme*

In November 2014, the European Commission's Investment Plan for Europe (IPE), also known as the 'Juncker Plan', was announced with great fanfare. The aim was to unlock public and private investments in the 'real economy' of at least €315 billion over a three-year period. As of September 2015, though, over 90 per cent of investment foreseen was in countries with per capita GDP levels above the EU average (OECD, 2016). Various groups have argued that to enable economic development, employment, education and training, particularly in the countries and regions that need it the most, a much larger European investment plan is needed (see the chapter on 'Industrial policy' below). This position is now shared by international organisations such as the IMF and the OECD (see, for example, IMF, 2014, 2015; OECD, 2016; Turner, 2016; Summers, 2014; Wolf, 2013; Münchau, 2016). Ideally, it is argued that this fiscal stimulus should take the form of an ambition Europe-wide federally-funded public investment scheme, aimed at providing an immediate stimulus to demand (in the context of a coordinated reflation of the European economy) as well as creating the conditions for long-term growth and for overcoming divergences and inequality within the EU/EMU.

This could be achieved within the current institutional and constitutional framework to which European governments have already agreed. As Yanis Varoufakis, Stuart Holland and James K. Galbraith have pointed out in their *Modest Proposal*, an Investment-led Recovery and Convergence Programme (IRCP) could be co-financed by bonds issued jointly by the European Investment Bank (EIB) and the European Investment Fund (EIF), which has a remit to invest in health, education, urban renewal, urban environment, green technology and green power generation. This could be carried out within member states and would not require fiscal transfers between them (Varoufakis et al., 2013). A number of similar plans have been put forward in recent years by trade unions and civil society organisations. These include the ETUC's *New Path for Europe*, the DGB's *Marshall Plan for Europe*, industriAll's *Manifesto to put the Industry Back to Work*, the Greens/EFA's *Green New Deal* and Transform! Europe's proposals for 'a Left industrial and investment policy for Europe', just to name a few (ETUC, 2013a; DGB, 2012; Greens/EFA, 2009; industriALL, 2014a; Transform!, 2015a). In 2014 the European Citizens' Initiative 'New Deal 4 Europe – For a European Special Plan for Sustainable Development and Employment' was launched, bringing together trade unions, civil society organisations and mayors of important European cities (New Deal 4 Europe, 2014). The introduction of a 'golden rule' for public investment, to provide national governments with greater policy space, has also been proposed (Truger, 2015), and has recently been taken up by the Italian government.

*Alleviating the debt burden*

Various civil society analyses have focused on the need for alleviating the excessive debt burden of a number of European states. The case of Greece is paradigmatic: with a debt-to-GDP ratio of close to 180 per cent and few growth prospects, even the IMF has recognised that the country's public debt level is 'highly unsustainable' (Maltezou, 2016). Though Greece's European creditors have yet to agree to debt relief, a breakthrough was made in mid-2016, when the creditors agreed to provide long-term restructuring (likely in the form of maturity extension, not nominal debt cuts), beginning in 2018, to keep Greece's financing costs below 20 per cent of GDP by 2060 – a threshold demanded by the IMF to ensure debt sustainability. While this is a welcome step forward, it falls short of the more radical demands for debt restructuring – not just for Greece but for the EMU as a whole – put forward by academics and civil society organisations. The aforementioned *Modest Proposal* by Varoufakis et al., for example, contained a proposal for a Limited Debt Conversion Programme (LDCP), whereby the ECB would act as a go-between between investors and member states, orchestrating a conversion-servicing loan for the Maastricht-compliant portion of member states' sovereign debt – that is, the portion of sovereign debt up to 60 per cent of GDP – for the purposes of redeeming those bonds upon maturity (Varoufakis et al., 2013). A similar plan, the so-called PADRE (Politically Acceptable Debt

Restructuring in the Eurozone) has been developed Pierre Pâris, Charles Wyplosz (Pâris and Wyplosz, 2013). The plan involves an agency that acquires at face value a share of existing public debts and swaps them into zero-interest perpetuities. In practice, therefore, the corresponding debts are wiped out. To that effect, the agency borrows on the financial markets the amount needed to acquire the debts. As it pays interest on its obligations and receives no interest on the perpetuities, the agency makes losses. As it rolls over its obligations, its losses are forever. Existing bondholders are fully protected, eliminating any risk of banking crisis. Detailed analyses and proposals concerning the issue of sovereign debt in the euro area are also at the centre of various volumes produced by the ATTAC campaign (see, for example, ATTAC, 2011). Calls for a European debt conference have been made by Alexis Tsipras, and the Party of the European Left is working towards a European Debt Conference, scheduled for 2017.

Concerning the interrelated issue of excessive private debt levels and ailing banks, Progressive Economy has called for a European banking strategy to truly break the toxic link between national governments and national banks – which, as noted, the banking union does not do – and permit EU institutions to resolve failed banks wherever they may be found: 'The recent agreement on banking union leaves national decision-makers responsible for the resolution of national banks, and that is a formula for problems. An effective banking union or case-by-case process must have a common recapitalisation fund and resolution authority empowered to restructure insolvent banks and return them to competent private hands. The key is to have efficient, workable and apolitical institutions and procedures' (Progressive Economy, 2014).

*Demands for greater national fiscal flexibility*

Given the political problems associated with the implementation of the 'federal' proposals presented above, it has been suggested that, in the short term, the immediate emphasis should be on re-focusing national fiscal strategies in ways that allows individual countries to pursue counter-cyclical policies while minimising mutualisation costs, as noted in the most recent (2016) EuroMemorandum report. This is a sensible option, as indicated by the comfortable budgetary positions of a number countries – most EU and EMU countries now run balanced or surplus budgets – and by the minimal rates of interest at which they can borrow. Moreover, this has already been accepted in principle (albeit on a much smaller scale than what is being suggested here) with regard to countries like Italy, Spain and France, which in recent years have all secured some extra fiscal room in meeting the debt reduction targets prescribed by the Fiscal Compact. As the EuroMemo Group and others have suggested, though, for such a policy to achieve a meaningful impact, the Fiscal Compact and its ill-defined 'structural budget balance' should be dropped altogether and replaced with an agreement between member states on the need for fiscal policy to focus on the pursuit of high and sustainable levels of employment. This would mean adopting much more flexible deficit- and debt-to-GDP targets, and subordinating these to employment-, inflation- and/or growth-related targets (Fazi, 2014, pp. 191-194). As noted in the Progressive Economy 'Call for Change' manifesto:

> A more balanced approach to public finances and sufficient public investment are the two pillars of a growth-oriented fiscal policy. In the short run, a more considered and growth-oriented approach to fiscal consolidation should be permitted on a country-specific basis and national budget policies must be encouraged to provide once more for necessary investments in infrastructures (with particular attention paid to environmentally-friendly infrastructure investments), research, and social investments (that, for example, focus on health, childcare, education, and training). As a first step in this direction, the European Commission should at last start to take due account of government's productive public investment expenditures when conducting surveillance of government finances. In the longer run, improved EU procedures and rules on the conduct of national budget policies must avoid any pro-cyclical bias, such as the one that has prevailed during this crisis. They will need to provide for a more positive policy environment for social and infrastructure investment as well as for sufficient responsiveness against unexpected economic shocks (Progressive Economy 2014).

Richard Koo has suggested adopting a balance sheet recession approach to the problem (Koo, 2012, 2014, 2016; see also Fazi and Iodice, 2016b). This means understanding that a number of eurozone countries, especially those of the periphery, are in so-called balance sheet recession – a situation in which individual and companies, following the burst of a debt-financed bubble, collectively focus on saving rather than spending, thus reducing aggregate demand – and should thus be allowed to pursue much more expansionary fiscal policies until private sector balance sheets are repaired. More specifically, it means that private-sector savings levels have to be taken into account when evaluating the 'optimal' fiscal stance of member states. According to 2015 flow of funds data, private-sector savings amounted to 10.8 per cent of GDP in Ireland, 7 per cent for Spain, 6.8 per cent for Portugal and 6.3 per cent for Italy (Koo, 2016). This means that there are sufficient levels of excess (i.e., unborrowed) savings to support a fiscal expansion in the order of 6-8 per cent of GDP in most periphery countries. To ensure that idle savings in periphery countries do not flow abroad but are invested in local government bonds, Koo has suggested 're-internalising' fiscal policy in the EMU: i.e., prohibiting member states from selling government bonds to investors from other countries. The proposed new rule would allow individual governments to pursue autonomous fiscal policies within its constraint. In effect, governments could run larger deficits as long as they could persuade citizens to hold their debt. A softer version of this plan would involve the introduction of different risk weights for local and foreign bonds.

Finally, policies for recovery and rebalancing must not be gender-blind: all fiscal measures undertaken should be done within the framework of gender budgeting so as to ensure that they do not have a male bias and/or tend to strengthen the traditional male bread-winner model (EuroMemo, 2016).

*The role of the ECB*

It goes without saying that all the aforementioned programmes of national reflation would require the support of the ECB. At the very least, the central bank must commit to sustain the national fiscal expansions by continuing its non-conditional bond-buying (QE) program, thus keeping borrowing costs down, until the employment-, inflation- and/or growth-related targets are met (Fazi, 2014, pp. 191-194). A more radical alternative, suggested by Francesco Giavazzi and Guido Tabellini, would be for the ECB to explicitly commit to buying the long-term debt issued by member states to finance the additional deficits, without any corresponding sterilisation (Giavazzi and Tabellini, 2014). This proposal is similar to the one put forward by Adair Turner, former chief of the UK Financial Services Authority, who has suggested that the ECB should 'give carefully calibrated amounts of debt-free money to governments to spend into circulation' (Turner, 2016). It has been suggested that the ECB could further support the stimulus by implementing a so-called 'helicopter drop': i.e., by printing money and distributing it directly to the public (Muellbauer, 2014). Mario Draghi himself has acknowledged that this is 'an interesting idea' (Black, 2016). A Europe-wide campaign called Quantitative Easing for the People (QEP) – comprising more than 15 European organisations campaigning for monetary reform – was launched in 2015 arguing that 'the money created through QE should be spent into the real economy so that it can benefit individuals and society as a whole' (QEP, 2015). A similar proposal has been put forward by the new Labour leader Jeremy Corbyn.

*Current account rebalancing*

Measures are needed to address the consequences of Europe's process of asymmetric external rebalancing – whereby the reduction in the current account deficits of some member states was not matched by a reduction in the surpluses of countries such as Germany and the Netherlands, leading to an increasingly imbalanced relationship between the EMU and the rest of the world – and to ensure more symmetric forms of rebalancing are pursued in the future. The economic governance tools in place – that is, the EU fiscal rules and the Macroeconomic Imbalances Procedure (MIP) – do not provide much leverage to enforce developments in national fiscal policies that would deliver the necessary stimulus in aggregate demand. Further, the MIP treats current account surpluses less strictly than current account deficits, thus placing the onus of adjustment on deficit countries. As noted in the 2016 iAGS report: 'To restore internal balance, nominal adjustment in surplus countries has to be a priority for economic policy in the euro area. Significant fiscal stimulus or wage increases would help delivering the necessary additional import demand to reduce those imbalances and would create additional demand with positive spillover effects on growth and employment for deficit countries (OFCE et al., 2016). To simultaneously address the interrelated issues of declining salaries and asymmetric adjustment, critical economist Emiliano Brancaccio has developed the idea of a European wage standard (Brancaccio, 2012).

*The right way forward for the economic and monetary union*

There is a relative agreement among European civil society organisations that in the longer term, as noted in the recent ETUC document *Completing Economic and Monetary Union: Rebalancing European Economic Governance*, the survival of the single currency requires the creation of a true euro fiscal union (unlike the one currently being proposed by the European Commission and by national policymakers): i.e., an institution with a significant federal-level budget, substantial tax-raising powers and the ability to issue federal bonds and to run deficits and surpluses, with the support of the ECB (see, for example, ETUC, 2015). This would provide for fiscal transfers between the richer countries/regions and the poorer ones. At the present time, the EU budget is around 1 per cent of the EU's GDP and has to be balanced. To have an impact for stabilisation purposes, the budget would have to be substantially increased (to the order of at least 5-10 per cent of the EU's GDP), have to be capable of running deficits or surpluses as required by the economic conditions and designed in a progressive manner (Arestis and Sawyer, 2012; see also EuroMemo, 2015, 2016). Moreover, it is widely agreed that national sovereign debt will need to be gradually replaced with so-called 'eurobonds': federal bonds issued at a determined interest rate by the euro bloc as a whole. Eurobonds have been at the centre of a long-standing debate in Europe, and over the years various proposals have been put forward at both the academic and political-institutional level, and have received support, among others, from Jean-Claude Juncker, Carlo Azeglio Ciampi, Romano Prodi and Giorgio Napolitano. A comprehensive overview of the debate is provided in Curzio (2011). The construction of a federal fiscal policy is a very long-term project, and would bring elements of de facto political union (for such an institution to be legitimate, it would have to be accountable to some form of 'European government'; for further information see the chapter on 'Economic governance and democracy'). Yet, the single currency will arguably never be able to function successfully and sustainably without it.

*A return to national currencies*

All the aforementioned proposals fall within the framework of what has been described as 'progressive federalism', which essentially argues that the best hopes for the citizens and workers of Europe lie in a radical overhaul of the European institution – not in their rejection. This has been – and still is – the consensus view among European civil society throughout the crisis. There is a fundamentally alternative view, though, which argues that, in view of the evolution of the EMU and of the political and social forces within it, there is no prospect of reform in a direction that would favour working people and societies as a whole. Consequently, those that adhere to this view argue that the only choice for countries willing to pursue a progressive agenda is to exit the EMU and return to national currencies. Oskar Lafontaine, for example, writes:

> Sometimes it is necessary to take a step back, if progress is to be made. The European Monetary Union, designed to crown European integration, should not become its tombstone. If countries cannot comply with the austerity and other adjustment conditions without endangering democracy and social cohesion, they should be given a way out of the straightjacket of the Monetary Union and be allowed to take their fate in their own hands.

If the European Union is unable to assist countries in a truly collegial and associational way, it should proceed to dismantle the unviable Monetary Union, thus creating a fresh basis for a more credible process of integration (foreword to Flassbeck and Lapavitsas, 2015).

Wolfgang Streeck wrote that 'it is essential to stop sanctifying the single-currency regime and supercharging it… with the expectations and attributes of a post-national salvation. It would then be possible to dispense with the usual horror scenarios – Merkel's 'If the euro fails, then Europe fails' was a particularly crass example – and start seeing the single currency for what it is: an economic expedient that will have lost its *raison d'être* if it fails to serve its purpose' (Streeck, 2015; see also Bagnai, 2015). In their 2015 book, *Against the Troika*, Heiner Flassbeck and Costas Lapavitsas argue that the conditions for a progressive reform of the monetary union – the defeat in a majority of countries not only of the mainstream conservative parties but also of their right-wing, nationalist challengers; the total transformation of European social democracy in the direction of heterodox, fiscally expansionist economic policy; and the triumph of the as yet untested new left parties – are simply unattainable. They write:

Several normally realistic people – even within the Left – still dream of a fully politically unified Europe that would help overcome the difficulties currently faced by EMU. There is little doubt that this is just a dream that should not be allowed to guide political action. Its key weakness is that there is no European 'demos' that could support the functioning of political union across Europe. And nor is there any realistic prospect of such a 'demos' emerging in the foreseeable future. Indeed, the democratic rights of the European people would be severely compromised by any further attempts to bypass the nation states of Europe in the hope of creating a European 'superstate', or a political union… To believe that the same countries, with the same political systems, could create a commonly held perception across Europe that genuine political union is the way forward and, moreover, that this perception could be translated into enhanced democratic practice, is plain silly. Current experience indicates that, given the obvious inability of European institutions to manage a complex system like the EMU appropriately, the currency union was too ambitious a goal. The implicit attempt to advance more rapidly towards political union by first forming a currency union has largely failed, leaving Europe in a worse state than before. Paradoxically, if Europe is to progress again, it first has to retreat (ibid., pp. 69-70).

In recent years, a wide range of voices has turned to this view, particularly in the aftermath of SYRIZA's capitulation to the creditor institutions, with different developments in each eurozone country. A number of events on the so-called 'plan B' have been organised in Europe.

*A new ecological macroeconomic model*

In 2007-08 the global financial system was hit by a severe crisis: major financial institutions collapsed, the interbank market froze, the price of crucial financial assets fell sharply and default rates skyrocketed. The financial crisis has had a significant impact on the real economy: the unemployment rate has substantially increased in most major economies and slow or no growth has become the new norm in the global economy. At the same time – and despite the slowdown of economic activity – the environmental crisis is becoming more severe. The recent human made greenhouse gas emissions are the highest in history, the earth's temperature is increasing and natural resources are continuously deteriorating. It is thus become evermore apparent that any attempt to deal with the economic crisis by using the traditional growth policies – inside or outside the eurozone – will lead to more pollution and a higher use of natural resources, risking further economic and financial crises. Any attempt to deal with the environmental crisis by ignoring the potential adverse effects on unemployment and inequality will damage our societies and lead to more severe economic and financial crises. And any attempt to regulate the financial sector without transforming the way that it interacts with the ecosystem and the macroeconomy will fail to ensure financial stability in the long run. There is, therefore, a clear need for a new approach that will promote policies capable of dealing with all these crises simultaneously. To this end, the New Economics Foundation, in collaboration with the University of Greenwich and the University of the West of England, is developing a new modelling framework that can consistently analyse the interactions between the ecosystem, the financial system and the macroeconomy. Using insights from various fields, such as post-Keynesian economics and industrial ecology, the project aims to create a new modelling framework can become the basis for developing this new approach by, for the first time, making clear the links between the ecosystem, the financial system and the macroeconomy (NEF, 2015c). A similar approach can be found in Roventini and Fagiolo (2016), which shows the theoretical, empirical and political-economy pitfalls of the dominant DSGE-based approach to policy analysis, and suggests a more fruitful research avenue based on an understanding of the economy as a complex evolving system.

*Measuring progress, beyond GDP*

The very definition of economic growth – as measured by GDP – has been challenged by an expanding body of work by civil society organisations and scholars. While in the post-war decades increases in GDP came along with improvements in social conditions – infant mortality, life expectancy, literacy rates, etc. – giving legitimacy to the use of GDP in policymaking, with the recent crisis a much greater awareness has emerged on the problematic aspects associated with a measure of growth based on GDP alone, including the lack of environmental sustainability, inequality and social problems, financial speculation, etc.

These arguments were first developed in a series of influential studies by the Club of Rome (Meadows et al., 1972), Nordhaus and Tobin (1972), and Daly and Cobb (1989), to name just a few. The result of this process is that we can count today on a large number of scientific articles, studies and works that propose alternative indicators to GDP and aim at substituting, improving or flanking GDP (Stiglitz et al., 2008; Goossens et al., 2007; Gadrey and Jany-Catrice, 2005). Moreover, recently, the Stiglitz-Sen-Fitoussi Report (Stiglitz et al., 2009) and OECD initiatives such as the World Forums on Statistics, Knowledge and Policy, the Global Project on Measuring the Progress of Societies and the Better Life Initiative, have brought this issue into the area of mainstream policy (Giovannini, 2009). Among the most relevant steps within the international policymaking arena are the European Commission's (2009) Communication on 'GDP and beyond', the ESS (2011) Sponsorship Group on Measuring Progress, Well-being and Sustainable Development, the Pittsburgh G20 document Framework for a Strong, Sustainable and Balanced Growth (G20, 2009), and the Rio+20 final document *The Future We Want* (UN, 2012) calling for the definition of global Sustainable Development Goals and of 'broader measures of progress to complement gross domestic product in order to better inform policy decisions' (ibid, par. 38).

Civil society actors have played a crucial role in the collection, production, reworking, use, analysis and/or visualisation of 'beyond GDP' data and statistics. In particular, their engagement has led to a flourishing of proposals and tools to integrate GDP with new sets of statistical indicators that incorporate and synthesize the amount of information related to the assessment and measurement of well-being (an overview of civil society initiatives, at all territorial levels, can be found on the website wikiprogress.org, an open and crowd-sourced database of well-being and sustainability projects from around the world). To this end, civil society organisations have activated their social and scientific resources and skills, from public protest and advocacy to consultation or cooperation with institutional bodies such as statistical institutes (Rondinella et al., 2015; Hall and Rickard, 2013; Redefining Progress, 1998).

In this context it is worth mentioning the groundbreaking initiatives carried out by two members of the ISIGrowth Civic Action Network: Sbilanciamoci! and the New Economics Foundation. Sbilanciamoci! produced more than ten years ago a composite indicator to measure and compare well-being among Italian regions: the QUARS Index (Index of Regional Quality of Development; Sbilanciamoci!, 2012). Sustainable well-being is defined by a good quality of development, where the economic dimension (production, distribution, consumption patterns) is compatible with environmental and social factors, where the social and health services meet the needs of all citizens, where participation in cultural life is alive, where economic, social and political rights and equal opportunities are guaranteed and where the environment is protected. The QUARS Index is composed by 41 variables grouped in 7 dimensions: Environment (environmental impact and policies adopted to mitigate its effects); Economy and labour (working conditions and income distribution); Rights and citizenship (accessibility of services and social inclusion); Education and culture (education of the population, participation to cultural activities); Health (quality, proximity and efficiency of health services, health conditions of the population); Gender equity (absence of sex-based barriers to economic, political and social life); and Democratic participation (political and social participation). The QUARS Index offers a comprehensive picture of well-being in Italian regions, ranking them while synthesizing in a single number the differences provided by the analysis of the 41 variables taken into account. At the same time, the creation of a sustainable well-being index for Italian regions is meant to provide an advocacy tool to pressure politicians and public institutions towards the implementation of well-being sensitive and centred policies, within an inclusive and sustainable growth model.

The New Economics Foundations has produced the Happy Planet Index (HPI). The HPI is an international measure of sustainable well-being measuring the ecological efficiency with which 151 countries in the world achieves well-being and health for the whole population (NEF, 2012). In other terms, it is an efficiency measure, ranking countries on how many long and happy lives they produce per unit of environmental input. Moreover, the HPI is one of the first global measures of sustainable well-being, and it undoubtedly represents a groundbreaking civil society initiative which has paved the way towards the taking up of the 'beyond GDP' international debate. It is based on global data on experienced well-being, life expectancy and ecological footprint to generate an index revealing which countries are most efficient at producing long, happy lives for their inhabitants.

Civil society extensive engagement with 'beyond GDP' indicators has helped to enlarge and enrich the public debate – and to gain growing attention and consideration by policymakers and public officials – on the limits of the GDP indicator in taking into account fundamental aspects that go into determining the quality of life of people (Fioramonti, 2013). In spite of this, however, GDP continues to be by far the dominant compass which orients and informs key policy decisions and choices; instead of looking at crucial aims which have to do with peoples' well-being – such as a more sustainable, inclusive and equitable development – the old paradigms of economic growth and productivity still dominate the political agenda. The elaboration and dissemination of 'beyond GDP' indicators is not a mere theoretical exercise, but has been seen by civil society groups as a political initiative, as a preparatory step towards the implementation of sustainable and equitable policy measures. Demands for legislative and administrative steps have emerged, with some progress in various countries. For example, Italy introduced in 2016 the use of the official ISTAT well-being indicators (BES) in the evaluation of the annual budget law.

*Civil society engages with political institutions*

Experts' networks, civil society groups and social movements have made a strong effort in recent years to engage with political institutions at both the national and European levels. On June 28, 2012, the 'Another Road for Europe' forum – organised by the EuroMemo Group, Sbilanciamoci!, the Transnational Institute, ATTAC, Corporate Europe Observatory, Les Economistes Atterrés, Transform! Europe, European Alternatives, FIOM-CGIL and numerous other organisations – saw civil society organisations, social movements, networks, trade unions and MEPs from the Socialists and Democrats Group, Green and United Left groups in the European Parliament, as well as national politicians, come together for a one-day discussion at the European Parliament on the on the ways out of the European crisis (Another Road for Europe, 2012). The practical demands that emerged from the forum included:

1. The transformation of the European Central Bank into a lender of last resort in the government bond market and the establishment of a Europe-wide public debt audit.
2. A radical downsizing of the financial sector, with a financial transaction tax, limitations on speculative finance and capital movements, and an extension of social control in particular over banks receiving public funds.
3. The reversal of austerity policies and a revision of the heavy conditionality imposed on countries receiving EU emergency funds, starting with Greece; the removal of the constraints of the Fiscal Compact; the move towards fiscal harmonization; putting an end to tax competition; and a shift of the tax burden away from labour towards profits and wealth.
4. The safeguard of labour and collective bargaining rights.

On March 19, 2014, on the eve of the European Parliament election, the European Progressive Economists Network (Euro-pen) organised the second 'Another Road for Europe' forum, which called for 'an alliance between civil society, trade unions, social movements and progressive political forces – notably in the European Parliament – to lead Europe out of the crisis created by neoliberalism and finance and towards a fully fledged democracy' (Euro-pen, 2014). The event was hosted by Gianni Pittella (then vice-president of the European Parliament), with the participation of the political groups of the Socialists & Democrats, European United Left/Nordic Green Left (GUE/NGL) and Greens/European Free Alliance.

*From critical analysis to social and political mobilisation*

Social movements, like other political organisations, have been long engaged in an escalating criticism of Europe as it is (or is perceived to be). The global justice and anti-globalisation movement of the late 1990s and early 2000s was certainly critical of the institutions of representative democracy. But, in opposition to 'actually existing Europe', the image of 'another Europe' – exemplified by the slogan 'Another Europe is possible' – rather than a rejection of Europe as such, was often stressed. There was a widespread consensus on the need for transnational, rather than national, movements and mobilisations. The activist wave of the anti-globalisation movement had demonstrated the increasingly transnational character of social mobilisations in a globally interconnected world. In mobilising against global institutions like the International Monetary Fund (IMF), the World Trade Organisations (WTO) or the G7/G8, activists built complex transnational alliances, acted across borders, and aimed to construct a new democratic space at the global level (della Porta et al., 2007). In this context of transnational protests, Europe acquired importance as an intermediate space between the national and the global, where common mobilisations could emerge. Europe became a crucial terrain for many activists intending to escape the narrow confines of a nation-state (perceived to be) increasingly weakened by global markets, leading to a 'Europeanization of public discourses and mobilization' (della Porta and Caiani, 2009). The degenerative impact of a 'Europe of the market' on economic welfare and of 'Europeanisation from above' on political consensus were both central concerns at the first European Social Forum in Florence in 2002. The thousands of representatives of progressive social movement organisations and the tens of thousands of activists that attended that event developed hundreds of proposal 'for another Europe'. In fact, besides the critique of existing policies at the EU level, the European Social Forums expressed eager hopes for reform, and a process of Europeanisation from below developed throughout the European forums and counter-summits, thereby contributing to the growth of EU-wide networks and identities.

This process of 'Europeanisation' of the continent's social and political movements, however, has been seriously hindered by the eruption of the 2007-8 financial crisis and the subsequent political response. The great majority of anti-austerity mobilisations have developed within a national context, associated with struggles of resistance against plant closures, unemployment, cuts in public services, or to youth protests in schools and universities. These protests have been marked by the appearance, alongside established organisations such as trade unions and political parties, of the 'subterranean politics' of the *indignados* and Occupy groups, which have been particularly active in Spain, Greece, Portugal, and the UK, where a number of occupations of public spaces and protest encampments have taken place since 2011 (Pianta and Gerbaudo, 2015). *Indignados* and Occupy groups have configured subterranean politics as fundamentally a 'civic politics' – a politics of citizens who do not feel represented by existing political institutions, including parties and trade unions, as expressed by recurrent slogans like *'no me representan'* ('they don't represent me') (Gerbaudo, 2012, 2016).

While the recession and austerity measures have been common to most EU countries, protests and activism have developed along autonomous lines in different European countries, with limited transnational cross-border coordination and vision. While rightly criticising neoliberal policies pursued at the European level, protests have mostly ended up seeing Europe only as the culprit and not also as the space where a political alternative to neoliberalism could be developed. Truly pan-European anti-austerity events have had a more limited reach and impact. Such events included the Global Change protest on October 15, 2011; the Blockupy Frankfurt protests, which have taken place once a year since 2012; the Florence 10+10 Forum in November 2012; the European strike/day of action called by the ETUC on November 14, 2012; the Brussels demonstration against the Spring meeting of the European Council in March 2013 and the AlterSummit in Athens in June 2013. The most prominent anti-austerity protest thus far has been the European strike/day of action called for November 14, 2012, which saw general strikes in Italy, Spain, Portugal and Greece, and national demonstrations across the rest of the EU. The event was historically important as the first true attempt at a general strike in Europe, and included a strong participation of *indignados* and similar groups in several countries.

In the wake of this event, an attempt to 're-create' a pan-European democratic space of grassroots dialogue among activists was made with the Florence 10+10 November 2012 meeting 'Uniting forces for another Europe'. It was organised ten years after the first European Social Forum, with the goal of looking ten years into the Europe's future. 4,000 activists from 300 networks, and organisations from 28 European countries participated in the event, including representatives from well-established EU civil society networks, trade unionists, grassroots militants, 'older' anti-globalisation veterans and 'younger' activists from the *indignados* and Occupy experiences. However, the debates on the way out of Europe's crisis remained rather fragmented, failing to lead to a shared framing of European mobilisations that could lead to widespread coordinated actions. Ultimately, Florence 10+10 was unable to overcome the difficulty in articulating a coherent vision for an alternative, post-liberal Europe. The same weakness emerged in June 2013 at the AlterSummit organised in Athens by a similar range of forces; participation, the involvement of Greek movements, and the overall impact were limited, despite the overt intentions of the organisers to create a pan-European movement.

As the austerity-fuelled economic crisis deepened, turning into a long and deep depression of Europe's periphery, and the rising power and increasing lack of legitimacy of the current technocratic institutions of the European Union became increasingly apparent, the rift between those arguing for a transnational solution to the crisis – a progressive reform of Europe 'from within' – and those suggesting a reversal of European integration, widened. As noted by Donatella della Porta:

> While at the beginning of the millennium cosmopolitan activists of the global justice movements developed critical visions of Europe and some groups participated in EU-oriented campaigns, more recent anti-austerity protests have seemingly revive a call for national sovereignty at the moment of its vanishing, most acutely in the weaker economies… While critical Europeanism is still alive, the trust in the reformability of EU institutions has taken a battering, as has confidence in the possibility of influencing EU policies through lobbying, consultations, and indeed protest and petitions' (della Porta, 2015b).

In this regard, the rise and fall of the Greek left-wing party SYRIZA was a watershed moment for many European progressives. SYRIZA's election, in January 2015, reawakened hopes of the possibility of a different Europe, one of solidarity and democracy instead of competition and top-down decisions – 'another Europe' of social justice and popular participation (della Porta, 2015b). These hope were soon dashed, as the Greek government was made to accept the onerous terms of yet another loan agreement conditional on further austerity and deregulation measures. Many, even on the left, took this as the confirmation of the fundamental impossibility of reforming the EU. As a result, we are witnessing more voices and events calling for a 'plan B', a dismantling of the eurozone and a return to national currencies (Lexit, 2016). At the moment the chances for the creation of a pan-European movement for changing Europe 'from within', as opposed to a heightening of centrifugal tendencies even among left/progressive movements, appear slim. Nonetheless, the former Greek finance minister Yanis Varoufakis has recently spearheaded the creation of the Democracy in Europe Movement 2025, or DiEM25, with the explicit aim of creating a pan-European space for debate and collective action.

## 2. Tax policy: tax cuts, havens and harmonisation

### The problem

*Trickle-down tax policies*

From the early 1980s onwards, supply-side, or trickle-down, economic theories came to dominate the tax debate. These can be summed up as the idea that economic growth can be created most effectively by improving productivity through the lowering of high-income taxes, capital gains taxes and corporate taxes, the deregulation of business and the lowering of trade barriers. This in turn will benefit society as a whole, since the increased gains of the wealthy will then 'trickle down' to the poorer members of society (Galbraith, 1982). These ideas were first put into practice by Reagan, who led the way by slashing the top marginal tax rate from 70 to 28 per cent, and reducing the maximum capital gains tax to 20 per cent, the lowest rate since the Great Depression. Similar policies were pursued by Thatcher in the United Kingdom, where capital-income tax rates fell by more than half from the 1950s to the 1980s. The same happened in all major OECD countries, where statutory rates of high-income tax fell from 60-70 per cent in the 1980s to around 40 per cent on average by the late 2000s (OECD, 2011b). For the past thirty years corporate taxes have been declining throughout the West as well. Today the European average is an all-time low of 23 per cent, almost half the US average of 40 per cent, mainly because of the lack of common fiscal policy, which means that member countries compete with each other in a bid to attract capital. It is widely agreed that these anti-redistributive tax policies have been a crucial factor in the dramatic increase in social and economic inequality witnessed in recent decades (see, for example, ibid.; for more information see the chapter on 'Inequality').

*Fiscal dumping*

In Europe, to make things worse, since the introduction of the euro member states have engaged in tax competition with each other, lowering corporate taxes, as well as taxes on high incomes and assets, in a bid to attract capital. Fiscal dumping enables some of the largest corporations operating in Europe to get away with paying even less than the (already low) European average, by resorting to increasingly sophisticated and elaborate book-keeping tricks, which are often difficult and costly to challenge in court, to game the system and avoid billions in taxes (TJN, 2014; Quentin 2014). They do this mostly by channelling their earnings through low-tax countries like Ireland, Switzerland and Luxembourg. Some of the worst offenders include global behemoths like Apple (which in 2012 ended up paying a tax rate of 1.9 per cent on its foreign earnings by running its foreign operations through Irish and Dutch subsidiaries), Amazon, Google, E-bay, Starbucks and Cisco Systems (Crivelli et al., 2015; Cobham and Gibson, 2016; Cobham and Janský, 2015). Estimating the revenue loss from tax avoidance is extremely complicated, but Richard Murphy, director of Tax Research UK, concluded in one of the most comprehensive studies to date that it could be as high as €150 billion per year (Murphy, 2012).

*Tax havens*

Neoliberal fiscal policies and the related issue of tax avoidance – that is, the utilisation by companies and top income-earners of legal (or not yet proved illegal) measures to pay less taxes – are only part of the problem, though. When it comes to the question of 'tax justice' (or lack thereof) and its repercussions on inequality and public debt, these are only the tip of the iceberg. The deregulation of capital flows in the 1980s and 1990s offered the world's wealthiest individuals and corporations an even better tool for paying less (or no) taxes: tax havens. There is disagreement over what exactly constitutes a tax haven. According to the UK-based Tax Justice Network (TJN), in today's world virtually all countries exhibit characteristics of tax havens (or 'secrecy jurisdictions') – meaning jurisdictions whose legal framework and/or conduct in practice allow individuals and companies, either resident in the country that draws the list or, more generally, any non-resident, to avoid and evade taxes, or commit other crimes such as corruption or money laundering. For this reason, it has been argued that blacklists of tax havens – such as the ones drawn up by the EU and OECD – might not be the right approach to tackle tax dodging (Meinzer and Knobel, 2015; Meinzer, 2016; Cobham et al., 2015). Nonetheless, since 2009, the TJN has published a biennial Financial Secrecy Index (FSI) as a ranking of major secrecy jurisdictions (FSI, 2015). According to the most recent (2015) index, eight of the world's 20 largest and most secretive tax havens – Switzerland, Luxembourg, Jersey, Germany, the United Kingdom, Belgium, Austria and Cyprus – are located in Europe (and with the exception of Switzerland and Jersey, are part of the European Union). Another three – the Cayman Islands, the British Virgin Islands and Bermuda – are overseas territories of EU countries. The list also includes a host of other European countries, dependencies or overseas territories: Ireland, the Netherlands, Italy, Denmark, Portugal (Madeira), Spain, Malta, Hungary, Liechtenstein, Latvia, Monaco, San Marino, Gibraltar, Andorra, Guernsey, the Isle of Man, the Turks and Caicos Islands, Montserrat and Anguilla.

Because of the innate shadiness and secrecy of tax havens, the precise amount of money that is held in these 'treasure countries' is unknown, as is the proportion that is illicit. While incomplete, the available statistics nonetheless indicate that offshore banking is a very sizeable activity, as the recent 'Panama Papers' scandal has made clear. In the most thorough study to date, James S. Henry, former chief economist at consulting firm McKinsey & Company and senior advisor for TJN, places the estimate between $21 trillion and $32 trillion (Henry, 2012). That is equivalent to 24-32 per cent of total global investments, and is as much as the US and Japanese GDPs put together. Of this, $9.8 trillion is owned by the top tier of fewer than 100,000 people who each have financial assets of $30 million or more. The sheer size of the wealth hidden offshore by this global super-rich elite is so great that it suggests that inequality, both globally and within countries – which has reached unprecedented proportions even according to official estimates – is actually radically underestimated.

This hidden money results in a huge loss in tax revenues for countries – a black hole in their economies. TJN has estimated, conservatively, that between $190 billion and $280 billion – assuming a 3 per cent capital gains rate and a 30 per cent capital gains tax rate – are lost in taxes every year by governments worldwide solely as a result of wealthy individuals holding their assets offshore (TJN, 2012). When the losses from corporate tax evasion are factored in as well, the results are even more astonishing: according to recent EU parliamentary research, revenue losses for the EU due to corporate tax avoidance could amount to around 160-190 billion euros (Dover et al., 2015). Murphy's aforementioned study estimated the revenue losses from tax evasion in the European Union to be €860 billion a year. In other words, it is likely that tax evasion and tax avoidance together cost EU member states €1 trillion a year (Murphy, 2012).

## Proposals of civil society

*More progressive taxation*

Increased progressivity of taxation is considered by most civil society organisation and progressive economists to be a *condicio sine qua non* for reducing inequality and stabilising growth (see, for example, EuroMemo, 2015, 2016; Les Économistes Atterrés, 2010-2015; Sbilanciamoci!, 2010-2016; Fazi, 2014, pp. 176-177). It is worth noting that also the OECD and the IMF provide empirical evidence that redistribution via taxes and transfers does not necessarily harm economic growth (OECD, 2015; Dabla-Norris et al., 2015). While views differ over what constitutes the optimal tax rate for high earners and corporations, there is wide agreement on the need for reducing the fiscal burden on labour and increasing it on capital, by reversing the long-term decline in the taxation of higher incomes, wealth and corporations (especially non-renewable, polluting industries). As noted in the 2016 independent Annual Growth Survey (iAGS): 'Increased progressivity in the taxation of incomes is not only a question of introducing higher marginal tax rates on high incomes; also the tax base has to be considered. Most of the tax exemptions and deductions in place today disproportionally benefit high-income and wealthy households. With the aim of broadening the tax base, these exemptions should be abolished' (OFCE et al., 2016). It is also essential to shift taxes away from labour towards immovable property, financial assets and inheritances. This is also promoted by the European Commission, which has found 'that there is scope to shift labour taxes to more growth-friendly taxes in all the Member States where there the tax burden on labour (overall or for specific groups) is high. Although steps have been taken in this direction, most Member States in this position could go further' (European Commission, 2015a). The introduction of a financial transaction tax (FTT) would also be a good step in this direction.

*Taxation of wealth*

The iAGS report further notes that 'wealth taxes are particularly suitable to pursue distributive justice, finance government spending, and strengthen economic growth at the same time' (OFCE et al., 2016). This is also recognised by the OECD, suggesting that 'governments should re-examine a wide range of tax provisions to ensure the wealthier individuals contribute their share to the tax burden' (OECD, 2015). The IMF and the European Commission refer to recurrent taxes on residential properties as an underexploited, although growth-enhancing, revenue source with a tax base that is hardly movable and hard to hide. Further, property taxes can be made progressive easily, for example via a basic allowance or by varying the tax rate with the value of the property. From an administrative point of view, transaction taxes are appealing, as transactions are easy to observe and the IMF emphasizes that compliance is expected to be large. The most prominent proposal with respect to reducing wealth inequality has been made by Thomas Piketty (Piketty, 2014). He suggests a global tax on capital ownership, meaning a tax being annually vacant, using net wealth stocks as the tax base. Accordingly, OECD and IMF regard wealth stocks as a heavily underutilised source for progressive taxation (OECD, 2015; Dabla-Norris et al., 2015). Net wealth taxes promote economic growth as the wealthiest have high savings propensity and consume only a small fraction of their capital incomes. Finally, the problem of fiscal dumping in the EU must be addressed through an EU-wide process of fiscal harmonisation (Franzini and Pianta, 2016).

*Tackling tax havens*

These proposals show that governments (particularly in wealthy countries) can act to reduce inequalities through taxation, social transfers and the provision of in-kind services. Tax reform, though, has little chance of succeeding if we do not simultaneously tackle the problem of tax havens and tax evasion. This is not only because tax evasion is substantially more important in terms of lost taxes than tax avoidance. The ability of the wealthiest members of society to put their money offshore gives them great power. In recent decades, by threatening to shift their operations offshore they have been able to force governments to eviscerate financial regulation, slash taxes on capital and much more, in a race to the bottom that is destroying the economies of developing and wealthy nations alike. In short, tax reform is bound to fail as long as wealthy individuals and corporations are allowed to hide their money offshore. It would simply provide them with a further incentive to do so. As the Tax Justice Network writes, '[t]he only realistic way to address these problems in a comprehensive way is to tackle them at root: by directly confronting offshore secrecy and the global infrastructure that creates it' (FSI, 2015). As the TJN explains (FSI, 2015; TJN, 2016a; TJN, 2016b), there are five clear solutions to the problems caused by tax havens:

- *Country-by-country reporting*. This requires multinationals to break their information down by country of operation – including in each tax haven – so that citizens and authorities can see what corporations are doing in their countries.

- *Unitary tax*. This involves taxing multinational corporations according to the real economic substance of where they do business.
- *Automatic information exchange*. Developing countries – and rich ones – must get the information they need to tax their wealthiest citizens properly.
- *Disclosure of the real life, proper, final, ultimate, actual owners of companies*. The recent 'Panama Papers' scandal has revealed the crucial role that shell companies, trusts and foundations – available in most countries worldwide – play in enabling perpetrators to launder illicit proceeds of corruption, tax evasion, drugs money and much more. However, as the TJN has noted, under the proposed fourth European Anti-Money Laundering Directive (2015/849), scheduled to come into force in mid-2017, ownership transparency requirements for shell companies are set to be relaxed, making shell company abuses even *easier* in Europe. To address this problem, we must ensure that the identity of every human who has a stake in a corporate structure – a 'true beneficial' owner – is available in a searchable, low-cost public register. Simply put, *any entity* (company, trust, etc.) that wants to operate in a country (open a bank account, sell goods and services, own a house or a car, etc.) should register with a commercial registry. If they don't, they shouldn't be able to operate in that country.
- *Making 'wilful blindness' a criminal offence*. We can impose hard penalties on the pinstriped intermediaries who help the tax evaders. The IMF and other bodies dealing with money laundering and with corruption must officially make tax evasion a money-laundering offense or define it as corruption.

It should be noted that progress is slowly being made on the issue of global financial secrecy. The OECD is putting in place a global system, the Common Reporting Standard (CRS), to implement the automatic exchange of information (AIE) across borders, supposed to become effective in 2017, so each country can tax their own residents fairly and effectively. The CRS is the first potentially global system of AIE, and while it has shortcomings and loopholes – especially due to the lack of access to data by developing countries – it is a big step forwards from a mostly transparency-free past (TJN, 2016c). Yet, several recalcitrant jurisdictions are refusing to engage seriously, putting conditions in the place before they will exchange information, particularly with developing countries. The worst recalcitrant by far is the United States: in essence, the US has been actively cracking down on offshore tax evasion by its *own* citizens – but has been far less willing to share information in the other direction to help others, and becoming a haven of choice for the world's criminals and tax evaders. As the Tax Justice Network writes:

> The US is putting the emerging global transparency regime – essential for cracking down on wealthy tax cheats and criminals – at risk. Not only does US opacity exacerbate the problem directly, it also legitimises the non-cooperation of Switzerland, Bahamas, Panama and other recalcitrants. There is a serious risk that rather than a level playing field of greater transparency, the result will instead be greater inequality, globally (TJN 2016a).

For this reason, the TJN has called upon the EU to implement a new withholding tax regime to counter this global threat – essentially copying the scheme that the US is using to protect itself (TJN, 2016a).

# 3. Finance and money

## The problem

*The inappropriate regulation of finance*

As panic spread through the financial system from September 2008, world leaders rallied to assure the public that it would never happen again. At the Pittsburgh Summit in 2009, G20 leaders condemned the 'era of irresponsibility' and promised new regulation to rein in 'the excesses that led to the crisis' (G20, 2009). An international plan of action for financial reform was drawn up, inspiring hundreds of regulatory initiatives in the years that followed. But it did not question the 'self-regulation' principle that had guided regulators since the early 1980s. Nor did it question the core purpose, structure or size of today's financial services sector. 'As a result, the changes we have seen since are mainly superficial', states a recent report by Finance Watch, a non-governmental organisation comprising 70 members including experts and civil society organisations that together represent millions of European citizens (Finance Watch, 2015a). As noted by Martin Wolf, banks are still 'highly leveraged, highly integrated with one another and very, very complex' (Wolf, 2014).

This is particularly evident in Europe, whose economy is, in some respects, the most 'financialised' in the world (even more so than the United States). There are around 7,000 financial institutions in the EU, and as of 2014 they managed around €34 trillion in total assets (of which €28 trillion is in the EMU) (ECB). This is 235 per cent of the EU's GDP. 10 megabanks (0.1 per cent of all banks) account for about €20 trillion (up from €7 trillion in the year 2000), equal to 140 per cent of the entire union's GDP (Philipponnat, 2012). The financial crisis has simply exacerbated this problem. Mario Draghi stated in 2009 that '[m]any of our banks have become larger, not smaller as a result of crisis-related mergers. Moral hazard risks pose a large prospective burden for taxpayers and are a serious threat to the maintenance of a market-based system' (Draghi, 2009).

As the European Banking Federation (EBF) boasts, the EU banking system is 'the largest in the world, holding consolidated assets three times those of the US system, and almost four times those of the Japanese' (EBF, 2010). It is also one of the fastest growing in relation to GDP. These institutions expose the European economy to huge systemic risks. Not only are they too big to fail – they are *too big to bail*. The average balance sheets of the European Union's 30 and 15 largest banks (€800 billion and €1.3 trillion respectively) are 14 and 23 times larger than the banking union's recapitalisation fund, the Single Resolution Mechanism (SRM) (Finance Watch, 2012). Most of the world's systemically important banks are located in Europe, according to the Financial Stability Board (FSB, 2015). Bank leverage remains historically high, on average between 30 and 35 times, when most experts agree that a safe financial system should be leveraged no more than between 15 and 20 times (Finance Watch, 2015a). So it is hard to see how the SRM could rescue even one megabank without an additional huge levy on European taxpayers. It has been estimated that a recapitalisation fund would need around €500-600 billion to provide a viable backstop for a banking sector this size (in line with international comparisons and standards (Persson and Ruparel, 2012). So the vicious circle between banks and sovereign states, far from being broken, is simply being raised (partly) from the national to the European level.

There are more derivatives traded now than before the crisis. The notional amount outstanding (i.e., size) of the over-the-counter (OTC) derivatives markets has increased from $596 trillion in December 2007 to $632 trillion in December 2012, equivalent to nine times world GDP. As a result, the systemic risk of EU financial institutions (measured as their capital shortfall in case of a new financial crisis) is double what it was in September 2008 (CRML, 2016). Experts at the Center for Risk Management at Lausanne (CRML) estimate that the European banking system is still short of € 1 trillion of capital (ibid.). An in-depth study of the systemic risk posed by derivatives can be found in Battiston et al. (2013).

Furthermore, frightening as the size of the official financial system is, it is dwarfed by the size of the so-called 'shadow banking system', consisting of financial institutions that look like banks, act like banks but importantly *are not regulated like banks*, allowing banks to conduct many of their transaction in ways that don't show up on their conventional balance sheet (hence the term 'off-balance-sheet transactions'). The system is estimated to amount to around $75 trillion worldwide – up from $50 trillion in 2007 (Prasso, 2015). The size of the shadow banking sector in the euro area is $25 trillion, more or less the same as the United States' (FSB, 2015). The Financial Stability Board says that shadow banking poses 'systemic risks' to the global financial system (ibid). As Martin Wolf writes, another financial crisis is 'more or less inevitable' because 'nothing profoundly changed' since 2008 (Wolf, 2014). These problems risk being exacerbated by the European Commission's plans to create a Capital Markets Union (CMU) that purports to set up a European market for so-called 'simple', 'transparent' and 'standardised' securitisations (Finance Watch, 2016).

Systemic instability isn't the only consequence of an oversized financial sector; the financial system impacts on society in a variety of ways, which are discussed below.

*Excessive influence on the decision-making process*

A recent report by Corporate Europe Observatory (CEO) – a research and campaign group working to expose and challenge the privileged access and influence enjoyed by corporations and their lobby groups in EU policymaking – called *The Fire Power of the Financial Lobby* shows that the lack of post-crisis financial reform is largely attributable 'to successful campaigns waged by the financial lobby in the European Union' (CEO, 2014). 'Its "fire power" in resisting reforms it dislikes has been all too evident with issues such as banking regulation, derivatives, credit rating agencies, accounting rules, and many more', the report states. The report's findings are stunning. In total, the financial industry spends more than €120 million per year on lobbying in Brussels and employs more than 1,700 lobbyists. The financial industry lobbied the post-crisis EU regulation via over 700 organisations and outnumbered civil-society organisations and trade unions by a factor of more than seven, with an even stronger dominance when numbers of staff and lobbying expenses are taken into account. In sum the financial lobby is massively outspending other (public) interests in terms of EU lobbying, by a factor of more than 30. 'In sum, the financial industry lobby commands tremendous resources and enjoys privileged access to decision makers', Corporate Europe Observatory notes. Additional detailed evidence on the huge lobbying power of finance in shaping its own regulations has been provided by Pagliari and Young (2015).

*Inequality*

As analysed in detail in the chapter on 'Inequality', the dismantling of the post-Great Depression framework of financial regulation (in which Europe played a crucial role, for example by making the free movement of capital a central tenet of the emerging European single market, in the mid-1980s), resulting in the deregulation and liberalisation of the entire financial system, opened up entire new fields of financial activities, with huge potential for the growth of asset values and short-term speculation. The high returns to finance – capital gains, rents and pay for managers – have been concentrated among top earners, increasing inequality in both income and wealth (Franzini and Pianta, 2016). Moreover, a study has found disproportionately high pay and bonuses in the financial industry to be one of the main drivers of the dramatic rise in income inequality over the past few decades (Denk, 2015). Furthermore, an unregulated financial system facilitates the hoarding of huge amounts of wealth in tax havens, facilitating tax evasion and other illicit activities and further contributing to inequality (for more information see the chapters on 'Inequality' and 'Tax policy').

*Financialisation*

In the past, a strongly regulated financial sector has supported improvements in well-being related to growth in the real economy. But excessive financialisation is contributing to drive low growth, unemployment and rising inequalities (Finance Watch, 2015a). Financialisation can be described as a 'pattern of accumulation in which profit-making occurs increasingly through financial channels rather than through trade and commodity production' (Krippner, 2005). The financialisation of companies is linked with the ascendancy of the modern corporation's so-called 'shareholder value model'. In the 1980s, with the growth of capital markets allowed by the deregulation of capital flows, and the rise of powerful institutional investors such as pension funds, corporations become increasingly dependent on the stock market – and ultimately on shareholders – for finance. 'Shareholder value' thus became the guiding principle of corporate governance and corporate strategy, meaning that the primary goal for a company became to increase the wealth of its shareholders, at the expense of everyone and everything else – employees, consumers, the environment, society. Investors expect very high levels of return on equity (ROE) from corporations, as much as 15 or even 25 per cent, and corporations have no choice but to comply. After all, unsatisfied investors can go elsewhere in no time. This system does not simply exert a powerful downward pressure on wages, salaries and workers' rights (leading to an increase in unemployment and inequality), as businesses increasingly find themselves at the mercy of the whims of investors. It also hampers growth, first by reducing the purchasing power of workers, and second by favouring the short-terms profits offered by financial investments rather than the long-term ones offered by investments designed to enhance productivity and employment (Finance Watch, 2015a; (Bold, 2015). The widespread privatisation of pensions and the logic of operation of pension funds create further concerns, as large amounts of saving are involved in the same speculative activities, increasing short-term investment behaviour and financial instability.

## Proposals of civil society

Addressing the problems raised by finance has long been a major concern by civil society organisations. European-wide activities that have emerged include those of ATTAC, WEED (based in Germany), SOMO (based in the Netherlands), Non con i miei soldi (based in Italy), Move Your Money (based in the UK), FairFin and Réseau Financité (based in Belgium), and Fair Finance Guide International. Specific campaigns on particular aspects of finance have been launched by larger organisations such as Friends of the Earth, Oxfam, SOS Faim, Caritas. Finance Watch has emerged in recent years as the largest organisation, based in Brussels, with a specific competence on the regulation of finance. For a survey of actions by civil society on finance see Scholte (2013). Civil society activism on finance has addressed several specific issues, which are examined below. A basic, broad concern is the reduction in the overall size of finance, in terms of the amount of tradable financial assets and derivatives, of the extent of speculative activities, and of the penetration of finance throughout the economy and society – from housing finance to pensions, from health insurance to student loans, etc.

A second concern is about banks that are 'too big to fail'. Europe's banks are still too large, too interconnected and too deregulated, and expose the economy to huge systemic risks. in this way finance is not serving the real economy any more – it is harming it. Since the start of the crisis, the EU has introduced some timid but positive reforms throughout 2012, mostly aimed at tackling speculation on sovereign debt (such as a limited ban on naked CDS trading and tighter controls on credit rating agencies), but these barely scratch the surface of the financial edifice. The prevailing attitude continues to be that of favouring supervision and self-regulation over reform and regulation (particularly of the kind opposed by the financial lobby), as exemplified by the banking union (CEO, 2014). This underscores the limits of *ex post* intervention – and the need for radical *ex ante* reform.

It is precisely to help MEPs deal with the increasingly technical financial legislation coming through

Brussels in the wake of the financial crisis that Finance Watch was founded in 2011. It was established as a counterweight to the private interest lobbying of the financial industry. Its mission is to speak on behalf of citizens and the public interest in the area of financial reform and regulation (public interest advocacy), and to provide expertise and support for other civil society representatives to do the same (capacity building). Finance Watch's members include 48 European civil society organisations and 27 expert individuals from 13 different EU member states. Its members represent millions of citizens from all over Europe. It has a professional secretariat of 12, recruited from the financial and related sectors, and more than 30,000 supporters, followers and donors among the general public. It is independently funded by charitable foundations, public grants, membership fees and donations from the general public. It advocates a financial system that allocates capital to productive use through fair and open markets, in a transparent and sustainable manner without exploiting or endangering society at large. As the organisation notes, 'banks need to be simpler in structure, smaller and less entangled if we want them to be "resolvable"' (Finance Watch, 2013). Even Mario Draghi acknowledged in 2009 that '[w]e must reduce the moral hazard posed by institutions that are too large, or too complex, or too interconnected to fail' (Draghi, 2009). There are a number of ways to do this:

*Separate commercial and investment banking*

In 1999 the United States repealed Roosevelt's Glass-Steagall Act of 1933, which separated commercial banking from investment banking. This led the rise of the so-called European-style 'universal bank': megabanks that participate in many kinds of banking activities and are both commercial and investment banks. Today these banks have become so large and interconnected that they have effectively become too big to fail. That is, their failure would have such disastrous consequences for the economy that governments have to step in and bail them out whenever they run into trouble, at a huge cost to taxpayers. This leads to a situation known as moral hazard, whereby banks are encouraged to take huge risks because they know that the costs of failure will be paid by others. This kind of deregulation is widely considered to have been one of the leading causes of the financial crisis. And of course of the subsequent euro crisis, as governments across Europe shouldered huge debts to save their failing banks. Despite this, since the crisis governments have done close to nothing to solve the too-big-to-fail issue. In some ways they have exacerbated it. By extending massive support to the banking sector they have created what Mervyn King, former governor of the Bank of England, has called 'the biggest moral hazard in history' (King, 2009). Moreover, in Europe, banks have grown even bigger (in terms of their assets-to-GDP ratio) since the financial crisis. This means that in the event of a new crisis, the economies of Europe would find themselves even more exposed than they were in 2008. The banking union does little to address this. As Finance Watch notes, breaking up big banks – as well as minimising systemic risks and moral hazard, and facilitating regulatory oversight, making the financial system as a whole more resilient – would have a number of other positive effects. It would show the real economic value and risks of each activity; it would increase competition; it would even stimulate growth (Finance Watch, 2012; Vickers, 2011).

*Leverage limits*

Leverage is the ability of banks to operate with borrowed money. A leverage ratio of 20 times means that for 1 euro of own capital, the bank borrows 19. This boosts the profits (and losses) and determines how much of a 'shock absorption buffer' (i.e., equity) a bank has if its loans and investments lose value. At a leverage ratio of 20, any losses worth more than 5 per cent of its total assets would make the bank go bankrupt. In the financial crisis, many banks had insufficient capital for their losses and had to be rescued. If banks had a bigger shock absorption buffer, they could withstand bigger losses before getting into trouble. And since banks are often highly inter-connected with other banks, having bigger shock absorbers would make the whole system stronger (Finance Watch, 2015a).

*Regulation of speculative financial instruments*

Breaking up the big banks is crucial, but it is not enough. Because of the interdependence and interconnectedness of the financial system, and the array of complex speculative financial products at banks' disposal, small banks can pose just as much a threat to the system as big banks. Thus, a serious reform of the financial system must necessarily include the regulation (if not outright ban) of speculative financial instruments, such as securities and derivatives (Soros, 2009). There are number of ways to do that, as Finance Watch notes (Finance Watch, 2015a):

- *Stop subsidising and secure the derivatives market.* Much derivatives trading in banks would be economically unviable without the funding advantage that comes with being too big to fail; in other words the market has grown over large due to an unintentional public subsidy. Part of the solution is to tackle the size and structure of too-big-to-fail banks to reduce their funding subsidy. This would help the derivatives market to return to its natural size, big enough to serve society's real hedging needs but no bigger. Over-the-counter derivatives must also be made safer by being traded centrally on exchanges, like stocks and shares, as well as being centrally cleared, as the G20 has proposed, so that regulators can see where dangerous exposures are building up.
- *Regulate securitisation.* It has been proposed that securitisation could be governed by a legislative proposal to introduce a quality label of securitisation. This is not enough: strict regulation is needed to keep securitisation from going off the rails again in future. The EC has introduced a regulatory proposal that indeed proposes a form of quality label 'for simple, transparent and standardised securitisation', but this proposal in fact relaxes the rules for securitisation and if implemented would make securitisation cheaper for those who manufacture it, hence leading to a redeployment of securitisation to the benefit of the large banks (European Commission, 2015f).
- *Regulate benchmarks.* Financial benchmarks and commodity prices are de facto public goods; the way they are produced and used should be monitored closely by supervisors – who could need to intervene in the process.
- *Align pay incentives better with society's needs.* The remuneration of top executives and other financial workers needs revisiting to encourage more responsible behaviour.
- *Roll back the Capital Markets Union (CMU).* Promoting the development of capital markets in Europe might create an even more volatile financial system that is more vulnerable to domino effects. As Finance Watch notes: 'CMU is also likely to make our financial system more fragile and to increase moral hazard. Non-bank lending is a more collateral-intensive activity and a revival of securitisation will create more financial securities that financial institutions lend to one another as collateral for short term lending. Yet the crisis has shown that this form of financing was very fragile, very pro-cyclical and increased interconnectedness through the webs of contracts between institutions, thereby increasing the risk of domino effects in our financial system' (Finance Watch, 2016).

*A financial transaction tax*

Another way to tackle speculation and rein in finance (and raise significant revenue at the same time) is to introduce a financial transaction tax (FTT). This is perhaps the oldest proposal coming from civil society to address financial instability, based on the Tobin Tax proposal for taxing speculative currency exchange that surfaced in the 1990s. This proposal led to the birth of ATTAC in France and in other countries. Today, it is at the centre of the UK-based Robin Hood Tax campaign. After the 2008 crisis, the need for a FTT has been recognised by governments, G7 summits and financial institutions, but only modest progress has been made. A Europe-wide FTT would not only strengthen Europe's finances and reduce the likelihood of crises; it would also raise much-needed revenue. This is probably what prompted the European Commission to propose, in September 2011, to levy by 2014 a tax of 0.1 per cent on the exchange of shares and bonds, and 0.01 per cent on derivative contracts within the 27 member states of the European Union (European Commission, 2011). This would raise approximately

€57 billion a year. There was strong resistance from some non-euro countries, particularly the United Kingdom and Sweden. As a result, a group of 11 states – Germany, France, Italy, Spain, Austria, Portugal, Belgium, Estonia, Greece, Slovakia and Slovenia – has resorted to a process called 'enhanced co-operation' to implement the tax in those states that wish to participate. In May 2014, ten out of the initial eleven participating member states (all except Slovenia) agreed to seek a 'progressive' tax on equities and 'some derivatives' by January 2016. This was later postponed to mid-2016.

Other measures aimed at 'making finance serve society', in the words of Finance Watch, include:

*Making finance more transparent*

To help citizens engage in defining the purpose of finance, in making its rules and monitoring its performance, three problems must be tackled:

- *Complexity*. The financial system and its rules have reached an unhealthy level of complexity. There is no evidence that complex processes, products and organisational structures are needed for finance to carry out its core functions – quite the contrary. We have also seen that regulations that try to match the industry's complexity instead of reducing it are prone to failure.
- *Opacity*. The public must be able to scrutinise the financial industry and those who police it but this requires simplicity: displaying information so complex that nobody can understand it benefits no one.
- *Lack of understanding*. The crisis left a legacy of popular resentment and mistrust of the financial industry, and even of its regulators. Citizens are unlikely to engage unless they understand the benefits of a reformed financial system and of engaging personally, or through civil society organisations to which they belong, to make things better.

*Supporting sustainable investment*

Other proposals from Finance Watch in this regard include:

- Requiring the full disclosure of intermediation costs along the chain, both to institutional and retail investors.
- Labelling financial products based on a 'social usefulness scale' (e.g. whether it is investing or betting; whether it discloses environmental, social and governance (ESG) criteria, etc.).
- Aligning the incentives of asset managers with metrics linked to their long-term performance.
- Providing tax incentives for long term, sustainable investment.
- Introducing product design rules to protect retail investors and occupational pension schemes from unsuitable products.
- Aligning the incentives of financial sales staff with the interests of their customers, ban 'inducements'.
- Regulating high-frequency trading.

Finally, an alternative framework to achieve the resilience of the banking sector and foster macroeconomic stability can be found in Popoyan et al. (2015).

*Pressuring banks to divest from fossil fuels*

If banks are serious about taking on the climate challenge and playing their part in solving it, they must significantly change their core business activities and disengage from activities, projects and sectors that substantially contribute to climate change. The first step in this direction is for banks to assess, calculate and report on GHG emissions associated with their loans, investments and other financial services. The methodology for this already exists (Meinshausen, 2009). The second step is for banks to establish sufficiently ambitious portfolio and business unit emissions reduction targets. A report by urgewald and others suggests that the calculation of financed emissions should become mandatory (urgewald et al., 2011). The same report also suggests that banks need to disclose the 'unburnable carbon' they hold as climate liabilities in their different business portfolios. This information can then be used by investors to fully assess the risk of being confronted with 'stranded climate assets', when they invest into private banks. More in general, banks should be pressured to increase their support for renewable energy production and energy conservation and efficiency in all business lines. Bank portfolios need to be shifted away from dirty fossil fuels and dangerous nuclear to clean, safe and sustainable forms of energy generation. An analysis of the relationship between different financial actors with investment in different renewable energy technologies can be found in Mazzucato and Semieniuk (2016).

*Promoting community/local currencies*

Taking a more radical approach to the issue, the New Economics Foundation (NEF), the UK's leading think tank promoting social, economic and environmental justice, has produced some ground-breaking studies on the potential that community/local currencies have for achieving social, environmental and economic justice (NEF, 2015a, 2016b). Since the financial crisis, more and more people have been exploring new mediums of exchange as a way of tackling social, economic and environmental challenges: we have seen the rise of Bitcoin and other crypto-currencies and over the last decade innovations and interest in complementary – or community – currencies has reached an all-time high. Never before have there been so many initiatives, models, theories and widespread hopes in this field as today (NEF, 2015b). Over the 2011-2015 period, community currencies have been at the centre of the Community Currencies in Action (CCIA) project, a transnational partnership, co-funded by the European Regional Development Program Interreg IVb, between the city of Amsterdam, the city of Nantes, the borough of Lambeth in London, two public and voluntary organisations in Belgium and Wales and three expert organisations in community currencies, including NEF. The six pilot projects in the CCIA project were:

SoNantes – a currency run by Crédit Municipal de Nantes, a public financial institution in France. This currency incorporates both a mutual credit system and a local currency.
Makkie – a time-banking currency in Amsterdam East in the Netherlands with local citizens earning Makkies by volunteering in community projects and spending them on a range of goods, products, and services.
TradeQoin – a business-to-business trading network run on mutual credit and set up cooperatively with businesses in Amsterdam.
Spice – a social enterprise originating in Wales that is based on time as a currency and helps organisations to use their time credit currency.
The Brixton Pound – a local currency in Brixton, South London, set up to support independent businesses and working with Lambeth Council.
E-portemonnee – a digital e-wallet that gives credits for environmentally friendly behaviour and is run by a publically owned waste disposal company.

A separate NEF study (NEF, 2015b) found that using a community currency can help:

- Democratise services and organisations, by promoting greater collaboration between organisations and improved use of resources and by building the motivation of volunteers.
- Support the SME economy by creating new business networks that lead to more trade, increasing customer loyalty and finding new ways for businesses and users to transact.

- Counter inequality and social exclusion by improving people's quality of life, strengthening social networks and promoting people's attachment to place.
- Address environmental impacts by offering incentives to people to take part in environmentally friendly tasks, reducing the amount of waste they produce.

Finally, alternatives to commercial banks have also been proposed in the form of stakeholder banks (NEF, 2013).

*The Citizens' Dashboard of Finance*

The 'Citizens' Dashboard of Finance' is a civil society initiative led by Finance Watch that aims to answer the question: is finance serving society?[5] Its purpose is to fill a gap in the official response to the financial and economic crises, by defining what civil society itself wants from the financial sector, measuring how well those needs are being met, and proposing ways to improve them. It is based on the 'dreams and nightmares' of dozens of civil society representatives, who have worked together for more than a year to develop the concept. At the heart of the project is a 'dashboard' of more than 20 official and other data sources that measure the real impacts of finance on society, which are rarely found in the impact assessments that accompany proposals for new financial regulation. These include the sector's effectiveness in allocating capital to productive activity, its stability, its political influence, its contributions to tackling climate change, and its effect on social inclusion and equality, among other things. The project is open to new stakeholders (including academics, policymakers, sustainable businesses and finance practitioners) who can help develop the vision, propose indicators and contribute change proposals. The current list of indicators is the result of workshops and research involving nearly 30 civil society organizations and other experts, including consumer groups, trade unions, environmental and other NGOs such as ShareAction, Friends of the Earth Europe, Caritas, NFU, BEUC and others.

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5 http://www.citizensdashboardoffinance.org

# 4. Privatisation

## The problem

Since the start of the crisis, the privatisation of public services and national assets has become a feature of European policy. This has been particularly evident in, but not limited to, countries that signed memorandums of understanding (MOUs) with the EU-ECB-IMF *troika* or entered into agreements for financial aid within the framework of the European Stability Mechanism (ESM, formerly EFSF). In all these cases, privation of publicly owned assets was a key condition for the loans (TNI, 2013). While Greece stands out as the most emblematic case of *troika*-forced privatisations, the Mediterranean country is not the only one being pressured into implementing such programmes: Portugal, Spain, Ireland, Cyprus and Italy (which has not signed a formal agreement with EU institutions but is under increased political pressure to implement reforms that are similar to those in countries in an MOU programme) have all seen a renewed effort to privatise the last remaining public services. The UK, a pioneer in the implementation of privatisation programmes, still remains of its main advocates, though this appears to be more of a push by national elites than by European institutions. Some of the most notable examples of state-owned companies privatised or part-privatised or put up for privation in recent years include:

- *Greece*: state betting monopoly OPAP (Greek Organisation of Football Prognostics S.A.); 14 of the country's most valuable state-owned real estate properties; land property formerly accommodating the Athens International Airport 'Hellinikon'; 14 regional airports.
- *Ireland*: state-owned utility company Bord Gais Energy.
- *United Kingdom*: Royal Mail.
- *Spain*: AENA airports.
- *Portugal*: EDP and REN, two of Portugal's biggest utility companies.
- *Italy*: postal service Poste Italiane and state-owned railroad company Ferrovie dello Stato.

The IMF, ECB and the European Commission see the privatisation of public utilities and state companies as a panacea for Europe's economic woes (see, for example, Davis et al., 2000; Stark, 2011; European Commission, 2012). They claim that private ownership will make companies more cost effective and competitive and that the public will benefit from lower prices and better service. Furthermore, it is argued that privatisation plans will help debt-ridden governments raise funds to alleviate the debt burden. The IMF has always been an advocate of privatisation; this measure has been a constant factor in nearly all the economic agreements the institution has entered into with debtor countries (known as structural adjustment programmes or SAPs) (Easterly, 2013). The EU has also pursued a similar policy for decades and the EC has become very explicit in its endorsement of privatisations. In a 2012 letter to a group of civil society movements, the EC described its rationale as follows:

> Privatisation of public companies contributes to the reduction of public debt, as well as to the reduction of subsidies, other transfers or state guarantees to state-owned enterprises. It also has the potential of increasing the efficiency of companies and, by extension, the competitiveness of the economy as a whole, while attracting foreign direct investment (European Commission, 2012).

The legality of the EC's pro-privatisation bias is questionable, however: Article 345 of the Treaty on the Functioning of the European Union (TFEU) requires the EC to take a neutral stance on public or private ownership of companies: 'The Treaties shall in no way prejudice the rules in member states governing the system of property ownership' (TFEU, 2007). Nonetheless, as the Transnational Institute (TNI) showed in its 2013 report, *Privatising Europe*, the European Union (EU) and the

International Monetary Fund (IMF) used the economic crisis as a way to promote and impose austerity policies – of which privatisations were made a key component – on EU's debt-ridden countries regardless of the lack of democratic legitimacy and despite extensive popular opposition (TNI, 2013). Assets targeted for privatisation included health-care systems, water services, government-owned buildings, national banks, energy companies, transport infrastructure and postal services. Three years on, a new report by TNI, called *The Privatising Industry in Europe*, examines the consequences of those privatisations. It puts a spotlight on the process and examines whether the sale of state-owned assets has delivered on the promises used to justify their privatisation (TNI, 2016). The report reveals how:

- The rationale put forward by advocates of privatisation does not stand up to the evidence. Privatisation has been justified on the basis of providing revenue for indebted states and increased efficiency. Yet, in nearly all cases, only profitable firms are being sold, while unprofitable and subsidy-consuming national assets often remain in the hands of the state. As the case of Greece shows, of the 37 regional airports owned by the Greek state, only the 14 that are profitable have been included in the privatisation programme, leaving the unprofitable rest to be subsidised by the taxpayers. Moreover, due to the imposition of quickly held privatisations by the *troika* or the EC, these profitable assets are often sold at bargain prices to vulture funds and in most cases governments end up losing money in the long run. This is especially true in Greece, where the privatisation agency set up by the *troika*, the Hellenic Republic Asset Development Fund (HRADF), focuses solely on selling off all valuable assets as quickly as possible to comply with *troika* demands rather than trying to raise as much money as possible from the sale. By selling off the profitable companies, the state more often than not also loses out on potential revenue, since a government might enjoy a steady annual income from certain companies. While private companies are only too happy to buy these companies at bargain prices for a one-time outlay, governments are deprived of any future dividends. Meanwhile, research by the IMF and by European universities shows that there is no evidence that the privatised firms are more efficient (IMF, 2004). Instead privatisations have undermined wages, weakened labour conditions and led to growing income inequality (PSIRU, 2014). Time and time again, the experience of privatisation has been one of poor performance, under-investment, disputes over operational costs and price increases, soaring water bills, monitoring difficulties lack of financial transparency, workforce cuts and poor service quality causing public health risks and creating environmental problems (TNI, 2015). Especially when it comes to utility companies, the effect of privatisations on the product price has proven to be extremely negative. In the 34 OECD countries, for example, the average price for energy charged by private companies is 23.1 per cent higher than the price charged by public companies (New Internationalist, 2015). Moreover, in many cases the wage losses, redundancies and erosion of labour rights that have resulted from privatisation have further exacerbated the economic crisis.
- A small group of legal and financial firms is reaping significant profits from the new wave of crisis-prompted privatisations. These include the financial and legal advisors and accounting firms involved. These players are active advocates for privatisation throughout Europe, and have benefited from the highly lucrative business, winning contracts worth millions of euros. Moreover, a number of the key lead corporate players, such as Lazard, have been involved in both advising on privatisation and then profiting from their advice (as in the case of Royal Mail) (Neate, 2014).
- Despite the rhetoric in favour of private management, many of those who win concessions and buy formerly privatised assets are state-owned companies. Chinese state-owned corporations have, for example, become dominant players in buying up European energy companies, buying stakes in Portuguese, Greek and Italian public utilities. German and Azerbaijani state-owned companies have also been involved in buying in up privatised assets in other European countries.
- Privatisation in Europe has encouraged a growth in corruption, with all-too-frequent cases of nepotism and conflicts of interest. In Greece, this has led to constant scandals at the HRADF, the main body responsible for privatisation, with three HRADF board members currently being charged for corruption (ANA-MPA, 2015). Similar cases have emerged in Italy, Spain, Portugal and the UK.

## Proposals of civil society

Europe's privatisation policies have sparked a growing popular resistance in recent years. In July 2012, the 'Save Greek Water' campaign was launched in Athens to alert the public to the risks of water privatisation and promote the democratic control of water resources. In Thessaloniki, Initiative 136, a citizens' movement, is opposing the privatisation of the Water and Sanitation Company and calling for social management through local cooperatives instead. In Ireland, government plans to introduce water charges have inspired one of the biggest campaigns in decades. In Italy, in June 2011, a referendum was held resulting in 96 per cent of the Italian voting electorate, amounting to around 26 million voters, overturning laws promoting the privatisation of the management of water and local public utilities. This was the result of the Italian Water Movements Forum being able to bring together a wide range of different groups – from the CGIL to the left-oriented network of social centres ARCI (Associazione Ricreativa e Culturale Italiana) to the catholic network of social centres ACLI (Associazioni cristiane dei lavoratori italiani) – into a successful campaign. After the victory in the referendum, the Forum was disappointed to see that the implementation of the referendum outcomes was delayed and partly even blocked. Yet, the Forum's referendum success in Italy encouraged the European Federation of Public Service Unions (EPSU) to launch the first European Citizens' Initiative on water as a human right, collecting successfully more than 1.8 million signatures across the European Union. In Spain, various popular collectives, known as 'citizen waves', were organised by Spain's mass *indignados* movements to oppose the cuts and privatisation of public services.

*Remunicipalisation*

As an alternative to privatisation, cities, regions and countries in Europe and worldwide are increasingly choosing to 'remunicipalise' services by taking back public control over water and sanitation management. In many cases, this is a response to the false promises of private operators and their failure to put the needs of communities before profit. As the 2015 report by TNI *Our public water future* explains, remunicipalisation refers to the return of previously privatised water supply and sanitation services to public service delivery (TNI, 2015). More precisely, remunicipalisation is the passage of water services from privatisation in any of its various forms – including private ownership of assets, outsourcing of services, and public-private partnerships (PPPs) – to full public ownership, management and democratic control. Indeed, concessions, lease contracts, other PPPs and water privatisation can be considered one and the same thing: all these terms refer to the transfer of management control to the private sector, at various degrees. Water privatisation and PPPs are equally problematic, and their problems are deep-seated. This explains why remunicipalisation typically occurs after local governments terminate unsatisfactory private contracts or do not renew them after expiry. However, the remunicipalisation process is not necessarily confined to the municipal scale. In some cases regional and national authorities act directly as water operators, so the process unfolds within this broader context as well. As Emanuele Lobina of the University of Greenwich's Public Services International Research Unit (PSIRU) writes in the report's introduction:

> Water remunicipalisation is more than a mere change in ownership of service provision; it also represents a new possibility for the realisation of collective ideas of development, such as the human right to water and sustainable water development. In other words, remunicipalisation offers opportunities for building socially desirable, environmentally sustainable, quality public water services benefiting present and future generations… [T]he aspirations of local communities for public and accountable water services are often part of their struggle to obtain progressive social and political change. Without taking into account these aspirations for social justice, it is not possible to fully understand water remunicipalisation and its global spread. Mere ownership change is not the end goal of water remunicipalisation movements (TNI, 2015).

The data shows that the global remunicipalisation trend is strong, particularly in developed countries (Water Remunicipalisation Tracker). Globally, the cases of remunicipalisation have increased from two cases in two countries in 2000, when less than one million people in total were affected by remunicipalisation, to 235 cases in 37 countries by March 2015. By then, the total number of people served by remunicipalised water services had grown to exceed 100 million. Cases are more concentrated in high-income countries, where 184 remunicipalisations took place in the last 15 years, compared to 51 cases in middle- and low-income countries. Cases in high-income countries show a marked acceleration: 104 remunicipalisations took place in the five years between 2010 and early 2015, while 55 occurred between 2005 and 2009. The number of remunicipalisation cases has nearly doubled after 2009. This includes many European cities, such as Paris and Berlin. In France alone, more than 50 municipalities have terminated their private management contracts or decided not to renew them. This is largely due to the example of Paris and Grenoble, which kick-started an acceleration of remunicipalisations across the country (and beyond): 63 remunicipalisations were completed in France in the five years between 2010 (when Paris remunicipalised) and early 2015, whereas 19 remunicipalisations occurred in the 10 years between 2000 and 2009. The high-profile 2010 remunicipalisation in Paris in particular has influenced many other municipalities outside France, such as Spain (Pigeon et al., 2012).

The TNI report notes that, '[b]y eliminating the profit maximisation imperative of the private sector, water remunicipalisation often leads to enhanced access and quality of services' (TNI, 2015). The equal or greater efficiency of public water services and lower prices can be observed in cases as diverse as Paris (France) and Arenys de Munt (Spain). In some cases the new public operators also dramatically increased investments in the water systems. The social benefits of water remunicipalisation have been visible in Arenys de Munt, where the local government and the new public operator restructured the tariff system to guarantee access to water for low-income households. Remunicipalisation also allows for strengthening accountability and transparency. In Paris and Grenoble (France), the new public water operators have introduced advanced forms of public participation. First, civil society representatives sit on the board of directors together with local government representatives, and have equal voting rights. This allows civil society to partake in decisions on the management of this most essential public service, and to make operations responsive to the interests of local communities. Second, citizen observatories have been established to open spaces for citizens to engage in strategic decisions on investment, technology options and tariff setting. Both cities consider that full information disclosure is a fundamental condition for accountability, transparency and participation.

# 5. International trade and investment policy and the TTIP negotiations

## The problem

*TTIP: not about trade*

Throughout the crisis – and ostensibly as a response to it – Europe has increased its focus on external competitiveness as a means to transform both the EU and eurozone into a huge German-style, export-led economic machine (as emphasised by the 'Global Europe' strategy) (European Commission, 2007). Various experts and economists have pointed out that this is a fundamentally misguided strategy (Fazi, 2014; Saraceno, 2015). In recent years, however, the EU has negotiated numerous bilateral trade agreements. This has been topped by the announcement in early 2013 that the EU and the US had agreed to enter into negotiations on a bilateral trade agreement, the so-called Transatlantic Trade and Investment Partnership (TTIP). The European Commission argues that the agreement is aimed at 'help[ing] people and businesses large and small, by opening up the US to EU firms; helping cut red tape that firms face when exporting; and setting new rules to make it easier and fairer to export, import and invest overseas'. Furthermore, it contends that the TTIP, will 'kick-start' the EU economy by 'generating jobs and growth across the EU' and 'cutting prices when we shop and offering us more choice' (European Commission, 2015b). These assertions have been strongly challenged by European (and American) civil society organisations and trade unions, which have maintained that the proposed agreement is not primarily intended to reduce the few remaining tariffs between the world economy's two biggest trading blocs, but that 'its central objective is to dismantle and/or harmonise regulations in areas such as agriculture, food safety, product and technical standards, financial services, the protection of intellectual property rights, and government procurement' (EuroMemo, 2015).

*The investor-state dispute settlement mechanism (ISDS)*

The inclusion of an investor-state dispute settlement mechanism (ISDS) – an instrument common to many trade agreements that grants an investor the right to use dispute settlement proceedings against a foreign government – in the draft version of the TTIP proved particularly controversial. Critics argue that ISDS would give foreign investors the right to sue states in private arbitration courts for any actions that could damage their profit expectations. It has been noted that investors have used similar agreements to sue states and demand millions, even billions of euros in compensation, privileging investor rights over public policy autonomy and threatening public health, labour rights and consumer protection. One example is the lawsuit of Swedish energy company Vattenfall against Germany for introducing environmental requirements for coal-fired power stations. Another example is Canadian gas and oil company Lone Pine's lawsuit against a fracking moratorium in the state of Quebec. 'Such cases show that ISDS can be used to undermine environmental standards, to prevent regulation or to pocket taxpayers' money', says Karl Bär, a spokesperson of the Stop TTIP alliance, comprising more than 500 European organisation (Stop TTIP, 2015).

After strong initial criticism on ISDS, the European Commission called for a public consultation on this issue. The three-month consultation ended on 17 July 2014 and received almost 150,000 online submissions: 97 per cent of responses opposed ISDS. The large number of replies is a result of forceful public campaigns orchestrated by NGO networks in Britain, Austria, Germany and other countries. Apart from the general discussion on the lack of transparency and accountability of the negotiations, apparently the topic that mobilised most of the support was the threatened liberalisation of public services. The Commission, whilst acknowledging the profound scepticism of European citizens towards ISDS, refuses to abandon it, and has instead proposed (in September 2015) an Investment Court System (ICS) to replace it, with the scope for investor challenge much reduced and with 'highly skilled judges' rather than arbitrators used to determine cases (European Commission, 2015c). While these reforms represent a welcome acknowledgement of some of the fundamental flaws of existing panels to resolve disputes, the reform proposal sidesteps the essential problems with ISDS: the ability of corporations to sue governments and in doing so attack rules adopted democratically to protect the public interest. In February 2016, a large coalition of non-governmental organisations led by the Corporate Europe Observatory (CEO) published a critical report on new proposals for the revised ISDS mechanism. The activists called the ICS a mere 'ISDS zombie'. The report states that:

> [T]he proposed ICS does not put an end to ISDS. Quite the opposite, it would empower thousands of companies to circumvent national legal systems and sue governments in parallel tribunals if laws and regulations undercut their ability to make money. It would pave the way for billions in taxpayer money being paid out to big business. It could curtail desirable policymaking to protect people and the planet. And it threatens to lock EU member states forever into the injustices of the ISDS regime (CEO et al., 2016).

*Few economic gains*

The European Commission, based upon commissioned studies, claims that the deal will boost growth and jobs in the EU[6]. The economic case for the TTIP is, however, unimpressive. Income gains are estimated at 0.5 per cent of EU GDP, and will be phased in over a transition period of 10 years (Raza et al., 2014). Increased unemployment and adjustment costs due to trade liberalisation are downplayed or neglected altogether. Furthermore, it has been argued that the ongoing negotiations on the TTIP are undermining existing financial regulation (EuroMemo, 2015; Finance Watch, 2014). As the EuroMemo Group states: 'At the moment, it is highly dubious whether the trade agreement will deliver any net economic and social benefits to EU citizens' (EuroMemo, 2015).

*An 'economic NATO'*

Questions have also been raised about TTIP's geopolitical agenda. Arguably, TTIP binds the EU to the US as a junior partner. At the same time, the US strategic interest in Asia is growing rapidly. The concurrent negotiations on the Trans-Pacific Partnership (TPP) have the explicit objective of curtailing the rising normative power of China (EuroMemo, 2015). Nobody less than Hilary Clinton has called TTIP an 'economic NATO' (Van Ham, 2013). The general argument is that in the context of intensifying rivalry between the allied Western powers and the emerging powers, in particular China, and more recently the EU conflict with Russia over Ukraine, there is a need for the US and the EU to close ranks and pool their economic and political strength. TTIP is presented as a crucial mechanism for achieving this goal.

*Popular opposition*

Recent events – in October 2015 more than 150,000 marched in Berlin against the proposed trade deal, and tens of thousands more recently in Hannover – show that TTIP has become a strongly contentious issue. 45 per cent of Germans opposed it in 2015, compared to 25 per cent in February 2014. A broad range of social forces have declared their hostility to the treaty, including trade unions, NGOs and consumers' associations, among others. A large and increasing number of local authorities claim to be 'outside TTIP'. In September 2015, 54 per cent of French people lived in 'outside the TTIP' zones (EuroMemo, 2016). Public resistance has been successful in slowing down the negotiating process. Furthermore, the breadth of the opposition to TTIP is forcing the Commission to modify its communication strategy. The new European trade policy (October 2016) entitled *Trade for all: Towards a more responsible trade and investment policy*, is said to be more transparent and more in tune with European values, safeguarding its social and regulatory model. Nevertheless, in a global context of competitive

[6] The most widely cited studies are ECORYS, 2009; CEPR, 2013; Bertelsmann/ifo, 2013.

liberalisation – the TPP, the TTIP's twin treaty, was signed on October 2015 – the European trade strategy of full liberalisation has been reasserted.

## Proposals of civil society

*Changing course*

Nobel laureate economist Joseph Stiglitz has warned Europe against concluding the TTIP in its currently proposed form (Stiglitz, 2014). Most European and American civil society organisations and trade unions agree that the current negotiations on the TTIP are on the wrong course. In a recent joint statement, the leaders of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) and European Trade Union Confederation (ETUC) together stressed that: 'We have consistently made clear that the agreement must not include a private justice system for foreign investors and any supranational obstacles to regulation in the public interest. We have called for broad, precise and enforceable protections for labour rights, public services, and the environment' (ETUC, 2016). They agreed that 'the Investment Court System recently proposed by the European Union, while an improvement over the discredited US-backed investor-state dispute settlement mechanism, is still enormously problematic and is not needed in any transatlantic trade and investment deal. There have been massive investment flows in both directions for decades without any such discriminatory provisions, and they are still unnecessary. Investors should act responsibly and respect international guidelines such as those set down by the OECD and the UN. The AFL-CIO and the ETUC will further strengthen our cooperation to hold multinational companies accountable' (ibid).

In 2013 the ETUC set out its primary concerns regarding the EU's negotiating mandate (ETUC, 2013c):

- Labour rights must be enshrined in the body of the agreement, applicable to all levels of government in each party, and be subject to equivalent dispute settlement mechanisms as other issues covered by it, including enforcement.
- Environmental protection and the respect of international environmental conventions should also be addressed, notably the EU must address the impact of US exploitation of unconventional fuels (e.g. tar sands and shale gas) on efforts to tackle climate change and sustainable development globally.
- Parliaments and social partners should not only be integrated deeply in the negotiating and planning process, but also in the monitoring process after the agreement is in place.
- Labour rights must not be corroded by any investor protection provisions. Protection should not be at the expense of the host states' right to regulate, or civil society or domestic firms. States need domestic policy space to meet important public policy objectives, including labour rights, environmental protection, the provision of public goods (health, education and social security) as well as the development of coherent industrial policies.
- Public services must be excluded from the negotiations.
- Audio-visual and cultural goods and services should be expressly and comprehensively excluded from the EU mandate.
- Governments must retain the authority to favour public delivery of services, such as water treatment and distribution, without fear that such a policy would be considered a barrier to trade in services. The agreement should not oblige the opening or liberalisation of public procurement at the subnational level, including at the municipal level.
- Any further liberalisation in the area of financial services should be opposed.
- The negotiations should be used to coordinate action on tax avoidance, the abolition of tax havens and the creation of a transatlantic/global financial transaction tax.
- Agriculture should not be part of the negotiations.

*An alternative trade mandate*

Other civil society organisations have taken a more radical approach to the issue, suggesting that the TTIP negotiations should be dropped altogether and a fundamental rethink of EU trade policy should be put on the agenda (see, for example, EuroMemo, 2015, 2016). The Stop TTIP coalition is an alliance of more than 500 European organisations – including ATTAC, Die Linke, the European Green Party, the European Left, Greenpeace and GUE/NGL – running campaigns and actions against TTIP and CETA (Comprehensive Economic and Trade Agreement, a free trade agreement between Canada and the European Union). Following the Commission's rejection of the of the coalition's anti-TTIP European Citizens' Initiative (ECI), the group decided to launch a self-organised ECI that collected more than 3 million signatures, reaching the country quorum in 23 member states. In recent years, the groups that are part of the coalition have participated in hundreds of actions, public debates and lectures around TTIP.

Developing an alternative vision of European trade policy is the purpose of the Alternative Trade Mandate (ATM), an alliance of almost 50 organisations from Germany, France, Spain, Austria, Belgium, Italy, Ireland, Netherlands, UK, Bulgaria and other European countries. Following extensive civil society consultations all over Europe, the ATM drew up an alternative European trade and investment policy based on the principles of cooperation, solidarity and sustainable development (ATM, 2014). It states that European trade and investment policy therefore should:

- Recognise that international conventions and treaties – on human rights, women's rights, labour, environment and climate – have precedence over trade and investment regimes.
- Allow countries, regions and communities to regulate the production, distribution and consumption of goods and services instead of only relying on the market. This includes the possibility to increase or decrease production according to people's needs and to stabilise prices to cover the full costs of production, assure a stable and decent income for producers and affordable prices for consumers. Supply management systems that serve these goals should not be challenged through trade and investment policies.
- Allow for the regulation of imports, exports and investments in order to realise social, cultural and political human rights and to pursue their own strategies for sustainable development. For example, export restrictions that enable a democratic control of mineral resources and contribute to public benefit must not be prohibited through trade and investment treaties.
- Contribute to people-centred regional integration through which communities can support each other and engage in developing common systems of equitable resource and wealth management that respect and protect nature – for example, by building regional food reserves or by common strategies for the sustainable use and conservation of water and land. Regions must be allowed to grant preferential market access for small competitors, in order to foster locally integrated markets.
- Support trade networks between producers and consumers that are as direct as possible. Europe must respect the principle of food sovereignty and allow countries and communities to prioritise local and regional food systems over global agricultural trade.
- Guarantee that European governments and parliaments hold European corporations accountable for the social and environmental consequences and impacts of their operations and those of their subsidiaries worldwide.
- Enforce binding social and environmental regulations and allow for full transparency in global value chains. People must be able to know how goods and services have been produced, where they come from and what they contain. Trade rules should favour products and services produced according to internationally recognised social and environmental standards, for example, through promoting fair procurement practices of public authorities.

- Ensure the fair distribution of income within global value chains to guarantee a stable and decent income for producers and workers as well as affordable prices for consumers, for example, by curbing the market power of big corporate traders and supermarket chains or through fostering fair trade partnerships.

Furthermore, the Alternative Trade Mandate argues that Europe's trade and investment policy should be open to public scrutiny and be based on democratic structures that facilitate meaningful citizen participation. This requires:

- Full transparency of the decision-making process, including meaningful transparency around lobbying and the publication of all draft legislation and negotiation texts.
- A key role for parliaments from the local to the European level. Parliamentarians should set the trade and investment agenda, actively participate in all stages of policymaking and negotiations, have the right to decide on the entry in force of agreements and be fully accountable to the public.
- Binding direct-democratic elements and procedures to guarantee people's participation, for example, through giving them the possibility to propose new policy initiatives to the parliamentary decision making process.
- That trade and investment policies are subject to regular, mandatory and comprehensive assessment and revision regarding their compatibility with conventions and treaties on human rights, women's rights, labour, the environment and climate as well as their contribution to global justice. Evaluations should be undertaken before and after policies are put in place and should include testimonies of representatives of the most marginalised and vulnerable groups in Europe and elsewhere such as rural and urban poor, women, indigenous people, migrant workers, small-scale farmers and producers. Evaluations should initiate improvements of policies and, if required, the re-negotiation of treaties.
- A substantive democratisation of the global value chain. Production processes and resources must be subject to public regulation and control and the power of private companies limited. The strengthening of workers' co-decision rights, public services and co-operatives.
- Encourage the exchange of and free access to knowledge, for example, through open source systems, seed exchange initiatives or patent pools and open licensing to promote innovation and enhance access to medicines. Patents on life must be banned.
- Stop pushing for the deregulation of financial services and the privatisation and deregulation of public goods like water, health and education, but improve the quality of and access to these goods, for example, through partnerships among public authorities.

Finally, the ATM acknowledges that the current EU trade and investment policy runs counter to the principles outlined here. 'But – it states – given the emergency of the global crises we face, the transition must start now'. Thus, immediate steps that should be undertaken include:

- Opening up EU trade policy processes to democratic accountability and scrutiny by parliamentarians and civil society.
- An immediate halt to the implementation of the EU's 'Global Europe' strategy, including a moratorium on ongoing free trade negotiations with countries and regions in Africa, Asia, the Americas, the Pacific and Eastern Europe as well as a halt to the EU's push for an extensive opening of developing countries markets in ongoing WTO negotiations.
- Comprehensive assessments of Europe's trade and investment policies, including existing agreements and those under negotiation, the policy of the European Investment Bank (EIB) and the EU's position in the WTO and in international financial institutions such as the World Bank and the IMF.
- A review of those trade and investment policies that do not act in favour of the vision outlined here.

- Respect for democratic decision-making processes in other countries and the renunciation of the unilateralism and strong-arm tactics that currently characterise Europe's trade relations with many parts of the world.
- Democratisation of international structures and institutions governing trade and investment policies and an extended and strengthened role of the UN in these policies.

It is important to note that trade justice has been at the centre of civil society mobilisations for many years now. Since 1989, for example, the Clean Clothes Campaign (CCC) has been working to improve working conditions and supporting the empowerment of workers in the global garment and sportswear industries. The CCC has worked to help ensure that the fundamental rights of workers are respected; has educated and mobilised consumers, lobby companies and governments; and offered direct solidarity support to workers as they fight for their rights and demand better working conditions. The Clean Clothes Campaign is an alliance of organisations in 16 European countries. Members include trade unions and NGOs covering a broad spectrum of perspectives and interests, such as women's rights, consumer advocacy and poverty reduction. It relies on a partner network of more than 200 organisations and unions in garment-producing countries to identify local problems and objectives, and to develop campaign strategies to support workers in achieving their goals.

# 6. Industrial policy

## The problem[7]

*Industrial policy in the post-war era*

Europe's growth after the Second World War was supported by an extensive industrial policy. Its objectives were the development of a large manufacturing base in the emerging industries of the 1950s and 1960s – steel, auto and chemicals, the typical sectors of 'Fordist' production – and, in the 1970s, the development of new activities in electronics, aircraft and biotechnology. At the same time, industrial policy provided telecommunications and transport networks, a crucial infrastructure for modern economies, and a stable provision of energy, which is essential in industrial countries with little energy resources. National policy tools that were adopted included an extensive role of state-owned enterprises; support to private firms through financial and investment aid, R&D funds, public procurement, market protection; specific support for the development of new firms, new technologies, major new products. At the European level, an active coordination of such policies took place since the very first steps of European integration with the creation of the Carbon and Steel Economic Community (CECA) in 1951 and of a free trade area for most industrial goods in the six original member countries of the European Economic Community (EEC) in 1957[8].

*The shift to neoliberalism*

Then, starting in the early 1980s, the economic policy debate in Europe (and elsewhere) started being dominated by neoliberal views that argue that industrial policies are inefficient and inappropriate. The argument was that markets are able to operate more efficiently both in the short term and in the long term. As a result, the large state-owned firms were privatised in most countries, leading to extensive closing down of capacity, foreign takeovers and greater market concentration. Governments have largely left decisions on the evolution of the economy to markets – that is, to large multinational firms. Europe's policy has focused on global liberalisation of trade and financial flows, a deep liberalisation of its domestic markets, including public procurement, and monetary integration with the creation of the euro. The space for industrial policy at the national level has been drastically reduced and no integrated industrial policy has emerged at the European level. The result has been a general loss of policy influence on the direction of industrial change and development in Europe; in most countries this has meant a major loss of industrial activities in Europe.

*Core-periphery divergence*

This has been most evident in the periphery countries of the eurozone, leading to a centrifugal process of structural divergence in production among member countries, exacerbated by the creation of the European Monetary Union. In a nutshell, since the mid-1990s, Germany has become stronger and more productive in high-value-added, higher-tech manufacturing (in conjunction with outsourcing to Eastern European countries), while southern European countries have become more strongly locked into lower-tech, lower value-added and, often, non-tradable activities (Storm, 2016). This has reinforced the core-periphery relationship between Germany and the southern European countries – meaning that southern European growth spills over into German growth (via trade and finance) but not vice versa (Simonazzi et al., 2013; Botta, 2014). The weakening of industrial activities – and, more broadly, of economic growth – in the periphery has drastically reduced job opportunities, resulting in

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[7] This chapter is largely based on Pianta et al., 2016 and Pianta, 2014.

[8] For an overview of Europe's industrial growth and policies see Eichengreen, 2008; Geroski, 1989; Bianchi and Labory, 2011; Grabas and Nützenadel, 2014.

major losses of employment and income, a return of poverty, problems of social and territorial cohesion, renewed mass migrations within Europe, and a dramatic loss of political legitimacy of the EU. Since the crisis of 2008, a fundamental process driving such outcomes has been the concentration of economic activities and power in the countries of the core – Germany and few neighbouring countries integrated in its production system.

*Deindustrialisation and secular stagnation*

Such a reshaping of Europe's economy is driven by the restructuring of the international systems of production controlled by large firms and is affected by national and EU policies. Operating in the pursuit of short-term profits, market power and financial rents – and with no attention to increasing environmental constraints – the response of firms to the crisis has included the following: drastic downsizing and plant closing; reduction of R&D, innovation and investment; emergence of hierarchical production systems with extensive outsourcing and offshoring both in Europe's periphery and in emerging countries with cost advantages and a large potential for growth in domestic markets; consolidation and acquisitions, leading to more oligopolistic market structures. These negative consequences have been concentrated in the countries of the periphery where the recession has hit hardest[9]. With a prolonged stagnation, Europe is likely to develop a more polarised industrial structure; 'weak' countries, regions, industries and firms are becoming weaker; the centre may be negatively affected by lower demand; all countries will end up with a reduced ability to develop new technologies and economic activities. Without growth, change is more difficult; Europe as a whole could be stuck in its traditional economic trajectory – with sluggish markets, a heavy environmental burden, cosmetic attention to climate change, and growing inequality – while other advanced and emerging countries may move faster towards new knowledge, new products and processes, and new sources of employment, supported by faster demand dynamics. The policy targets of Europe 2020 and the broader opportunity to develop in Europe a new trajectory of growth based on environmentally friendly activities and greater social justice would become more difficult to pursue.

## Proposals of civil society

In recent years a widespread rethinking has emerged on the importance of industrial policy – and of manufacturing itself. At the academic level, restatements of the need for industrial policy have been provided, among others, by Chang (1994), Hausmann and Rodrik (2003), Wade (2012) and Greenwald and Stiglitz (2013). Investigating the experiences of the US and Europe, Mazzucato has emphasised the need for a broad role of 'transformative' public action in innovation and industrial change, and the dependence of long-run strategic investments on well-crafted public policies (Mazzucato, 2013a, 2015). Even mainstream perspectives have paid attention to the mechanisms for controlling and targeting industrial policies (Aghion et al., 2011, 2012). Various assessments have focused specifically on the European context (see, for example, Bogliacino at al., 2016b; Coriat, 2004; Lucchese and Pianta, 2012; Pianta, 2014; Pianta et al., 2016; Lucchese et al., 2016; Stöllinger et al., 2013; Reinstaller et al., 2013; Aiginger, 2014). The effects of the 2008 crisis – that have been particularly serious in Europe – have led to an acceleration of this debate and to some changes in the policies of the European Union. The proposal by Pianta et al. (2016) argues that a new industrial policy has to be firmly set within the European Union and – if required – within the institutions of the eurozone, with a close integration with the national dimension.

[9] Analyses of the recent evolution of European industries and production networks include Stöllinger et al., 2013; Simonazzi et al., 2013; Reinstaller et al., 2013; Amador et al., 2013; Aiginger, 2014. The evidence on the growing fragmentation of production in complex, cross-border value chains suggests that Germany has been a main beneficiary; some Eastern European countries have benefitted from extensive outsourcing; Southern European countries have experienced a weakening of their industrial capacity.

At the political level, trade unions and European political parties have developed several proposals. These include the ETUC's *New Path for Europe*, the DGB's *Marshall Plan for Europe*, industriAll's *Manifesto to put the Industry Back to Work*, the Greens/EFA's *Green New Deal* and Transform! Europe's proposals for 'a Left industrial and investment policy for Europe', just to name a few (ETUC, 2013a; DGB, 2012; Greens/EFA, 2009; industriALL, 2014a; Transform!, 2015a). In 2014 the European Citizens' Initiative 'New Deal 4 Europe – For a European Special Plan for Sustainable Development and Employment' was launched, bringing together trade unions, civil society organisations and mayors of important European cities (New Deal 4 Europe, 2014). A detailed proposal on how industrial policy could be introduced in Europe has been provided by a report to the Rosa Luxemburg Foundation (Pianta et al., 2016; see also Pianta, 2014).

It has been argued that industrial policy could be relevant for several reasons. Exiting the current stagnation requires a substantial increase in demand; this could come from a Europe-wide investment plan. Existing institutions could be renewed and integrated in such a new industrial policy, including – at the EU level – structural funds and the European Investment Bank (EIB). But Europe's industrial policy cannot be reduced to financially-based investment decisions as currently done by the EIB. It has to be rooted and legitimised by a broad democratic process centred in the European Parliament, where key decisions on objectives, tools, guidelines and funding of industrial policy will have to be made. Funds for a Europe-wide industrial policy should come from Europe-wide resources. For the group of eurozone countries, financing through EMU mechanisms could be considered. Eurobonds could be created to fund industrial policy; the EIB or a new European Public Investment Bank could borrow funds directly from the ECB; the ECB could directly provide funds for industrial policy to the spending agencies concerned (for more information see the chapter on 'Macroeconomic policies'). An alternative may come from a deeper European fiscal reform, introducing an EU-wide tax on corporations, thus effectively eliminating fiscal competition between EU countries.

An EU-wide industrial policy could drive the rise of new environmentally sustainable, knowledge intensive, high skill and high wage economic activities. Specific activities that could be targeted include: (i) the protection of the environment, sustainable transportation, energy efficiency and renewable energy sources; (ii) the production and dissemination of knowledge, applications of information and communication technologies (ICTs) and web-based activities; (iii) health, welfare and caring activities. A new EU-wide industrial policy is also needed in order to reverse the massive privatisations of past decades; an economy based on private, market-based activities, with decisions left to the short term interests of firms – where finance is playing a dominant role – has failed to sustain investment, employment and environment-friendly growth. The need for greater cohesion and reduced imbalances within the EU and individual countries is an additional reason for a new EU-wide industrial policy. In order to reduce the divergence between Europe's centre and periphery, a reconstruction is needed of production capacities in the regions and countries that have been most affected by the crisis. Finally a new EU-wide industrial policy could become a major tool for addressing the urgent need for an ecological transformation of Europe (see also the chapter on 'Environmental sustainability and climate change' and Silvestrini, 2016).

# 7. Environmental sustainability and climate change

## The problem

Despite more than 120 countries joining the European Union in making climate action pledges at the 2015 Paris climate conference (COP21) and the increased social awareness of the need to move towards a more sustainable development model, the European Commission has hitherto failed to develop concrete proposals to tackle climate change and environmental degradation, and ratchet up the EU's 2030 targets. A coalition of environmental organisations, including CEE Bankwatch Network, Climate Action Network Europe, European Environmental Bureau, Friends of the Earth Europe, Greenpeace and the Health & Environment Alliance, stated that 2015 was 'a lost year' for environmental protection (EEB, 2015). The European Environmental Bureau (EBB) – the largest federation of environmental citizens' organisations in Europe, consisting of over 150 member organisations in more than 30 countries and representing some 15 million individual members and supporters – recently pointed out the policy areas in which the Commission's stance has been particularly disappointing (ibid.):

- The target to cut carbon emissions is below the EU's fair share of the global effort to tackle climate change, while renewable energy and energy efficiency targets remain woefully weak. In 2016, the European Commission will set out most of its Energy Union strategy. As part of the strategy, the Council has agreed on targets, based on Commission analysis, for at least 40 per cent emissions reductions, 27 per cent renewables and 27 per cent energy efficiency by 2030. These targets have been widely criticised, including by civil society, many of Europe's cities and regions and the European Parliament, for their lack of ambition and their inconsistency with the global Paris agreement of holding the increase in temperature to well below 2C and pursuing efforts to limit the rise to 1.5C. Furthermore, the Commission has proposed a reform of the Emissions Trading Scheme (ETS) which does not resolve the chronic oversupply of emission credits that drives down the carbon price. At the same time, the Commission has not ensured that the financial tools at its disposal, namely the European Investment Bank, the Juncker investment plan and the EU's regional development funds, will steer billions of euros in taxpayer money towards helping Europe meet its long-term goal of a clean energy economy.
- The Commission has come under fire from civil society and European governments for threatening to weaken nature protection legislation. In July 2015, an unprecedented half a million citizens and organisations responded to a Commission consultation on the future of European nature protection. All the evidence suggests that the answer to Europe's shocking biodiversity loss is making sure these laws are better implemented – not undermined.
- The Commission's secretive trade talks with the US have so far sidelined environmental concerns. Negotiations concerning the TTIP have focussed on granting privileges to big business at the expense of environmental, health and social rights protection.
- Despite the severity of the air pollution problem, which is associated to up to 400,000 deaths in Europe every year, the Commission has defended a weak proposal on air quality that would still result in unnecessary premature deaths of European citizens and a huge additional health burden.
- President Juncker's commitment to improve democratic accountability in the approvals of GM food and feed has proved to be an empty promise. Instead of taking action to reform the EU's approval system, the Commission tabled a proposal so unworkable that it was rejected by the European Parliament. The Commission wants EU member states to decide individually about GM crops, exposing them to legal challenges.
- One of the Commission's first acts at the end of 2014 was to controversially withdraw its Circular Economy Package, which included targets to reduce waste and improve recycling. In

December 2015 a new package was adopted, but most of the legally binding targets, which industry lobbyists had railed against, were watered down compared to the previous 2014 package. No concrete steps have yet been taken to address the fundamental problem of resource overconsumption in the EU.

- The European system to phase out highly toxic chemicals from industrial processes and consumer products has been painfully slow. The Commission has come under fire from its own chemicals agency and EU member states for failing to speed up the process. Under pressure from the United States to water down EU restrictions on chemicals for TTIP, the Commission has also been strongly criticised for blocking long overdue legislation to ban endocrine disrupting chemicals (EDCs). These chemicals can interfere with people's hormones, and are linked to serious health impacts, such as hormone-related cancers, fertility problems, diabetes and obesity as well as behavioural problems in children. Exposure also disrupts the hormonal systems of species of wildlife.
- Overall, we see the Commission pursuing more and more dangerous deregulation. Its so-called 'better regulation' agenda seeks to reduce regulation for industry at the expense of protection for citizens. Essential social, labour, environmental, consumer, financial regulation and public health standards are all under threat of being weakened, delayed or scrapped and subordinated to corporate interests.
- European economic policy was described at the UN sustainable development goals summit as 'Cappuccino policy': a lot of coffee (economic dimension), if things get better some milk (the social dimension), and if they get even better some chocolate (the environmental dimension). This sort policy cannot bring Europe out of the crisis, but will instead worsen it as more inequalities are created and more natural resources are destroyed.
- Transparency International reviewed the number of high level meetings obtained by lobbyists in the Commission: 75 per cent of meetings were with business representatives. Business Europe came top, followed by Google and General Electric. European policymaking is shaped by this unbalanced influence at the expense of European citizens.

*Finance and climate change*

Through their lending and financial activities, commercial banks allocate financial resources to the private sector. As such they are in a unique position to either further entrench energy production based on the burning of fossil fuels or to catalyse the necessary transition to a low carbon economy. Coal-fired power plants are not cheap to build. Typically, a 600-megawatt plant will cost around US$2 billion (Schlissel et al., 2008). Power producers therefore rely heavily on banks to provide and mobilise the necessary capital for such ventures. As much of this financing is indirect – delivered through corporate loans and bonds – banks have for the most part been successful in keeping these investments hidden from public scrutiny. But a ground-breaking 2011 research study produced by urgewald, Groundwork, Earthlife Africa and BankTrack sheds some light on the financial industry's role in 'financing climate change', particularly through the banks' lending for the coal industry, the prime source of global CO2 emissions (urgewald et al., 2011). In total, the study identified 1,405 transactions involving 93 different banks. The total value of coal financing provided by these banks over from 2005 (the year the Kyoto Protocol came into force) to 2011 amounts to 232 billion euros. Together, the top twenty banks in the study's ranking provided over 171 billion euros to the coal industry since 2005. This is 74 per cent of the total financing identified. The top twenty 'climate killers' include banks from the United States, the United Kingdom, Germany, France, Switzerland, China, Italy and Japan.

## Proposals of civil society

Europe is home to numerous civil society organisations, networks, NGOs and political groups working on environmental issues. These include Greenpeace, Friends of the Earth Europe, WWF, Kyoto Club Italia, CEE Bankwatch Network, the European Environmental Bureau (EBB), the Health &

Environment Alliance, the European Climate Foundation (ECF) and many others. The Climate Action Network (CAN) Europe is Europe's largest coalition working on climate and energy issues, with over 120 member organisations in more than 30 European countries representing over 44 million citizens. These organisations work closely with the EU's law-making institutions – the European Commission, the European Parliament and the Council of Ministers – to ensure that the environment is placed at the heart of policymaking, by developing new proposals and policy goals as well helping the European institutions achieve their own policy goals, such as the Energy Roadmap 2050, which aims to reduce greenhouse gas emissions by 80-95 per cent when compared to 1990 levels by 2050 (see, for example, ECF, 2016; Greenpeace, 2011). A good overview of the various civil society proposals for an EU-level sustainable development strategy was provided in the recent WWF Europe report *Towards a Sustainable Future* (WWF Europe, 2016). It sets out an overarching strategy for achieving the UN's 2030 Agenda for Sustainable Development, which includes a set of 17 Sustainable Development Goals (SDGs) to end poverty, fight inequality and injustice, and tackle climate change by 2030. While some member states have begun to plan for the delivery of the SDGs, there is not yet a clear strategy on how the EU will take responsibility for the implementation of the 2030 Agenda. Reaching the SDGs in Europe will require EU countries to achieve full employment, end all forms of discrimination, increase the share of renewable energy and resource efficiency across sectors, conserve and restore ecosystems, retrofit industries and infrastructures to make them sustainable and halve food waste among other things. Externally, the EU will need to address its ecological footprint and the impact of its policies globally (for example, policies in the areas of trade, security or agriculture) to support the delivery of sustainable development in other countries. As far as the overarching strategy is concerned, WWF Europe makes the following recommendations:

- *Policy coherence for sustainable development.* All opportunities should be taken to ensure that forthcoming policies and revisions of existing policies are aligned with the 2030 Agenda, such as the Circular Economy Package, Europe 2020 strategy and the European Consensus for Development that will be in place for the next five to ten years. Where gaps in EU policies or funding frameworks are identified, the frameworks should be amended to support the implementation of the SDGs.
- *Financing.* National and EU budgets must be organised to support the delivery of the 2030 Agenda and to implement forthcoming national and EU sustainable development strategies. Budgetary spending should be evaluated against sustainable development criteria. For example, the 2016-2017 mid-term review of the EU Multiannual Financial Framework for 2014-2020 provides an important occasion to ensure such alignment with the 2030 Agenda. The EU stressed the importance of mainstreaming sustainable development in domestic and international public finance in its Council conclusions in May 2015. With regards to external implementation, Official Development Assistance (ODA) is a critical source of funding for supporting developing countries' efforts towards sustainable development. The commitment to provide the 0.7 per cent of GNI for ODA must be fulfilled by EU countries. ODA should comply with the principles of development effectiveness while being climate-sensitive, environmentally sound and respect human rights.
- *Participation and citizens' engagement.* Dialogue with external stakeholders is essential for pooling knowledge and ensuring that the impact of policies on well-being and the natural environment is taken into account. Stakeholders' input must be included through consultations at all stages, from policy preparation to monitoring.
- *Monitoring, accountability and review.* WWF calls on the EU and its member states to monitor progress and put in place participatory and transparent monitoring and review mechanisms to guide implementation of the 2030 Agenda. Accountability mechanisms need to be in place so the EU and governments can be held accountable to their citizens. The legislative, budgetary control and scrutiny roles of national parliaments and the European Parliament will be important for the preparation and development of sustainable development strategies and for monitoring progress.

Concerning the concrete implementation of the SDGs in EU policymaking, the report makes the following recommendations:

- *Energy*. The EU must show leadership on the SDGs related to renewable energy, energy efficiency, and sustainable transport, housing, production and waste management by ensuring that they are fully reflected in the 2030 EU climate and energy framework. The EU must not hinder the development or implementation of policies and measures at member state level that go beyond those put in place at EU level. The EU must secure the energy markets and infrastructure needed to meet and exceed the 2030 targets currently agreed by EU member states on renewable energy, energy efficiency, and greenhouse gas reductions (through the Emissions Trading System and the Effort Sharing Directive). As a whole, the EU's 2030 climate and energy framework must be underpinned by a transparent, robust, biodiversity proofed, coherent and enforceable governance structure.
- *Marine resource management*. Marine biological resources must be exploited sustainably, above levels that can produce the maximum sustainable yield including allowing for the regeneration of populations of harvested stocks and ensuring the protection of the marine environment. As the largest market for seafood products in the world, the EU has a pivotal role to play in ensuring that SDG targets concerning the conservation and sustainable use of the oceans, seas and marine resources are achieved. Consequently, the EU should ensure demands for legality, traceability and sustainability in the sourcing of seafood all along the value chain at national and EU levels.
- *Water resources management*. Member states must assume their responsibility for preventing further deterioration of water ecosystems and achieving the good status of EU waters by 2021 through the adoption of stringent, statutory measures to deal with pressures, effective policy integration and public participation. In particular, diffuse pollution, over-abstraction, changes to flow and the physical shape of water bodies caused by hydropower, flood control or navigation need to be addressed as a matter of urgency.
- *Biodiversity*. At both EU and member state level more effort is needed to effectively conserve biodiversity. The political commitments made by the EU and its member states with the adoption of the Biodiversity Strategy to 2020 will need to be fully fulfilled if EU is to halt biodiversity loss and to achieve recovery of species, habitats and ecosystems by 2020. The Birds and Habitats Directives, the backbone of EU nature conservation, which until now have led to a creation of a network of protected areas covering 18 per cent of Europe's land and 6 per cent of its seas, will need to be fully and effectively implemented and enforced across all EU member states.
- *Forestry*. Illegal logging poses a significant threat to global forest resources. It contributes to deforestation, causes loss of biodiversity and erodes the rule of law. The FLEGT Action Plan and the EU Timber Regulation play an important role in fighting illegal logging and preventing the unsustainable exploitation of timber species. Yet their implementation should be strengthened. EU member states need to enforce policies and laws consistently and apply sanctions against companies that break them.
- *Circular economy*. Some SDG targets are incorporated in the revised Circular Economy Package draft (such as targets on food waste, on chemicals and waste, and on public procurement). But relevant targets are missing, such as targets on untreated wastewater or agricultural practices. The revised Circular Economy Package draft needs to be strengthened with regards to sustainable sourcing, production and consumption.
- *Wildlife trafficking*. Law enforcement against wildlife trafficking needs to be strengthened by EU member states with appropriate financial and human resources dedicated to enforcement including appropriate sanctions for the trafficking of wildlife products in all member states.
- *Sustainable food and agriculture*. The EU needs a more coherent approach towards our food system's sustainability. The EU's 2015 *State of the Environment* report shows that European agriculture is still a key driver for the loss of biodiversity and continues to cause soil degradation, water contamination as well as declines in pollinators. Our consumption patterns are incentivising the depletion of natural resources outside of Europe, often contributing to environmental damage and loss of local livelihoods. Harmful agricultural subsidies (notably through the Common Agricultural Policy) contributing to unsustainable agricultural practices must be phased out, and policy makers must ensure

sustainable food consumption forms part of a future European policy agenda.

- *Capital markets union*. The SDGs are mentioned only briefly in the *Action Plan on building a Capital Markets Union (CMU)*. Sustainable Development should feature prominently in the CMU so that private capital markets will adequately embrace this agenda.
- *Trade*. Sustainable development considerations – such as the rights of local communities and conservation of the natural environment – should be taken into account in all relevant areas of free trade agreements and investment agreements (for more information see the chapter on 'Trade and investment policy and the TTIP negotiations').
- *European structural and investment funds*. European structural and investment funds should focus far more on low-carbon, energy- and resource-efficient projects. The transport sector should be refocused on low carbon solutions. EU cities need to shift from high-carbon infrastructure to infrastructure that improves citizens' quality of life if the EU is to meet SDG targets. Nature-based projects like green infrastructure, restoration of degraded ecosystems like floodplains or peatlands should be fostered and scaled up as innovative ways to increase resilience and cut costs.

Finally, the case for a 'green' industrial policy – that is, using a new EU-wide industrial policy to address the ecological transformation of Europe's economy – has been made by a growing number of contributions. In 2009 the Greens/EFA group in the European Parliament presented its 'Green New Deal' (GND) strategy, based on the following elements:

- *Macroeconomic and fiscal policy*: a truly green economy would promote human well-being and social equality, without placing more strain on the planet than it is able to support. The GND calls for greater financial regulation and a redefinition of the goals of macroeconomic policy, focusing far more on improving the quality of life and reducing our carbon footprint. Ambitious and far-reaching fiscal policies should target the enhancement of public services, and generally be designed to reward sustainable practices and make unsustainable commercial activity and lifestyles disadvantageous from a fiscal point of view.
- *Industry*: industry is a central theme in the GND – because industry touches everything and everyone, from construction and manufacturing to pharmaceuticals and energy. Industry is vital to the global economy, but is a rapacious guzzler of natural resources. Thus, the GND aims to create a modern industrial base making durable, environmentally friendly products that can be maintained and recycled and fed back into the system.
- *Resource and energy revolution*: if we are to avoid dangerous climate change, we need to seriously reduce our greenhouse gas emissions. The European Union should commit to emissions reductions of 40 per cent by 2020 and 80-95 per cent by 2050, based on 1990 levels, in line with the current recommendations of the United Nations Intergovernmental Panel on Climate Change (IPCC). Europe must also play a leading role in forging a binding international climate agreement under the UN framework. A combination of ambitious and binding targets, of incentives and of public investments into green technologies and services would help create millions of green jobs in Europe and tens of millions worldwide, which are much needed at a time of economic slowdown.
- *Transport*: transport is the fastest growing source of human-made greenhouse gas emissions. The European Union needs to work actively to create a sustainable transport system. Ending the direct and indirect subsidisation of inefficient and polluting transport modes, like aviation and road transport, is an important step in ensuring the full environmental costs are taken into account. We need to speed up investment in trans-European railroad connections and networks. Freight must be shifted from roads to rail and inland waterways on a much bigger scale. Affordable public transport and sustainable transport options in our cities, such as cycling and walking, must be promoted (a comprehensive proposal for a sustainable transport strategy has also been developed by Kyoto Club Italia; see Donati and Petracchini, 2015).
- *Environment*: climate change, deforestation, desertification and biodiversity loss chart our

environmental decline. Important resources are being exhausted. The European Union needs to do more to address the threats to public health, whether related to water-borne or air-borne diseases, noise or toxic substances. Moreover, it has to halt the loss of biodiversity at home and overseas territories.

- *Agriculture*: the growing and cultivation of a huge natural resource – the world's food – has been tainted by intensive farming methods for crops and animals as pressure grows to feed the world. The GND looks to convert current intensive and industrial agricultural practices into greener methods. It envisages a sustainable agriculture and farming infrastructure that produces seasonal, healthy, local food. Green agriculture would provide quality jobs in Europe and allow fair trade with the developing world.
- *Education* and research: finally, the GND calls for massive investment in education, science and research in green, future-oriented technologies to put Europe at the forefront of a global economic revolution.

In 2014, the Greens/EFA group presented an investment proposal for a sustainable Europe amounting to 750 billion euro over 3 years, based on 250 billion of direct funding and 500 billions invested by private investors with a leverage ratio of two. Interventions concern energy efficiency and sustainable and inclusive local development (Greens/EFA, 2014). An important, more conceptual contribution that combines the needs for alternative European policy, industrial policy and social and ecological conversion has been provided by Dellheim and Wolf (2013) in the debates of the Rosa Luxemburg Foundation and of the EuroMemo Group. They point out the policy space offered even by current EU rules and set out a range of criteria and arguments – with special attention to the needs for the demilitarisation and sustainability of European economies – that could contribute to the emergence of a new industrial policy.

# 8. Technology

## The problem

Technology emerges as a relevant problem that has been taken up by civil society in four main respects that however have limited connections to European policymaking. The first one is the use of technology by firms to organise – and often replace or de-skill – labour. The diffusion of the technological paradigm based on information and communication technologies has allowed firms to organise production at the global scale with highly fragmented value chains. In this context labour has been displaced in advanced countries and has been employed in developing ones in harsh working conditions and with very low wages. Trade unions have long been affected by such developments and have produced different forms of resistance that, however, in recent decades have had a particularly limited impact. Acknowledgement of the European dimension of such challenges has been limited in the initiatives of trade unions (see ETUI, 2015, 2016; ILO, 2014a, 2015a).

The most important international trend in business and policy concerning the future of industry and manufacturing is the 'Industry 4.0' framework on the digital transformation of production (Berger, 2014). The idea was launched by international consulting companies and has now made inroads in national and EU policies. For the past few years, an intense European and national debate has been taking place on the digitalisation of the economy. In most countries national programmes have been developed supporting the diffusion of new technologies such as cloud computing, big data, sensors, 3D printers, expanding current policy tools and proposing a new governance system including business and policy makers. The European Commission has declared the creation of a 'Digital Single Market' (DSM) to be a top priority; it is claimed that the DSM can, in the course of the mandate of the current Juncker Commission, not only generate up to 250 billion euros of additional growth in Europe but also, simultaneously, generate the creation of thousands of new jobs, notably for younger job-seekers (European Commission, 2015g). Yet, as noted in the most recent ETUI *Benchmarking Working Europe* report, 'in this debate and the related policy documents, the impact of the digital revolution on labour markets and workers' rights and interests is hardly touched upon' (ETUI, 2016). The ETUC has analysed and taken positions on particular aspects of the social dimension of the digital economy via several resolutions and/or workshops (see, for example, ETUC, 2015). Other European trade union federations affiliated to the ETUC have also taken up similar initiatives or positions. For example, industriALL has issued several policy briefs (industriALL, 2014b, 2015) as well as an official position entitled 'Digitalisation for equality, participation and cooperation in industry – More and better industrial jobs in the digital age' (industriALL 2015). ÖGB, UNI Europa and GPA-djp issued a joint a statement entitled 'Digitalisation, Work and Employment' (ÖGB et al., 2015) and a critical assessment of the Commission's digitalisation strategy.

The second dimension that is relevant is the use of technology as a key driver of Europe's competitiveness. The most influential document on the evolution of European integration is the so-called 'Five presidents' report', titled *Completing Europe's Economic and Monetary Union* (European Commission, 2015d). The report emphasises the need for 'flexible' economies capable to quickly adjust to shocks and argues for a 'new convergence process'. This includes the creation of national Competitiveness Boards with the task of influencing wage setting, under the assumption that (downward) wage flexibility is the main 'shock absorber' and a key tool for assuring the (cost) competitiveness of national economies. Pianta et al. (2016) have argued that the lack of any attention to technological competitiveness, quality, innovation and other non-price factors is a worrying sign of the lack of understanding by all European institutions of the real foundations of Europe's ability to compete. The creation of Competitiveness Boards may in fact institutionalise the pressure towards wage and cost reductions in the pursuit of greater cost competitiveness, especially in less technologically advanced countries. At the same time, the report pays little attention to the potential use of technology for supporting a new trajectory of European development. This debate has been part of the broader criticism by civil society of European austerity (for more information see the chapter on 'Macroeconomic policies').

A third policy dimension where technology plays an important role concerns the decisions over the resources devoted to R&D and innovation that shape the direction of technological change. Overall, the euro area invests around 2.5-3 per cent of its GDP in innovation and R&D and could play an important role in shaping new sustainable and equitable trajectories of technological change. Mariana Mazzucato has emphasised the role that innovation can play in this regard as the driver of economic growth, resulting from an active role of public policy in particular through the emergence of investment-driven, 'mission-oriented' public research programmes (Mazzucato, 2013a; Mazzucato and Perez, 2014). However within Europe the innovation performance gap between countries and regions has significantly widened in recent years (Pianta et al., 2016). Innovation performance has worsened in almost one-fifth of European regions, according to the Regional Innovation Scoreboard 2014. In some cases – most notably Italy – R&D and innovation expenditures have stagnated for years, leading to a collapse in productivity levels (Lucchese et al., 2016).

Finally, the concern on the effort for supporting technological change should be matched by a similar concern on the distribution of its benefits. Experience shows that in the new 'Schumpeterian' activities characterised by new technologies, organisations and markets most benefits go to innovative firms in the forms of high profits (often associated to a temporary monopoly); employees tend to obtain a smaller share of the functional income distribution, but workers that were employed in less innovative firms are the losers of this process, as they lose jobs, income and security. There is also evidence that technology *per se* creates rents; thus, it is up to institutions to ensure that those rents are equitably shared between labour and capital (Bogliacino et al., 2016a). Concerns over sustainable technologies, greater cohesion and a fair distribution of the benefits of technology between labour and capital have long been voiced by civil society organisations in Europe, including trade unions, environmental groups and other organisations.

A fourth dimension concerns the direct uses that civil society can make of the new information and communication technologies, particularly with regard to the development of open source systems, peer-to-peer arrangements, forms of sharing networked knowledge – such as Wikipedia – and other technologies supporting non-market sharing of relational activities that emerge as key components of the new 'learning economy'. A large number of individuals and small civil society organisations have been involved in such activities. However, these efforts have rarely taken the form of policy-oriented action; the self-organisation of virtual communities has been the dominant concern.

## Proposals of civil society

The role of innovation and technology, and their economic, social and environmental impact, has long been the focus of experts, civil society organisations and trade unions. A good overview of the state of the debate is offered in Progressive Economy (2016). As noted by the ETUI, the issue of how to properly govern new technologies 'should be squarely and decidedly put on the table' (ETUI, 2016). This can be done by conducting an analysis of societal risks and benefits, by ensuring transparency as to what is produced by EU companies, by tracing what is imported, and by guaranteeing traceability throughout the industrial supply chain. Exposure assessment based on safe-by-design and human exposure traceability at company level, two other key weaknesses, should also be considered as key aspects. Innovative technologies like nanotechnologies, advanced manufacturing, robotics and others are vital for Horizon 2020 and can contribute to creating jobs and upgrading skills. However, they cannot be developed without a robust regulatory system, controlled conditions for the integration of the technology in the workplace, a real improvement in the levels of workers' knowledge and safe working environments (ibid.). In general, socially unacceptable results of technological change should be rejected and industrial policy should encourage technological change that is coherent with principles of efficiency, equity and sustainability, and the protection of key national and European interests; in particular it should be ecologically sustainable and employment-friendly, avoiding systematic labour replacement by machines and the model of extreme robotisation associated to the Industry 4.0 project (see, for example, Pianta et al., 2016). This requires a major shift in the volume, composition and direction of innovation-focused public investment, within the framework of EU-level and national industrial strategies (for more information see the chapter on 'Industrial policy'). Such a policy could be based on the following elements:

- *Green technology*. The technological paradigm of the future could be based on 'green' products, processes and social organisations that use much less energy, resources and land, have a much lighter effect on climate and ecosystems, move to renewable energy sources, organise transport systems beyond the dominance of cars with integrated mobility systems, rely on the repair and maintenance of existing goods and infrastructures, and protect nature and the Earth. Such a perspective raises enormous opportunities for research, innovation and new economic and social activities that may develop either in markets or in the sphere of public, non-market activities. A new set of coherent policies should address these complex, long-term challenges. Empirical analyses of the direct and indirect effects of eco-innovations in reducing environmental stress can be found in Costantini et al. (2016).
- *Knowledge and ICTs*. Current change is dominated by the diffusion throughout the economy of the paradigm based on information and communication technologies (ICTs). Its potential for wider applications, higher productivity and lower prices, and new goods and social benefits should be supported, including their use in traditional industries. Moreover, ICTs and web-based activities are reshaping the boundaries between the economic and social spheres; on the positive side we have seen the success of open source software, copyleft, Wikipedia and peer-to-peer networks; much more problematic is the rise of platforms that use people's social activities to obtain a market advantage, as in the case of Airbnb and Uber, where a lack of policy and regulation is having serious consequences on existing economic activities in the same field. More generally, policies should encourage the practice of innovation as a social, cooperative and open process, easing the rules on the access and sharing of knowledge, rather than enforcing and restricting the intellectual property rules designed for a previous technological era.

In the above fields a policy tool that has been advocated often is the use of 'mission-oriented technology programmes' that identify specific goals for scientific and technological advancement – in fields such as energy efficiency, renewable energy, prevention and cure of particular diseases – with the goal of developing new products and processes with a potentially large market. A comprehensive review of such policies is provided by Mariana Mazzucato (2013a), emphasising the potential of 'mission-oriented' public funds and actions as effective ways for directing private firms to carry out R&D, innovation and production in targeted fields, while Mazzucato and Penna (2015) have highlighted the importance of state investment banks as lead funders of mission-oriented innovation. An important qualification is needed on the balance between 'suppliers' and 'users' in the institutional arrangements of innovation and industrial policies. So far, the evolution of most R&D and innovation activities has been driven by the design of suppliers rather than by the requirements of the users, resulting often in a limited expansion of new activities and in a unrealised potential of the new technologies. This 'technology push' has often become a straitjacket for the expansion of new economic activities due to the lack of coordination and coherence of organisational, institutional and social innovations and, on the other hand, to the lack of a 'demand pull' able to launch the growth of new large markets for new goods and services (some of these issues are addressed in European Commission, 1997). As argued by Pianta et al., this 'demand pull' – that could characterise also 'mission-oriented' projects or R&D and innovation – should rely not just on 'top-down' public procurement, but rather on new schemes 'empowering the users', letting them define specific applications of existing technologies that address existing social needs and may lead to new goods and services with large markets (Pianta et al., 2016). This is clearly the case in high-quality, custom-made product development in most industries, in environmental activities and in educational, cultural, health and caring services.

Finally, actions have been proposed for an appropriate policy for digital activities that could expand the space for 'open activities' – open source, open data, open collaboration – both in market and in non-market, socially relevant activities. This would favour the emergence of new forms of producing, sharing and using knowledge, and new forms of work (see the analysis of Rushkoff (2016) on the alternative to 'digital industrialism'; see also Valenduc and Vendramin, 2016). In the digital industry an 'open' approach found a major success with the development of open source software communities, such as Linux, or with Wikipedia, the worldwide collaborative free encyclopaedia developed by the collaboration of users. The portal SourceForge.net, a major open source community, provided tools for developers to create software in over 430,000 projects with a daily average of 4.8m downloads. The open source approach led to innovative typologies of licensing such as copyleft with a huge international adoption. Online creation communities (OCCs) have emerged, bringing together individuals that mainly interact via a platform of online participation, with the goal of building and sharing a common resources (Fuster Morell, 2013). There is a lack of wide-ranging EU policies for supporting the expansion of open source activities. The EU Commission does not look at open source as a competitive factor for the economy; collaborative projects are left to specific cooperation agreements between interested actors and software communities. The only exception is copyleft licensing and open source software for public administrations. In this fields, however, a lively activism by virtual communities of practitioners continues to produce social innovations and new technology platforms.

# 9. Labour, employment and wages

## The problem

*Unemployment remains high*

Despite some progress over the 2014-15 period, unemployment and particularly youth unemployment rates in the euro area and EU28 remains exceptionally high, as seen in chapter 1. Moreover, huge divergences across countries persist. In the EU28 on average there was no gender difference in unemployment rates in 2015, yet gender gaps do persist at a country level. In Greece, with the highest overall unemployment rate in the EU in 2015, women's disadvantage was most pronounced, amounting to nearly 7 percentage points compared to men (28.6 and 21.7 per cent respectively). On the other hand, in 16 EU countries – including Latvia, Lithuania, Bulgaria, Romania, Belgium and Ireland – higher unemployment rates were found among men. In the last year, the most pronounced drops in unemployment rates among women were recorded in Portugal, Croatia, Poland and Greece, while for men they were recorded in Slovakia, Spain, Ireland and Lithuania (ETUI, 2016).

*Worsening job quality*

The quality of jobs is worsening almost everywhere. The incidence of temporary contracts in the EU28 has been on the rise for the past two years – from 13.7 per cent in 2013 to 14.4 per cent in 2015. Women are more likely to work in temporary jobs than men in the vast majority of member states, with the widest gender gaps observed in Cyprus, Finland and Slovenia. In contrast to temporary employment, which saw a sharp decline after the outbreak of the crisis, part-time work has been steadily rising over the last decade with the steepest increases shortly after 2008. In the EU28, the part-time rate among men increased from 7.1 per cent in 2008 to 8.9 per cent in 2015. Among women the upward trend was less pronounced: from 30.5 per cent in 2008, to a peak of 32.5 per cent in 2013 and 32.1 per cent in 2015. Not only does the prevalence of short working hours mirror income and class inequality (Jacobs and Gerson, 2004), but recent trends in part-time work suggest that it is also likely to widen such inequality further (ETUI, 2016).

*In-work poverty on the rise*

In-work poverty rates – which measure the incidence of what is commonly called 'working poor' – continue to rise. The average in-work poverty rate for employed people stood at 9.6 per cent in 2014, up from 8.3 per cent in 2010 – a 15.7 per cent rise. Those employed but with low formal qualifications and/or part-time and temporary contracts were the groups with the highest in-work poverty rates, ranging from 18.8 per cent for the low-skilled to 15.7 for part-timers and temporary employees. Part-timers and temporary employees also suffered relatively high increases in their in-work poverty rates, 25.6 per cent for the former and 19.8 per cent for the latter. Those employed subject to more standard arrangements and hours (full-time, permanent, employees) and the highly qualified have been facing markedly lower in-work poverty rates. However, highly qualified employed workers experienced, albeit as from a very low previous level, by far the largest increase in the in-work poverty rate across all categories examined with 32.4 per cent (ibid).

*Risk of poverty or social exclusion for the unemployed high and still rising*

Contrary to the aims of the Europe 2020 strategy, the risk of poverty or social exclusion (henceforth AROPE) has increased since 2010 for the population as a whole in the EU28, the euro area and even in the EU15, in spite of the strategy's ambition of raising 20 million people out of poverty. In 2014, 24.1 per cent or almost 1 in 4 persons among those aged 18-74 in the EU28 lived in a household at risk of poverty or social exclusion, compared to 22.7 per cent of that group in 2010. The AROPE for those in that age group who have been unemployed has been much higher, with about 2 out of 3 people in that age group who are unemployed living in households at risk of poverty or social exclusion. The increases in AROPE for those unemployed have increased by about half as much as in the general population aged 18-74 (ETUI, 2016).

*Decreasing social protection*

The very high risk faced by the unemployed should be cause for concern also in relation to the decreases in expenditure for labour market policies and services per person wanting to work, especially those concerning income support for persons not in work. In most of the member states that were most badly affected by the crisis, the increase in public social spending per capita was below the EU average, with the exception of Ireland. At the other end of the spectrum, in Greece, not only was public social expenditure per inhabitant relatively low in 2008 and still in 2012 but it also registered the second biggest drop in the EU28, in spite of the massive contraction in Greek output and the increase in unemployment. Similarly in Spain, public social expenditure per capita rose by less than average, even though unemployment in Spain at 22.3 per cent in 2015 – having peaked at 26.1 per cent in 2013 – rose by more than three times the EU average between 2008 and 2013. These developments suggest a degree of policy drift (Hacker, 2004), i.e., social protection policies not adapting in line with the need for them. As far as the systems of income support for the unemployed are concerned, a recent report by the ILO pointed out that there was a reduction in the coverage rate (that is, the number of unemployment benefit recipients over the total number of persons unemployed) in the unemployment benefit systems of most member states between 2008-2013, following the increase in long-term unemployment rates and the higher numbers of employees with temporary contracts losing their jobs. These two factors meant that greater numbers of unemployed persons were not eligible to receive benefits (ILO, 2015a).

*Focus continues to be on internal devaluation and structural reforms*

Particularly worrying is the fact that, despite these dramatic figures and even as the danger of deflation looms large, the Europe-wide focus continues to be on internal devaluation (i.e., the reduction of wages) and neoliberal structural reforms (i.e., flexibilisation of labour markets and reduction of collective bargaining rights). This strategy – which entails constant pressure on wages and the relentless pursuit of reforms aimed primarily at increasing the downward flexibility of wages – has exacerbated the subdued levels of domestic demand, compounding the negative effects of fiscal austerity on employment level (on the effects of labour market reforms upon unemployment and income inequalities see Dosi et al., 2016a, 2016c). What is more, this strategy is applied not only to 'crisis countries' but also to the rest of Europe in the context of the country-specific recommendations adopted in the framework of the European Semester (Müller et al., 2015). On a positive note, 2015 saw real wages catching up with productivity (by a small margin) for the first time since 2008; moreover, 'minimum wage restraint' was relaxed in a number of countries. But these developments have taken place in a climate of intensified decentralisation of collective bargaining in general and de-collectivisation of labour relations in the south more specifically (ETUI, 2015).

*An example: Italy's 'Jobs Act'*

Compounding these challenging economic circumstances on the labour market itself, structural reforms aimed at increasing flexibility and imposing wage restraint are exacerbating the vulnerability of many categories of workers in Europe, further widening the many forms of inequality observed over the past decade. A perfect case in point is Italy's 2014 'Jobs Acts', which has determined a deep change in Italian industrial relations (Fana et al., 2016). Bringing at completion a reform process begun in the

1990s, the Jobs Act has introduced a new contract type – known as 'contratto a tutele crescenti' – allowing extremely cheap (for firms) layoffs and depriving workers of the reinstatement right. Though the government advertised the Jobs Act as one of the fundamental pillars of its anti-crisis actions, aimed at re-boosting the economy and, in particular, at reducing unemployment and precariousness, research as shown that the Jobs Act is failing to meet its main goal. The expected boost in employment growth is not detected; on the contrary, an increase in the share of temporary contracts over open-ended ones is observed, and a raise of part-time contracts within the new permanent positions emerges, thus leading to the conclusion that the law could actually 'contribute to the worsening of Italian industrial structure that has accelerated after the 2008 crisis' (Fana et al., 2016; Sbilanciamoci!, 2015).

## Proposals of civil society

*A wage-led growth strategy*

Various experts and organisations – with the ETUC at the forefront – have suggested that a demand- and wage-led growth strategy, based on more expansionary wage policies, would provide an equitable strategy for economic and social recovery (see, for example, ETUI, 2015, 2016; Stockhammer, 2015). As the 2015 edition of the ETUI's *Benchmarking Working Europe* report states: 'In the light of the meagre results of the supply-side-oriented crisis management in terms of generating economic growth and employment, particularly in the crisis countries, the need for alternative demand-side-oriented policies across the whole of Europe should be evident – even more so in that, in the eurozone as whole, domestic demand is still the key driver of economic growth' (ETUC, 2015). Feigl and Zuckerstätter (2012), for instance, show that in the eurozone exports account for less than one fifth of overall demand; and that even in Germany exports account for only one third of the overall demand for goods and services. Thus, alongside increased investments and a departure from contractionary fiscal policies, a more expansive wage policy could be a key component of a macroeconomic reorientation with a stronger focus on internal demand and social cohesion.

Further, it has been suggested that sustained wage growth would contribute to demand growth not only via consumption growth but also via the accelerator effects of investment growth and well as productivity growth via labour-saving induced technological change (Stockhammer, 2015). According to the traditional concept of expansionary wage policy, nominal wage growth should not only follow the combined growth of inflation and productivity but also include a redistributive component so as to increase the wage share and, in so doing, boost aggregate demand (Agartz, 2008). Two central building blocks of such a more expansive wage policy are equitable minimum wages and strong collective bargaining structures, with free collective bargaining and social dialogue guaranteed at the EU and national level (ETUI, 2015). In the context of this strategy, member states should coordinate themselves to promote upward – not downward – wage convergence (Brancaccio, 2012). Country-specific alternatives to neoliberal labour market reforms have also been developed in the context of national campaigns: in 2015, for example, the Italian civil society network Sbilanciamoci! published the *Workers Act* (Sbilanciamoci!, 2015), an in-depth critique of the government's 'Jobs Act' outlining an alternative public policy based on the strengthening of the rights and protections of employees and the extension of those protections to self-employed workers; the direct creation of public jobs; the reduction of working hours; the promotion of a greater work-life balance; and a deep reform of the welfare system centred around the creation of a basic income system (ibid.).

*A European wage policy promoting upward convergence*

At a more practical level, a more expansive European wage policy should take the form of an equitable European minimum wage standard which, in order to fulfil its two-fold function of combating poverty and fostering internal demand, should ideally be close to two thirds of the national median wage, this being the OECD's definition of the low-wage threshold (Grimshaw, 2011). The implementation of a European minimum wage standard should furthermore take account of the fact that statutory and collectively agreed minimum wages are functional equivalents for the purpose of ensuring the comprehensive application of minimum wages; as such, the European minimum wage standard should not only specify a certain relative level but should also incorporate a range of measures to improve collective bargaining coverage. As the ETUC states: 'Free collective bargaining and social dialogue are an integral part of the European social model. Both must be guaranteed at the EU and national level. Each member state should put in place the relevant supporting measures. The autonomy of the social partners at national and European level as well as their role and position must be respected; there must be no unilateral intervention by the public authorities in collective bargaining or existing collective agreements; and coverage of workers by collective agreements should be maximised' (ETUC, 2012). It is also noted that wage-setting should remain a national matter and should be dealt with according to national practices and industrial relation systems. Of course, as noted by the ETUI, this implies a complete reversal of the neoliberal structural reforms implemented in the context of the crisis management and which have essentially undermined the regulatory function of collective bargaining in many European countries (ETUI, 2015).

*The role of new technologies*

The ETUI stresses the importance of seizing the opportunities offered by new technologies – such as participatory, transversal, digital-technology-based systems that steer communicating networks of machines, workers and algorithms – to achieve greater involvement and transparency in the workplace and to promote stakeholder-based governance, with the aim of ensuring sustainable companies and sustainable labour markets. The contribution of board-level workers to ensuring sound, stakeholder-based decision-making must remain a key pillar of the European social model (ETUI, 2016).

*Other pro-labour measures*

Other Europe-wide measures proposed by the ETUC include:

- a youth guarantee for all young people in Europe, ensuring the provision of a decent job, or of adequate training opportunities, within four months of unemployment or leaving school;
- measures to improve the quality of jobs, combat precarious jobs and fight abuses in the practice of part-time, temporary and fixed-term contracts;
- active labour market policies including initiatives to support people with few or no links to the labour market (ETUC, 2012).

*An EU-wide social security system*

The importance of an EU-wide social security system (such as an en EU- or EMU-wide joint unemployment insurance scheme) has long been recognised as a crucial tool to enhance social protection and labour mobility as well as aiding stabilisation (see, for example, EuroMemo, 2015, 2016). As the former European Commissioner for Employment and Social Affairs László Andor said: 'A basic European unemployment insurance scheme would provide a limited and predictable short-term fiscal stimulus to economies undergoing a downturn in the economic cycle – something that every country is going to experience sooner or later. With its automatic and countercyclical character, a basic European unemployment insurance scheme could boost market confidence in the EMU and thus help to avoid repeating vicious circles of downgrades, austerity and internal devaluation in the euro area. It would help to uphold domestic demand and therefore economic growth in Europe as a whole' (Andor et al., 2015).

*The resurgence of industrial action in Europe*

The global economic and financial crisis brought to an end an era of relative calm with regard to collective industrial action in Europe, with the highest incidence of industrial action not surprisingly found in countries worst hit by the crisis. Between 2008 and 2013, 10 per cent of businesses in the European Union were affected by some type of industrial action (Eurofound, 2015). The number of lost working days peaked at 70 per 1,000 workers in 2010, compared with an average of 50 per 1,000 workers between 2003 and 2009. Greece recorded the highest levels of work to rule (17 per cent of establishments), strikes of less than one day (30 per cent of establishments) and strikes of more than one day (32 per cent of establishments). Cyprus had the highest levels of blockade of occupation (16 per cent of all establishments). While there is no data-based evidence on the sectoral distribution of industrial action activity over time, evidence suggests that the public sector has been disproportionately affected. Around 60 per cent of the major strikes reported during 2014 occurred in the public sector (ibid.). This has to be seen against the background of fiscal tightening, with related pay freezes and cuts in the public sector, or unpopular reforms demanding lay-offs or changing working conditions. Public employees of various sectors in Belgium, Croatia, Greece, Ireland, Portugal and the United Kingdom were involved in a lot of strike action during 2014 and the first half of 2015. The main reasons were disputes over pay, planned privatisations and protests against reforms introduced after a change in government. Budget cuts and privatisations to reduce financial pressures on the public budget prompted strikes in several member states, not only in the programme countries, such as Greece and Portugal, but also in the UK, where tensions were high in the aftermath of the economic crisis. There were also a great many general and cross-occupational strikes between 2014 and mid-2015: eight countries experienced such strikes, lasting from two hours in Norway and Croatia to three days in Italy. Though transnational and pan-European collective industrial action has been limited throughout the crisis, a European strike/day of action was called for 14 November 2012, which saw general strikes in Italy, Spain, Portugal and Greece, and national demonstrations across the rest of the EU. The event was historically important as the first true attempt at a general strike in Europe, and included a strong participation of *indignados* and similar groups in several countries. Recently, France has been rocked by massive strike action over labour law reforms.

# 10. Inequality

## The problem

In the last thirty years the economic conditions of people in advanced nations have become more unequal: the rich have become much richer, the middle classes have lost ground, the poor have slipped behind. Whether we measure economic inequality in terms of income or wealth, we find that inequality within advanced countries has dramatically increased. In many countries, disparities in income have returned to levels typical of a century ago. Even though in most advanced countries GDP grew by 60-70 per cent between the early 1990s and the second decade of the 2000s, three-quarters of that growth went to 5 per cent or less of the population (Gallino, 2011). As confirmed by various OECD studies, the latest trends show a widening gap between rich and poor not only in some of the already high-inequality countries like the United States and Italy, but also – for the first time – in traditionally low-inequality countries such as Germany, Denmark, Sweden, Norway and Finland, where inequality grew more than anywhere else in the 2000s (OECD, 2011a). Poverty levels have also been rising steadily in all advanced countries since the mid-1980s (OECD, 2008). In all countries, the share of national income going to the highest earners has increased between 1980 and 2010. Today, the average income of the richest 10 per cent of the population in OECD countries is about nine times that of the poorest 10 per cent (OECD, 2011b). With few exceptions, changes in the income share of the richest 1 per cent of the population account for most of the increase in the income share of the top decile (one-tenth) of the distribution – with the income of the top 1 per cent showing increases of 70 per cent or more in some countries (such as Ireland).

In 2007 the official number of 'high net worth' individuals (with wealth of at least $1 million) climbed to 10 million for the first time in history. These individuals had a combined wealth of around $41 trillion – and their share has kept growing ever since (Capgemini, 2008). That means that on the eve of the financial crisis, 1/600 (0.15 per cent) of the world population possessed one-sixth (almost 17 per cent) of all wealth. This process was particularly marked in Europe, where the ratio of private wealth to national income jumped from two-and-a-half times in 1950 to more than five times by the early 2000s – an even higher ratio than in the United States (Alvaredo et al., 2013). The Tax Justice Network (TJN) believes that the situation is even worse than official statistics show, because of the unrecorded assets hoarded in tax havens around the world. According to their estimates, in 2012 the bottom half of the world's population possessed barely 1 per cent of global wealth, while the top 10 per cent owned 84 per cent. Even more shockingly, fewer than 100,000 people – 0.001 per cent of the world's population – controlled over 30 per cent of the world's financial wealth (TJN, 2012). Furthermore, the economic and financial crisis and the response of governments have led to increased levels of inequality in Europe and in the United States. Even though inequality has roots that go well beyond the 2008 collapse, the stagnation that has followed it has made disparities in income and wealth more serious and more difficult to eradicate (see, for example, Schneider et al., 2015). A recent study by Oxfam has suggested that the richest 1 per cent of the world may now own the same wealth as all the other human beings put together (Oxfam, 2015a). Maurizio Franzini and Mario Pianta in their book *Explaining Inequality*, identify 'four engines of inequality', namely: (i) the increased power of capital over labour, (ii) the emergence of an 'oligarch capitalism', (iii) the growing individualisation of economic conditions and (iv) the retreat of politics (Franzini and Pianta, 2016).

- *The power of capital over labour.* Over the last two decades the rise of finance, globalisation and the diffusion of information and communication technologies have reshaped production systems and investment flows, weakening domestic production, and destroying jobs. The use of labour deeply changed, with governments and businesses reducing labour rights, breaking union power, introducing 'non-standard', 'flexible' labour contracts, and lowering wages. The new power of capital over labour since the 1980s is responsible for the drastic reduction of the labour share – the share of national income represented by wages, salaries and benefits – *vis-à-vis* the profit share in all advanced countries (between the early 1990s and late 2000s, the median labour/wage share in advanced countries dropped from 66 to 61.5 per cent of GDP), and in an increased polarisation within wages and salaries (while low- and medium-level wages have declined or stagnated, the compensation of top earner has increased dramatically) (OECD, 2012).

- *Oligarch capitalism.* The super-rich increasingly take on the features of oligarchs, whose wealth is derived from power and privilege – political protection, monopolies and the acquisition of privatised public companies – rather than from economic success. Moreover, concentrated wealth is transmitted over time within families and the importance of wealth acquired through inheritance is rising in all advanced countries (Piketty and Zucman, 2014). In such an 'oligarch capitalism', the intergenerational transmission of inequality becomes more severe, the possibility of social mobility collapses, and the link between economic merit and distributional reward becomes irrelevant (as shown by Franzini et al., 2014). Some traits of this model – such as the importance of relationships over merit for finding jobs or for obtaining higher wages – are spreading throughout the economic system, leading to the dangerous preference for privilege over competence. As argued by Stiglitz and many others, such a pattern of extreme inequality leads to lower economic efficiency and lower growth (see, for example, Stiglitz, 2012b). Even more worrying is the prospect that the oligarchs' power may increasingly affect the political process, shaping public policy in their own interest and leading to a dramatic weakening of democratic systems.
- *Individualisation of economic conditions.* Inequalities have also increased within the 99 per cent. The fundamental mechanism here is a process of individualisation that has put employees in competition with one another for pay and their careers; it has led to a polarisation of skills and careers and has pushed professionals and the self-employed into increasingly competitive markets. Individualisation has meant that workers generally have more precarious jobs with a great variety of contractual forms – short-term, part-time, outsourced jobs – while young people have increasingly uncertain and diversified professional trajectories (see Bogliacino and Maestri, 2014; Salverda and Checchi, 2014). A large share of earnings inequality is not explained by skills and education but rather by family background or relational activities. The generalised weakening of trade unions and centralised labour contracts has removed the most powerful forces for the convergence in labour incomes and for supporting wage dynamics. More generally, social identities have become more fragmented, and the neoliberal emphasis on individuals, their choices and opportunities has gone a long way in shaping broad social behaviour. Traditional mechanisms which created collective identities and a sense of solidarity – trade unionism for employees of the same industry and firm, community activism at the local level, etc. – have been weakened.
- *The retreat of politics.* Until the 1970s, the state played a major role in reducing inequalities in advanced countries with a wide range of activities and policies. Income distribution was governed by overall policies concerning income policy, taxation, rent controls, the regulation of finance and capital flows. Disparities emerging from market outcomes were contained by a highly progressive tax system, by selective taxes discouraging conspicuous consumption, by high inheritance taxes and by the extensive provision of public services outside of the market. Furthermore, income support was provided for the less fortunate. Since the 1980s, almost all of these policies have been either outright cancelled, as in the case of the inheritance tax in many countries, or substantially weakened, such as progressive taxation.

## Proposals of civil society

Inequality has been a major focal point and rallying cry for researchers, civil society organisations and social movements for many years. Most of the measures discussed in this text, in fact, go in the direction of reducing inequality. Given the complex, multi-layered nature of inequality, it is only natural that it should require an equally complex, broad and multi-pronged egalitarian response. Proposals for reducing inequalities have come from Atkinson (2015), Stiglitz (2012), Franzini and Pianta (2016), iAGS, EuroMemo, ATTAC, etc. The scientific literature and international organisations offer a great number of policy recommendations to tackle the challenges of inequality. The late iAGS report (OFCE et al., 2016) provides a summary of the most widely accepted measures. These include:

- *Rebalancing the relation between capital to labour*. Europe's workers need a considerable pay rise. The trend of decreasing or stagnating real wages hinders the economic recovery in the European Union, since lacking demand of private households hampers economic activity. Collective bargaining institutions and/or minimum wages are important tools to spur demand and ensure decent living standards for all workers. According to experts like Anthony Atkinson or Robert Reich, fair wages are still one of the best ways to combat inequalities. In order to overcome the current crisis, the EU needs a comprehensive strategy for sustainable growth and high-quality jobs for the coming years. To secure employment contracts, workers' rights must be respected through trade union representation and effective sanctions and enforcement (for more information see the chapter on 'Labour and employment policy').
- *Reducing unemployment and improving job security*. Fighting unemployment and creating not only more but also better jobs, in the public and the private sector, must remain a number one priority for policy makers. The OECD (2015) argues that increased labour market segmentation and unemployment, along with the changing nature of employment, are main factors that contributed to increased income inequality during the last years. Today, we are facing huge gaps in social protection, resulting from the decline of standard nine-to-five jobs and stricter eligibility conditions in addition to an increasing number of people that need social protection as a result from the economic crisis. Focusing simply on the employment rate, as the EU Commission still does, is not enough today. The current employment rate target should be replaced by a target corrected for full-time equivalents and with differentiated targets for women and men. Europe needs not only more but also better jobs – jobs with decent working conditions and fair pay in order to combat in-work poverty and wage dispersion. Finally, working time has to be distributed more equally within the labour force. An increasing number of workers lack working hours, while at the same time others are suffering from increasing work intensity, over-long hours and unacceptable consequences for health. Reducing working time entails lots of positive side effects. It can contribute to lowering unemployment rates and to distribute unpaid work more equally. Reductions in working time can be negotiated within collective bargaining systems or by legislation. Increasing the overtime premium paid by employers and putting all-in-contracts under strong legislative control can contribute to effectively reducing working hours.
- *Addressing the gender gaps and labour market segregation*. Women face lower hourly incomes and are employed in part-time work more often than men. They also carry out a disproportionate share of unpaid care work and lag behind regarding wealth and power. Deep labour market segregation still persists, contributing to gender gaps in pay, pensions, decision-making, and wealth. Legislation has to contribute to establishing equal working conditions and equal pay for the same work in all sectors and professions, also by regulating wage transparency and pay audits on the company level. It is necessary, that both men and women are able to combine a full-time position with care responsibilities, in order to combat the gender gaps in full-time and part-time positions. Women are not only overrepresented in part-time positions, but generally in low-wage and non-standard occupations. Although increasing minimum wages to an appropriate level can help to reduce income inequality and decrease poverty, more has to be done. Parental leave arrangements for the exclusive use of fathers have to be intensified. Additionally, public investment is needed to provide childcare opportunities and all-day schools.
- *Strengthening the role of welfare states and increasing progressivity of tax systems*. Welfare state expenditures for social security, health and education have to be seen as investments in the future of Europe. Besides extending the above-mentioned coverage of social protection, benefit levels have to be increased in order to effectively combat poverty. This is also in line with the Europe 2020 strategy. Welfare states via taxation and spending policies are an essential tool to reduce inequality in market incomes and to stabilise growth. It is worth noting that also the OECD and the IMF provide empirical

evidence that redistribution via taxes and transfers does not necessarily harm economic growth. Overall, current tax structures in European countries are less progressive today than twenty years ago. Increased progressivity in the taxation of incomes is not only a question of introducing higher marginal tax rates on high incomes; also the tax base has to be considered. Most of the tax exemptions and deductions in place today disproportionally benefit high-income and wealthy households. With the aim of broadening the tax base, these exemptions should be abolished. It is also essential to shift taxes away from labour towards immovable property, financial assets, inheritances, and green taxes. This is also promoted by the European Commission, which has found 'that there is scope to shift labour taxes to more growth-friendly taxes in all the Member States where there the tax burden on labour (overall or for specific groups) is high' (European Commission, 2015a). Additionally, tax compliance has to be improved across Europe (for more information see the chapter on 'Tax policy').

- *Reducing wealth inequality*. Wealth is much more unequally distributed than incomes and likely to become more so over time (Piketty, 2014). Wealth concentration does not only have detrimental effects for economic growth, but also for social stability. Wealth taxes are particularly suitable to pursue distributive justice, finance government spending, and strengthen economic growth at the same time. This is also recognised by the OECD (2015), suggesting that 'governments should re-examine a wide range of tax provisions to ensure the wealthier individuals contribute their share to the tax burden'. The IMF and the European Commission refer to recurrent taxes on residential properties as an underexploited, although growth-enhancing, revenue source with a tax base that is hardly movable and hard to hide. Further, property taxes can be made progressive easily, for example via a basic allowance or by varying the tax rate with the value of the property. From an administrative point of view, transaction taxes are appealing, as transactions are easy to observe and the IMF emphasizes that compliance is expected to be large. The most prominent proposal with respect to reducing wealth inequality has been made by Thomas Piketty (2014). He suggests a global tax on capital ownership, meaning a tax being annually vacant, using net wealth stocks as the tax base. Accordingly, the OECD and the IMF regard wealth stocks as a heavily underutilised source for progressive taxation. Net wealth taxes promote economic growth as the wealthiest have high savings propensity and consume only a small fraction of their capital incomes. The extent of labour and consumption taxes across European countries emphasizes that the wealthiest are not contributing adequately. Abolishing bank secrecy and implementing systems for the automatic exchange of information on asset ownership between European countries are necessary preconditions for an effective taxation of wealth stocks. Further, companies and individuals can easily avoid and shift their tax base to avoid tax payments – often legally. Due to profit shifting, particularly by multinational companies, EU countries lack billions of euros in their budgets each year. The ETUC calls for establishing a European Tax Investigation Agency, and full support of the OECD's Base Erosion and Profit Shifting (BEPS) initiative by European Union countries. In order to ensure a fair and effective taxation of wealth that makes wealthy individuals and corporations pay their share, international cooperation and transparency have to be strengthened (for more information see the chapter on 'Tax policy').
- *Enhancing social mobility by taxing inheritances*. From the perspective of promoting intergenerational mobility, inheritance taxes are most promising. Taxing inheritances massively contributes to decreasing wealth and income inequality and equalising opportunities. While most European countries levy such taxes, some member countries have to catch up.
- *The regulation and downsizing of finance*: See the chapter on 'Finance and money'.
- *A fair distribution of the benefits of technology and productivity*. See the chapter on 'Technology'.

# 11. Economic governance and democracy

## The problem

*Technocratic governance*

As noted in various EuroMemorandum reports, the EU and EMU's already-existing democratic deficit has hugely widened in past years, through a constitutionalisation of market-making economic policy and a deepening of the process of depoliticisation, by which macroeconomic decisions are removed from the realm of representative-democratic deliberation and social choice (see, for example, EuroMemo, 2015, 2016). The technocratic character of EU governance has been reinforced. The current system of European economic governance (six-pack, two-pack, Fiscal Compact, European Semester, MIP, etc.) is highly unbalanced: the focus is almost exclusively on fiscal stability and (wage) competitiveness whereas concerns over economic recovery, more and better jobs and social cohesion are largely ignored (ETUI, 2015, 2016). Particularly worrying is the Commission's plan to introduce in member states Competitiveness Boards to monitor competitiveness developments, including wages, as well as to inform the process of setting wages. Finally, the Macroeconomic Imbalance Procedure (MIP) favours a deeply asymmetric approach to surpluses and deficits, placing the onus of adjustment on deficit countries. The proposals contained in the 'Five presidents' report' claim to promote greater prosperity and solidarity in Europe but critics argue that they will simply serve to further reinforce the technocratic character of EU governance (EuroMemo, 2016).

These developments raise serious issues of constitutionalism: namely, the tendency of the EU institutions to restrict the area of democratic decision-making by democratically elected governments, focusing instead on technocratic rules imposed by undemocratic decision bodies. In this respect, the democratic deficit that is inherent in the construction of the executive-led EU has been amplified by the crisis and the response of the ruling elites to it, with the EU's extensive post-crisis reform of its system of economic governance representing a radicalisation of this new constitutionalism (which has been dubbed 'authoritarian constitutionalism') (Oberndorfer, 2015). First, the scope and level of intrusions into national sovereignty have been greatly enhanced; structural economic policy now explicitly falls within the domain of the Memorandums of Understanding (MOUs). Second, although in the past the new constitutionalism conformed to certain minimum definitions of the rule of law, the new economic governance has taken on an increasingly authoritarian form (European Parliament, 2014).

*The Greek crisis*

The handling of the Greek crisis represents a great case in point. The negotiations between the left-wing SYRIZA-led government, which emerged from the January 2015 elections, and Greece's euro area creditors exposed the secrecy and the bias on which EU policy rests. Furthermore, it revealed the connecting links between politics and economics in the EU, i.e., the power imbalance between the ruling elites and society at large. In particular, it laid bare the influence that the ruling elites of Germany, the continent's hegemonic power, exert over EU economic policy (Kundnani, 2015). Particularly pernicious – in both political and financial terms – was the behaviour of the ECB. As noted by Mario Seccareccia: 'As soon as the Greek government refused the initial austerity package and announced that the referendum would be held, the ECB refused to increase its liquidity assistance, even though it knew fully well that this was not primarily because of a solvency problem for Greek banks but overwhelmingly it was a systemic liquidity problem arising from the growing uncertainty and fears on the part of the public reflected in the progressive hoarding of liquid funds. This fear was undoubtedly compounded by the actions of the ECB itself, which offered the Tsipras government no choice but to shut down the banks, impose capital controls and restrict individual withdrawals to €60 per day. Hence, instead of seeking to support and promote the smooth operation of the payments system of one of its member states that, at no time, had officially proposed exit from the eurozone (in fact, it was the German leaders who were strategizing 'temporary' Grexit), the ECB actually cut off its liquidity assistance deliberately in order to destabilize further the Greek payments system and force the SYRIZA government into accepting the harsh austerity measures' (Seccareccia, 2015). Thus, the ECB was exposed as being anything but 'independent,' while the Eurogroup – an 'officially unofficial' body according to Protocol 14 of the EU Treaty – issued increasingly offensive statements against the Greek negotiators. After six months of intense negotiations, the Greek government was made to bow down and to accept the onerous terms of yet another loan agreement conditional on further austerity and deregulation measures.

*Which democratic structures for Europe?*

The framework for this discussion about democracy in Europe is the one defined by the longstanding debate between the federalist project of European political integration and the view of Europe as mainly an inter-governmental institution. The role of the European Parliament is at the core of such a debate, with the former view expecting an expansion of its role and the latter highly sceptical of its potential. Sergio Fabbrini, director of the LUISS School of Government in Rome, has argued that the 'parliamentarist' model of European integration 'fails to acknowledge the key difference between a nation state and a union of states', which is also the difference between a federal state (emerging from the disaggregation of a previously unitary state) and a federal union (created by the aggregation of previously independent states). As Fabbrini writes: 'The EU cannot adopt a parliamentary form of government due to structural, rather than contingent, reasons. Regardless of the parliamentary rhetoric celebrated in the treaties, parliamentarism cannot give a feasible answer to the two main systemic constraints within the EU: the demographic asymmetries between its member states and the national differentiation between the latter's citizens. Given these systemic constraints, it would be unacceptable to recognise only the European Parliament as the source of governmental authority in the EU, if not as the source of the EU's democratic legitimacy. If this were to occur then the representatives of smaller member states (currently around three quarters of the total) would consistently be in a minority, given the national differentiation between citizens cannot be regulated through the same "left vs. right" axis that exists at the national level' (Fabbrini, 2015).

Progressive integrationists usually respond to this by stating that a supranational democracy needs to go in hand with the creation of a 'post-national or supranational electorate'. For the great majority of ordinary European citizens, though, linguistic barriers and cultural differences impair the opportunity for political participation at a supranational level (Belot, 2014). This became apparent in the debate over the *Spitzenkandidat* system, used for the first time in the 2014 European elections to select the Commission president. Following the elections, many argued that Juncker's appointment was democratically legitimated by the fact that he was the candidate of the parliamentary group with the largest number of MEPs. Habermas and other prominent intellectuals wrote in support of Juncker's appointment suggesting that European citizens have the right to choose who leads the European Commission and that the election results showed that Juncker was 'the people's choice' (Habermas et al., 2014). From a purely formal standpoint, they were right. But most of those who voted for the national parties that are members of EPP did not even know what EPP was or who Juncker was. This episode shows that there is a very real risk of EU-level democracy resulting in a form of supranational 'depoliticised democracy'.

More in general, any debate about the 'parliamentarisation' of the EU needs to take into account the crucial difference between the formal electoral-representative process and true popular control. As argued by Lorenzo Del Savio and Matteo Mameli, further integration, even if accompanied by a strengthening of the electoral-representative component of the EU, is not necessarily equivalent to more popular control (Del

Savio and Mameli, 2015). It is assumed that an enhanced version of the EU parliament would suffice for proper democratic control over the union's major decisions. But this ignores the question of oligarchic capture, Del Savio and Mameli note: 'Oligarchic capture does not just affect regulatory bodies and unelected officials. It also affects elected representatives. Augmenting the powers of elected officials that are vulnerable to oligarchic capture means augmenting the power of economic oligarchies. It means weakening popular control. Elected national parliaments and executives are highly imperfect tools for achieving popular control over decisions that affect people's freedom and wellbeing. Supranational parliaments and executives are even more inefficient in this respect' (ibid.). The problems relating to lobbying and to the revolving doors issue – not just between big businesses and regulatory agencies but also between big businesses and elected offices – are in fact exacerbated at the supranational level. 'It is for this reason that, in general, the transfer of sovereignty to international loci of political decision-making contributes to the weakening of popular control. International loci are in general physically, psychologically, and linguistically more distant from ordinary people than national ones are. This distance means more room for oligarchic capture. International loci of political decision-making are usually designed in such a way as to make it extremely difficult for ordinary citizens to understand how decisions are taken and to be able to influence and contest such decisions in an effective manner. This enhances the effectiveness of the mechanisms of oligarchic capture' (ibid.).

## Proposals of civil society

The issue of democracy – or lack thereof – has been at the centre of social movement mobilisations since the start of the crisis. In recent years, several movements, such as the *indignados* in Spain, have in fact protested against what they saw as a deterioration of democratic institutions. *Lo llaman democracia y no lo es* – 'They call it democracy, but it is not' – one could read on the poster carried by a member of the Spanish *indignados*, one of the social movements that have recently denounced the corruption of institutional politics, calling for 'Democracia Real Ya'. Extremely mistrustful of traditional representative democracy, these actors seem also in search for new organisational models, which they often define as direct democracy but whose effectiveness has not yet been proven (see Gerbaudo, 2012, 2016; della Porta, 2009b; Pianta and Gerbaudo, 2015; Marcon and Pianta, 2013).

The question of democracy is at the centre of most of the initiatives and mobilisations of civil society that are discussed in this report. The lack of democratic arrangements for decision-making on economic policy, the lack of transparency in procedures and the lack of accountability of politicians and technocrats to European citizens are fundamental weaknesses of the present European construction. We have already seen in previous chapters how the calls for greater democracy have developed in civil society actions concerning specific fields of economic governance. In this section we focus on the overall perspectives that have emerged with regard to the future of Europe's political structures and the scope for democratic control of economic policy.

Alternative visions of Europe have emerged as responses to the crisis, with a range of actions by civil society that move in different directions. A first frame is that of a reversal of European integration, which sees the revival of national political processes, consideration of the break-up of the euro and a return to domestic currencies, with less open and less integrated economies, and the recovery of some degree of national policy sovereignty (Flassbeck and Lapavitsas, 2015). Initiatives that move in this perspective include the calls for a 'Plan B' for exiting from the euro (see chapter 1), demands for fiscal autonomy of national governments against the austerity rules of Europe and other 'insubordinate' actions concerning the protection of national welfare states, fiscal rules, production activities, etc. The victory of the 'Brexit' option in the British referendum of June 2016 has made the reversal of European integration real, opening up a crisis whose outcome for Europe is highly uncertain. In the absence of a strong and imaginative response from European institutions it is likely that further steps towards disintegration may emerge in other countries.

A second, opposed, frame is the traditional argument of European federalists, who argue that greater European integration is the way forward, aiming at the creation of a democratic 'federation of citizens', in contrast to the kind of authoritarian or 'executive federalism' that European elites are currently pursuing (Habermas, 2012; Lacaita and Vallinoto 2014). Proposals for reform of Europe's system of economic governance usually focus on two aspects: the issue of democratic legitimacy (or lack thereof) and the re-focusing of the system's overall objectives. Since the latter is addressed in detail in other chapters of the book, we will focus here on the former, which is usually tied to the wider issue of the EU/EMU's democratic deficit, and the need for an overall democratisation of the decision-making process at the European level. As for the question of how to best democratise and politicise the European Union and the monetary union, there are obviously differing views, given the complexity of the matter.

There is a relative consensus among progressive integrationists that European democracy should rest, first and foremost, upon a significantly empowered European Parliament. It has also been argued – notably by the *Manifesto for Europe* of Thomas Piketty, Pierre Rosanvallon and colleagues, as well as by the Glienicker Gruppe – that a parliamentary chamber for the eurozone should be created alongside the EP comprising a selection of members of the national parliaments of the eurozone countries (Piketty et al., 2014; Glienicker Group, 2013). As for the executive branch: a revamped European Commission with a directly elected president (who would in effect become the president of Europe) would transform it from the technocratic body that it is today into a fully-fledged political body, capable of pursuing right-wing or left-wing policies on the basis of an electoral programme chosen by the people. This would allow citizens to choose what Europe they want. It requires the transnationalisation and Europeanisation of European political parties, meaning that elections for both the European Parliament and the European Commission should be organised on a transnational, rather than national, basis. In practical terms, this would mean that citizens in each country could vote for a politician from any country in the European Union. Further, it is often argued that the ECB should be placed under some degree of democratic control (Fontan, 2015). For some thinkers, though, this is not enough. To this end, in addition to further empowering the European Parliament, it also argued that national parliaments should be more involved in the European legislative process. It is widely agreed that such sweeping changes to the European Union's architecture should be subject to national referenda, or even better a Europe-wide referendum. (In any case, the treaties arguably require this for changes of such magnitude).

A third frame for democratising Europe has focused on the project of a Europe beyond neoliberalism, arguing that most democratic shortcomings are in fact the result of the neoliberal paradigm that has been enforced by European institutions. According to this view, the democratisation of the European decision-making process needs to go hand in hand with a reduction of the power of finance and technocratic bodies, ECB included; strict limits to the 'revolving doors' system between business and European politics; a move beyond austerity in macroeconomic policies; a reduction of inequalities; greater protection of social and workers' rights and a greater role for trade unions. This has been the approach proposed by a large number of civil society organisations – from the EuroMemo Group to the Transnational Institute, from Sbilanciamoci! to Les Economistes Atterrés, from ATTAC to many labour organisations – as the analysis of the previous chapters has made clear. Some of these arguments have had an impact; for example a 2014 European Parliament report has argued for a 'phasing out' of the *troika* in the management of the Greek crisis (European Parliament, 2014).

A recent development in this area has been the creation of Yanis Varoufakis' DiEM25 (Democracy in Europe 2025) movement, which has put at the centre of its action the democratic question in an integrated Europe. DiEM25 calls on European institutions to lift 'the cloak of secrecy enveloping decision-making at the level of the EU', and demands the live-streaming of the entire European Council, Eurogroup, ESM Board of Governors and ECOFIN meetings, and the subsequent publication of official transcripts for all such meetings; a full set of minutes for each ECB governing council meeting to be published three weeks after the conclusion of each regular meeting, and complete transcripts of these meetings to be published within two years; an exhaustive list of all Brussels lobbyists and a register of every one of their meetings with elected or unelected EU officials; the electronic publication of all TTIP negotiating documents and full transparency at every stage of the TTIP negotiations (DiEM25, 2016). Conceptual and political contributions in this regard have come from Susan George (2008, 2010, 2012), della Porta (2015a) and Kaldor and Selchow (2015). Addressing the fundamental questions of democracy, Etienne Balibar argued that 'political Europe, outside of which there is indeed only decline and inability for the people of the continent, will only be legitimate, and therefore possible, if it is more democratic than the nations that create it, if it allows them to step beyond their historical conquests in terms of democracy' (Balibar, 2012).

In the continuing European crisis, the interaction between these different projects is under way and the outcome is highly uncertain. The debates and actions of civil society, however, will be an important factor in shaping the future of European economic policies – and of Europe's political future.

## 12. Implications for research

The conclusions of this report have already been summarised in the introduction and summary. What can be useful here is to outline a number of implications that may emerge for economic research – in particular on European economic policies – on the basis of the contributions and activities of civil society reviewed in this report.

A first general consideration is that economic researchers should pay more attention to the analyses and arguments developed by civil society organisations and the experts associated to them. While these are far from the standards of academic work, we have seen that the range and depth of the analyses and policy alternatives proposed by civil society is remarkable. They have identified key problems in all the relevant fields and warned against many of the dangers of Europe's failed policies – from the liberalisation of finance to fiscal austerity. Moreover, many of the policy proposals under consideration in Europe today have first emerged, long ago, in civil society – the Tobin tax to name just one.

Moreover, facing the broader questions of the future of Europe, the lack of up-to-date economic research on fundamental challenges is striking. The economic impact of 'Brexit' is still highly uncertain and few studies have addressed it. Very little detailed economic research exists on the feasibility, implementation and impact of a break-up of the euro zone, and on the possible alternative arrangements. The scenario of a further economic disintegration of Europe should receive much greater attention from economists, with regard to the possible evolution of finance, trade, production, employment and public expenditure. The need to move economic studies closer to the concrete challenges emerging from Europe's crisis is an important lesson emerging from this report.

A number of specific research questions emerge from the analysis of each chapter. Some of the major ones are listed below, as a way to suggest specific directions for research that could fill gaps in current knowledge and adequately inform public policy debates.

Chapter 1: Macroeconomic policies

- The need for moving beyond austerity in Europe's macroeconomic and fiscal policies has been clearly argued. How could this be implemented? By giving greater freedom to member states to run national budget deficits? Or with a 'fiscal union' that needs to be clearly defined? And how could the ECB support a fiscal expansion? Studies on the institutional arrangements, tools of operation and expected effects of post-austerity macroeconomic policies in Europe would greatly strengthen the argument in support of a change of policy.
- The need to move beyond GDP and to embrace alternative economic indicators has been clearly established, but little is being done beyond methodological studies in this field. How would the interpretations of Europe's growth change if a more accurate indicator of progress were considered?

Chapter 2: Tax policy: tax cuts, havens and harmonisation

- The need to achieve a full fiscal harmonisation in Europe has long been argued. Research could address the question of how that could be achieved and what would be the improvements in tax receipts across EU countries. What is the potential for a greater Europe-wide tax base? Linking this issue with the environmental challenge discussed in chapter 7, is there a role for tax policy in inducing firms to move towards greater environmental sustainability?

Chapter 3: Finance and money

- In the case of finance, the analysis presented in chapter 3 has already identified a number of highly detailed fields where greater understanding – and economic research – is needed. We still lack a clear synthetic indication of how large the financial system actually is and the role it plays in the economy, and adequate analyses of the impact that the expansion of finance has had on economic prosperity and social wellbeing. Moreover, we have a limited understanding of how – short of a new crash – the excessive expansion of finance could be reined in and the impact that this may have on the economy and society. What could the economic effects of the proposed measures to re-regulate and constrain financial activities be?

Chapter 4: Privatisation

- The impact of privatisation policies is a highly contested issue. Yet, mainstream economic research has rarely considered the downside of such policies. As demands for reversing them emerge from civil society, more research is needed on the way a return to public ownership or a 're-municipalisation' of essential public services – first of all water provision – could be achieved.

Chapter 5: Trade and investment policy and the TTIP negotiations

- TTIP is a clear case where economic research has been mobilised to provide evidence of the benefits of trade and investment liberalisation, with very little work exploring the potential negative economic, social, ecological and political effects. The demands from civil society for a more balanced approach to such studies are well placed and economic research should maintain a more independent and critical perspective on the effects of such major policy choices facing Europe. In particular, studies are needed on the impact that TTIP regulations on investment protection, regulatory change and dispute resolution are likely to have on the policy space of European countries.

Chapter 6: Industrial policy

- The proposals for a new Europe-wide industrial policy developed in chapter 6 would deserve a more detailed economic study in terms of their possible financing, forms of democratic governance and economic management, impact on technology, output, employment, trade and the overall quality of Europe's development.

Chapter 7: Environmental sustainability and climate change

- Economic research has long been slow in integrating the questions of environmental and climate change. A more systematic effort could be developed to integrate these dimensions in a wide variety of economic studies. In particular, the policy targets agreed in Europe on environmental and climate change could be examined in terms of the economic alternatives that could be pursued in order to achieve them effectively. This has major interdisciplinary implications, as the analysis has to take into consideration the technologies used, the forms of organisation of production and use of labour, the use of natural resources, the impact on different environmental aspects, the distributive implications. In turn, this research agenda has to be combined with the macroeconomic, industrial policy and technology questions emerging from other chapters of this report.

Chapter 8: Technology

- The analysis and assessment of the alternative courses that technological change can take should be systematically integrated in economic studies that too often assume technology as a given, exogenous factor. Chapter 8 has documented the variety of perspectives on technology that have been raised by civil society and trade unions, including the forms of its shaping, the public policies that are relevant, the way it may change production and markets, the impact it has on jobs, skills and wages, the opportunities it provides for non-market, network-based social activities, etc. Each of these issues may deserve a deeper investigation of the social and economic processes that are at work – at the level of countries, industries, firms and specific technologies. This may allow a better understanding of the mechanisms and effects of the current pace of technological change, and also shed some light on the potential alternative economic and social arrangements that different technologies may allow.

Chapter 9: Labour, employment and wages

- Current European policies have pushed in all countries labour market reforms centred on the flexibilisation of labour, the compression of wages and the curtailment of collective bargaining. Economic analyses should pay more attention to the quality of jobs offered, the impact of the precarisation of work, wage inequalities, and the long-term impact on economic performance, productivity, individual prospects of income security. A greater connection with trade union agendas and initiatives could also bring economic research closer to the real world of work and employment.

Chapter 10: Inequality

- A wide range of studies – summarised in chapter 10 - has examined the causes and consequences of inequality. The gaps in research that have emerged from civil society initiatives concern in particular the connection between political, social and economic aspects, including the attitudes towards high inequality, the apparent lack of social mobilisation in many European countries on the issue of inequality, the effective policies that could bring more equality back.

Chapter 11: Economic governance and democracy

- The project of European integration is facing – as we have seen in this report – major challenges. More systematic studies of public opinion and civil society attitudes should be integrated in the consideration of the economic policy alternatives for Europe. A closer integration is also needed between the political and institutional dimension and the economic policy one in order to understand what combinations of the two could be effective in shaping feasible alternatives for Europe.

In order to stimulate research in these directions, a much closer interaction between scholars and civil society should be pursued – as practised in the ISIGrowth project – to effectively expand the exchange of knowledge and policy oriented debates. The common aim could be to make research more informed of social needs and debates, and civil society more aware of the complexity of economic issues.

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