

Event Report

BÖLL LUNCH DEBATE

Why We Need a European Policy of Change and What It Should Look Like¹

The new European Parliament has been elected and has taken up its work; the (structure of the) new Commission college has been proposed and is waiting for the Parliament's approval. Hailed by some as the most significant shake-up of the European Commission's organisational structure in years, the Parliament was less amused and MEPs threatened "to get tough" on some of the candidates. Notwithstanding the outcome of this confrontation, a "shake-up" of European politics and some "toughness" do not seem out of place in Europe's current political and economic situation. The recent European elections have clearly demonstrated that (too) many people have lost faith in Europe and its politicians. They do no longer trust their ability to make things better. But, is Europe's decline really irreversible? In order to decide how to get things right in Europe, we have to think about what exactly went wrong and set our priorities. In his recent book "European Spring – Why Our Economies and Politics are in a Mess and How to Put Them Right" Philippe Legrain, former independent economic advisor to Commission President Barroso, spells out his ideas about a fair and decisive solution to the banking and debt crisis; the necessity to dispel "bad ideas" and hurtful myths; fundamental economic and political reforms and changes to institutions to make them work better, and a more accountable and democratic EU with genuine political choice. He came to Brussels to be questioned by journalist Annette Riedel and a curious audience.

Summary Debate²

Is the way that the new Commission president is about to structure the European Commission a move in the right direction?

A better structure of the European Commission is always welcome, though changing the organigram does not seem the most pressing issue. The question is whether the new Commission will choose for a change of policies. On the one hand, Juncker said that he does not regret the austerity policies that were pursued while he was president of the Eurogroup, on

¹ The event took place on 8 October 2014. Guest speaker was Philippe Legrain, visiting senior fellow at the London School of Economics' European Institute and former independent economic adviser to the president of the European Commission, José Manuel Barroso. The event was moderated by Annette Riedel, EU correspondent. Deutschlandradio in Brussels. The opinions expressed do not necessarily represent the opinions of the Heinrich-Böll-Stiftung. The questions were asked by Annette Riedel and members of the audience.

² Philippe Legrain's integral speech is to be found [here](#).

the other hand, he has proposed 300 billion for new investment but it is pretty clear that this is actually just old money labelled as new, which will not have any impact at all.

What is really important is to, first, change the policies and, second, to recognise that if we are going to take more decisions, particularly in fiscal matters at a European level, these need to be democratically accountable and there needs to be a legitimate choice concerning alternatives.

One cannot simply take politics out of decisions on tax spending and say: "These are the rules, that's the way it is, you got to stick to them." These decisions are at the heart of national politics. And if you tell people *that*, you will turn them away, you will drive them to extremism and you will turn them away from politics altogether because they will say there's no point in voting, if we will just end up with the same thing.

With the empowerment of the European Parliament brought about by the Lisbon treaty there have been moves, even though slow ones in the direction of more accountability...

Clearly, the European Parliament is much more powerful since the Lisbon treaty than it was before. The fact that "its" candidate, or rather the candidate of the EPP, was able to prevail and become a candidate for the presidency of the Commission, is obviously a sign of its increased power

However, it is not clear that by most Europeans, the EP is seen as the most legitimate institution. It is therefore important that we have much greater accountability and more involvement of European citizens, which means, e.g. that the Council should not take decisions in private, we should make more use of the European Citizen Initiative, we should exploit new forms of deliberative democracy. We should be thinking again about how decisions are being taken. The EU began as an elite project and there were good reasons for that but now we reached a level of integration where we cannot do this behind closed doors or without proper accountability and choice.

Do those ideas make a chance to be taken up by the leaders in power today?

There have been positive signals, such as the Eiffel Group proposing a "Euro Community" along with a Euro treasury and the Glienicker group in Germany coming up with similar proposals. The problem is that the crisis has undermined support for the European Union so much that there is no political support for these very desirable moves. We are stuck in a way and if you can't move forward, then perhaps you need to look at different ways to do things. Particularly in the area of fiscal policy, we need to restore powers on the national level until there will be political support for moving towards a eurozone budget.

In your book "Towards a European Spring" you refer to four possible futures for the eurozone: Germanic, flexible, technocratic and fiscally federal. Which of these versions is most likely at this point in time?

At this moment we're heading towards a *Germanic* eurozone with a technocratic edge. By Germanic eurozone I mean one which suits the interest of Germany defined by Angela Merkel 's government in Berlin, i.e. more control over others but not over Germany. What you can see is that wherever Germany wants further integration, e.g. a much tighter fiscal rule is, it will happen and where it doesn't, because it wants to retain control over its banks, it won't. You can see that the Sparkasse is excluded completely from the Banking Union, so you have a bogus banking union where the BaFin can continue to hide the losses of German banks rather than face up to them.

The *technocratic* version is more desirable in a way that it involves rules that apply equally to all, it is a bit like the “Commission version”; the problem with it is, that it is not democratic enough.

The *fiscally federal* would be the right step in the medium term; it includes a eurozone treasury with limited fiscal tax raising and borrowing powers with proper accountability, basically the ability to respond to changing circumstances and political demands.

The *flexible* one means to take a step back from the mistakes we made in fiscal integration with still much greater flexibility towards a national level until such circumstances exist that we can move to fiscally federal.

The danger is that if we move forward with what we have now, a Germanic eurozone with technocratic edge, we actually risk destroying the eurozone. There is the hope since Europe often has proceeded from a crisis that there would be the political energy to move forward towards fiscal federalism, but this is highly unlikely. What this crisis has shown is, that it is more likely to have a negative impact than a positive impact and therefore it would be wiser to make a move now.

A very important part of the sustainable growth we need could be a green economy, a green new deal...

One of the challenges that policy makers face is to tackle long term problems under conditions of radical uncertainty, the best example would probably be climate change. Basically you want to take out insurance against the risk of a catastrophic outcome and when you do, you want to do it in the most effective and lowest cost way, which means you need to have policies that are both, flexible and effective and Europe has neither of those. We had an emission trading scheme which was meant to deliver a certain reduction but hasn't done so. We had – to a large extent – a reduction in carbon emissions within Europe, but we simply exported them into the rest of the world. In fact, carbon consumption hasn't fallen in Europe, it has actually risen. The point is: before, things were made in Europe and now they are made in China or elsewhere. If you take as given that for the moment the EU is progressing at least as fast as other countries in the world, you need to have a policy to achieve the ultimate global aim which is a reduction in global emissions rather than in European emissions which as such is useless.

There are two policies that will do that. – First, much greater funding for research into climate change. Second, taxing carbon consumptions, so that you tax something that provides revenues which obviously can be used to reduce other taxes and at the same time this way of taxing is flexible: you can put the tax up or down depending on what impact it actually has on emissions. This way you are sure that you're actually reducing the total emissions consumed by Europeans, not simply exporting them elsewhere. Also, companies in Europe will no longer have much of an interest to lobby against this tax because companies outside Europe would be impacted equally by it, whereas under current conditions, they're disadvantaged to producers elsewhere as a result of it.

Last but not least, and this is really crucial because the European single market is still the largest in the world, if you know that you're going to pay a certain tax based on your carbon emissions involved in your product, then you have an incentive to try and meet European standards and bring the emissions down in order to be able to sell more in Europe. Therefore, whereas the current policy has no impact on the rest of the world, introducing a tax on carbon consumption actually would encourage producers elsewhere become more climate friendly and once they have made that investment it doesn't make sense not to produce the rest of their output in climate friendly way either. Like that you' are actually exporting positive policies to the rest of the world.

In order to have a true banking union, not a bogus banking union and other urgent reforms would it be conducive if the UK stayed within the EU or if it rather left the EU in order to enable these reforms?

I am certainly pro European; the reason why I am so critical about what's going wrong is because I want Europe to succeed.

Has there really been no competitiveness in southern Europe over the past five years and before that? What could be the recommendations for the recovery of southern Europe?

If you look at the facts you find very clearly that wages fell as a share of GDP in every single southern European country in the decade before the crisis. To the extent that prices got out of line in southern Europe, they did so as a result of inflation rather than of an increasing wage cost. If your way to address that is to simply push down wages, you end up with all sorts of reverse impacts. This is a simplistic analysis which basically just looks at the economy as static in time and doesn't differentiate between different things you might do, so you're just trying to reduce unit labour cost and cost in economy. This way you end up pursuing the wrong policies. What actually is needed is a dynamic policy which shifts production towards higher valued production and that requires increasing productivity rather than depressing wages to increase competitiveness. Basically, the fallacy is the confusion between countries and companies. If you're an individual company, an owner, you might think keeping wage cost to a minimum is a good thing, but for the economy as a whole, wage costs aren't costs to be minimised, they are actually benefits to be maximised.

In southern Europe you need a Marshall plan of investment. Unfortunately, the kind of leadership you saw after the war with the Marshall plan for Europe, that kind of thinking is absent among the politicians in the Europe. In so far as there has been a strategy in Europe, it has been a muddling through this is epitomised by chancellor Merkel. When things are going well, muddling through is just about ok but when there are very serious challenges, you need to have bold leaders willing to make big decisions. In 1990 Helmut Kohl said, we're going to seize this moment to reunify Germany. Now we need a bold German chancellor to say we need a debt conference to write off southern debts like former chancellor Helmut Schmidt did recently. We need bold leaders and political entrepreneurs, new voices coming in from new and different perspectives and we need many grassroots movements for change. Both sides can be mutually reinforcing.

You say European governments have been captured by the banking sector, but how do you break the power of the banks?

Every government in Europe is captured by its banking sector. The difference is that some governments are powerful and others aren't. If the Spanish government is captured by its banks, it has local consequences. If the French and German governments are captured by their banks and they can use their powers in EU institutions to serve the interest of the banks in their countries then it has much wider consequences. Germany is not unique in this respect, what I am saying is that France and Germany have the power in the EU institutions, others do not. How do you break the power of the banks? One reform to change the nature of the financial system and our economy would be to remove the tax subsidy of debt, meaning if you look at every single company and financial institution, if they fund themselves through equity then there are taxes on that, if they fund themselves through debt, the interest is tax deductible and that gives an incentive for every bank and company and household to use far more debt than is desirable.

The beauty of such a policy is that it operates impartially across the whole economy, there's no banking vs. shadow banking, there is no national vs. International. Complementing that would be much higher capital requirements for banks forcing them to fund themselves with, e.g. 20% equity (reforms that have been made up until now have been very small. Also, you need a guarantee that if banks fail, the cost is not going to fall on tax payers. The problem with the banking union is that it is incomplete and it is not clear that the ECB is independent of banks. In the way that the ECB has operated throughout this crisis, it has very often served the interests of French and German banks rather than that of debtor countries.

You need to have a properly independent financial supervisor with the powers to close down banks when they fail without a veto from national governments in order to make that threat credible. You can also shrink the role banks are playing in the financial system which is at the moment "a capital market's union". But even may not be enough; these measures could be complemented with paying financial regulators much better and ban them from working for a bank ever again, e.g. in Singapore they paid senior civil servants very high salaries, as a result, they get very good people and they are tempted to go to work in the company they previously regulated in order to get rich

Since Council debates are web-streamed, the lunch breaks become longer and longer, so the actual decisions are taken there. We have a kind of fake transparency, because we cannot truly see live how decisions are made...

It seems to be rather strange that the EU Council takes legislative decisions behind closed doors. It needs to be as transparent and open as possible, you need to have minutes of meetings, you need proper accountability of decisions taken and this is actually in the benefit of Europe. Very often Europe is unpopular because national leaders take decisions to which they acquiesce and then they blame Europe for it but if you have proper accountability and transparency, you check whether that is the case or not. At the end of the day there will never going to be a perfect system of transparency, but it could certainly much more transparent.

6.) Holger Schmitt, Network Director AEGEE-Europe / European Students' Forum

- the issue of the "lost generation", the young generation
- maybe it is in the making but I think there's still hope
- what are your recommendations for the youth to demand, they have more opportunities
- What should European policy and politics offer to young people to give them new hope and opportunities and not be a lost generation

Legrain

- there are a lot of things that need to happen, I give you three
- we need policies to increase demand, to reduce unemployment, to create new jobs
- in countries with segmented labour markets, you need to open them up, so that young people who don't have experience get a chance to get entry level jobs without which you can't progress to have higher level ones
- we need to make it much easier for young people to get self-employed and start their own business because there are many opportunities out there, especially in the new digital world where you can very easily work on your own and the barriers of entry are falling
- we should be making it possible for young people to reach those opportunities

Riedel

- you basically said that the whole crisis was diagnosed incorrectly and therefore remedied incorrectly
- you surprisingly haven't mentioned the lack of integration of economic policies when it comes to the monetary union, so integration, I would assume, would be one of the pillars of which we would have to have more of

-we also have to have the possibility to exit the eurozone and if we could exit, who would it be Germany or Greece?

Legrain

- as I said, I want the Euro to succeed
- my fear is that if we persist with current policies is that at some point it faces a situation which is painful and deeply undesirable end becomes unsustainable
- you can quite easily envision circumstances where that could happen, e.g. 2015 SYRIZA could end up as the largest party in Greece and as a result it could possibly end up in ??? (1:13:03) or if [Matteo Renzi](#) fails, behind him, there's Beppe Grillo who would hold a referendum on the Euro and it's quite possible that Italy would decide to leave or many other possibilities that you could think of
- we had 7 years now of deep recession and now stagnation with extremely high unemployment
- a crisis which in effect is a deleveraging crisis, actually you see that both public and private debt were combined the same way as they were in 2007 → so we actually made no progress in resolving it
- the idea that we can carry on like this regardless and at some point things are not going to break I think is misconceived
- you can see clearly the collapsing support for Europe, the rise in support for nationalist and extremist parties, signs of the social fabric tearing in all sorts of countries, assuming well, it hasn't broke until now, so we can carry on as it is, I think is misconceived
- if we don't change policies, the Euro is at risk
- for me, the most important thing is not the Euro itself, it is the welfare of the European citizens, there's a tendency in this tale I noticed working in the EC during the crisis to think the only thing that matters is the Euro surviving → that is necessary perhaps but not sufficient
- what really matters is a thriving eurozone where we have low unemployment, rising living standards, opportunities for people, a happy people and we certainly don't have that now

Riedel

- do you think that is possible with 17 eurozone countries?

Legrain

- it requires a change of policies and of institutions and to make that happen, it requires a change of mindset
- I think the German Greens play a really crucial role there by talking and putting forward a different point of view within Germany