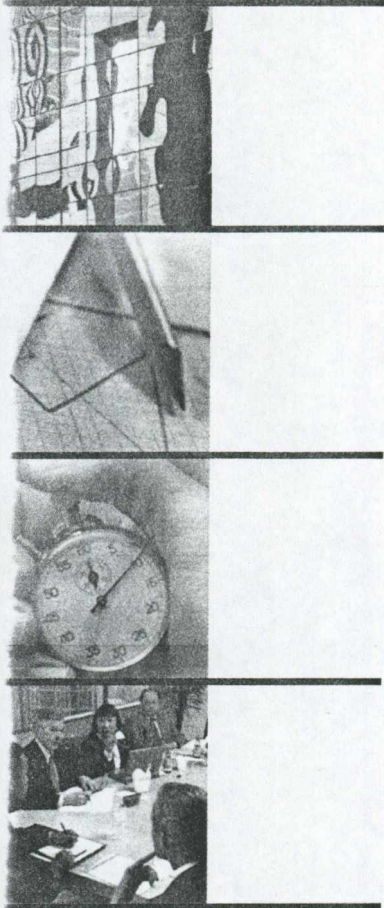


P.E.S. Party of the European Socialists

Εργατικό Ευρωπαϊκό Κόμμα
Γ.Α

THE NEW EUROPEAN WAY

Economic Reform in
the Framework of EMU



PES ECOFIN GROUP
OCTOBER '98

Preface

The PES ECOFIN Group brings together the Socialists and Social-democratic Ministers of Finance and Party spokespersons for Finance from the member parties of the Party of European Socialists (P.E.S.). Its first meeting took place in March 1996.

In February 1998 under the British EU-presidency, a discussion was initiated on a draft common position on "Economic Reform in the Framework of EMU".

In July 1998 the Austrian presidency took over the follow-up discussion. The members of the PES-ECOFIN have three times had a discussion on this subject. A group of economic experts gathered twice (July 1998 in London and September 1998 in Vienna).

On October 12th 1998 the PES-ECOFIN-Group adopted a text, which lays out the policy agenda for economic and social reform in the European Union - the New European Way to a people's Europe.

The New European Way

Economic Reform in the Framework of EMU

A Report by the PES ECOFIN Group

1. A people's Europe

Our aim as European Socialists and Social Democrats is a policy agenda,

- which restores growth and employment in Europe,
- which further develops the contract for social justice, and
- which confirms the principles of a market economy socially and environmentally responsible.

Working on a people's Europe, this agenda will help rebuilding confidence in the European Way.

Central is the objective of reconstructing a full employment society, a society in which there are job opportunities for all citizens, and in which all active citizens are empowered with the ability to participate in the building of their own future.

To achieve these aims, we need:

- macroeconomic policies, that create stability and are conducive to sustainable expansion,
- a social contract for solidarity, equal opportunities and justice, which gives to all citizens a stake in the development of the European economy, and
- economic reforms, which stimulate innovation and increase the potential for growth in the European economy.

To this end budgetary, monetary, social, income and environment policies have to be seen together in a dialogue.

Socialists and Social-democrats also stand for an outward-looking Europe, taking a full role in the development of an international economic order that promotes economic development and social justice.

2. Globalization - Work with change not against it !

The Global Age is different from the modern periods which preceded it. Things now change at a much faster pace, opportunities are huge and rewards are greater, but the punishment for those who perform badly is more instantaneous and severe than in the past.

While globalization may bring opportunities, it brings social costs, too. The benefits of globalization and increased efficiency are unevenly distributed.

Jobs may not last so long and skills may quickly become obsolete as technological change accelerates. This can be difficult for people to accept and in the longer run those who are unable to adapt quickly can become trapped in a cycle of social exclusion.

So how can European Socialists and Social Democrats respond to globalization?

We must work with change not against it:

- We have to promote a platform of stability and structural change from which growth and employment come.
- We have to cooperate, to coordinate and to develop a set of common rules for the economic and social well-being of the European citizens.
- We have to forge a new role for government.

We are internationalist not isolationist. We need open trade and cooperation.

Europe is an example of co-operation in response to the challenges of globalization.

This is why we seek partnership throughout Europe in the tasks of economic reform, even as we emphasise the need to ensure that action is taken at the appropriate level. For European Socialists and Social Democrats subsidiarity is the corollary of effective co-operation.

A stable international framework

Our understanding of globalization requires economic reform with regard to a fair and socially acceptable system of international economic trade. In this framework, we must promote economic efficiency, help markets to work and remove barriers to free trade.

At the global level, trade liberalisation has brought benefits to countries participating in the world economy. By increasing the mobility of savings and technology, capital account liberalisation has also been by and large beneficial. There can be no doubt that adopting an outward-oriented development strategy is a prerequisite for growth and catching up.

However, recent financial crises illustrate that participation in a globalized economy also involves risks. Several emerging market countries have suffered from excessive capital inflows followed by abrupt withdrawals which precipitated exchange crises and recessions.

History indicates that events like these may jeopardise the support for and the commitment towards openness and international cooperation, and lead to a return to inward-looking strategies.

We believe that this is not the right answer. On the contrary, the correct answer to the crises of 1997-1998 should be to match increased international integration with increased international cooperation and better governance at home. The challenge for the policymakers is to draw up an agenda for reforming the international financial architecture in order

- to increase the transparency and resilience of the international financial system;
- to improve the multilateral surveillance of national policies;
- to define how emerging market countries could protect themselves from excessive financial instability;
- to develop monetary cooperation between the major currency blocks, with the aim to avoiding excessive exchange rate instability; and
- to improve the governance of international financial institutions.

Events in Asia and other world-regions have demonstrated the dangers countries run, when their financial system is weak or vulnerable.

At the same time, a higher awareness for the social implications of crises is also a result of events in Asia. International Financial Institutions have to take this dimension more into account in the formulation of their country programmes and in their assistance. At the same time, they should involve bilateral donors, regional groups, the private sector and Non-Government Organisations (NGOs) in mitigating the social consequences.

Within international organizations it is necessary to ensure a fair distribution of the benefits of globalization as well as adequate standards of social and environmental regulation, such as prohibition of child labour, forced labour, safety regulation, right to organize in trade unions. And the role of the International Labour Organization (ILO) should be strengthened in line with the status of the World Trade Organization (WTO).

3. Economic Policies: Commitments to economic development, employment and stability

For the European Socialists and Social Democrats, pursuing macroeconomic policies in the interest of Europe's citizens has several aspects:

- a commitment to strong and sustainable economic development and full employment;
- a commitment to monetary stability;
- a commitment to sustained fiscal discipline, while ensuring a necessary degree of fiscal flexibility in the case of cyclical downturns, as well as adverse economic shocks;
- a commitment to an increase of disposable incomes that is compatible with price stability so as to stabilise consumer expectations and macroeconomic demand, given an EU-import and -export GDP share of only around 8%. This also involves wage-developments oriented towards productivity growth;
- a commitment to social stability through the further development of the contract for social justice.

Economic and Monetary Union (EMU) and the need for cooperation

These commitments together with a centralised monetary policy, and essentially decentralised fiscal and structural policies reinforce the need for enhanced coordination and cooperation of economic policies. In order to assure sustained growth and high employment we have to achieve an overall economic policy through:

- coordination of budgetary policies and economic policies in order to achieve strong and sustainable economic growth and full employment in accordance with the single monetary policy.
- coordination of economic and structural policies in order to promote fair rules for competition; and
- cooperation between those countries not yet participating in the Euro and those having already introduced the single currency in order to ensure the European Way;

Coordination and cooperation must proceed on several levels:

They involve several Councils of Ministers, the ECOFIN-Council, the Euro 11 group; the European Parliament as well as the European Social Partners have to be drawn more closely into the process of cooperation.

Monetary policy, accountability and transparency for the European Central Bank

The ECB has to conduct a monetary policy for the Euro-area following the goal of price stability taking into consideration growth and employment. Such a policy must be conducive to credibility, certainty and predictability.

The European Parliament has the responsibility to hold the ECB to account for its actions by generating the necessary openness and transparency of the now European-wide monetary policy. National parliaments continue to have the responsibility towards national budgetary policies as they will remain decentralized at national level.

Also, to achieve a better coordination between monetary policy and employment and wage-policies a dialogue between the institutions responsible for economic policy, including the ECB and the European Social Partners, has to be set up.

Budgetary Policy and the stability and growth pact

The Stability and Growth Pact is designed to ensure budgetary responsibility among members of the European Union: This is vital given the importance of budgetary discipline for macroeconomic stability and the success of EMU.

The Stability and Growth Pact and the multilateral surveillance of budgetary policies in the Euro area should be used to ensure that member states make use of favourable macroeconomics conditions to rebuild the potential to use counter-cyclical budgetary policies when they are needed.

To do this, however, most European countries must be tougher on their current budget deficits, but at the same time sensitive to social developments. Only then will European countries achieve the sort of reductions in their current budget deficits to provide the room for manoeuvre we are seeking.

4. A new Social Contract: Investing in people

Policies that determine the balance between economic efficiency and social solidarity are central to any modernization of the European Social Way. We define the distinctive response of Socialists and Social-Democrats to globalization by maintaining a firm commitment to social stability while ensuring that Europe's workforce can continuously adapt to a rapidly changing world. The way forward is matching rights with responsibilities, taking seriously an active welfare state, which provides opportunities for work.

We share the same goals of

- reducing unemployment,
- increasing the employability and adaptability of the labour force, and
- encouraging people to take part in the labour force.

Active labour market policies may take different forms, depending on the situation and characteristics of national labour markets. They may involve training, suitable incentives to take up opportunities, targeted tax and social security exemptions and encouraging new forms of working time arrangements.

Education and training: Equipping people for change in a globalized world

Globalisation is not the only transition we have to cope with. There is also the rise of what is called the knowledge economy.

Central to our policies is to equip people for change by investing in education, skills and training.

The key to achieving this will be to increase employability:

- Obtaining an effective basic education is important to the long-term prospects of individuals and to the economy as a whole. Early investment in a child's education is effective in raising growth and employment. The self-confidence and skills that a good basic education instills can prevent many social problems arising in later years.
- Across Europe we have to do more in lifelong learning. Improving the skills of the existing workforce and ensuring new workers are highly skilled will help employers and improve productivity. Increased participation in higher and further education may be closely associated with innovation, for example by making it easier to assimilate new ideas or develop and use new technologies.

Skilled workers' enhanced contribution to output is usually reflected directly in higher earnings. Spillover effects from education-knowledge benefits the whole society, not just the immediate beneficiaries.

Social Stability: Active labour market policies and welfare reform

Socialist and Social-Democratic governments in Europe have a strong tradition of active labour market policies, which seek to ensure that unemployment spending is used to prepare people for a return to work, rather than as passive income support.

Active labour market policies must combine availability of suitable training with suitable incentives to take up these opportunities.

Welfare systems that provide acceptable levels of support for all sections of society must be maintained, and adapted to take account of the impact of ageing populations. The shift to active

labour market policies should also help. But we must retain a firm commitment to those people who are simply not able to take their place in the workforce.

Employment guidelines: Reducing structural unemployment

To reduce structural unemployment, Europe will need a well-trained and motivated labour force, new concepts for the distribution of labour and an environment conducive to investment. We will be sharing best practice at ECOFIN and in the Social Affairs Council and the European Council through discussion of the Employment Action Plans, which Member States have prepared.

The allocation of jobs within and between industries is best left to markets. But governments and agencies have to take a responsibility for the macroeconomic framework of labour markets and need to take action to integrate excluded and disadvantaged groups into the labour market.

As far as equal opportunities are concerned, we have to reduce the disparities between male and female employment by putting into place the necessary policies. We want to give a new and diverse impetus to society by ensuring interaction between production and reproduction, by re-arranging working time and the organisation of services, by generating supply and demand for new requirements, and by ensuring that more aspects of productivity are included in economic growth.

5. Europe and economic reform - the record and the challenge

The economic reform agenda amounts to a significant drive towards market reform and economic efficiency in Europe both at national and Community levels. Europe is moving ahead. But more is needed to stimulate innovation and to increase the potential for growth and employment. Our task is to find a way of marrying together an open, competitive and successful economy with a just, decent and human society.

Encouraging small and medium-sized businesses and fostering entrepreneurship

Small and medium-sized businesses (SME) are at the heart of economic growth and job creation:

- We have to further simplify and improve the legislative and administrative environment at European and national level.
- We have to facilitate and encourage innovation by SMEs.
- We have to improve the access of smaller businesses to various forms of management support.

- Conditions have to be reinforced which encourage SMEs to take better advantage of the opportunities offered by the Single Market.

Implementing the Single Market: capital and product market reform

To make the Single Market more effective, the existing Single Market Action Plan needs to be built on and further developed. The targets contained in the Action Plan must be delivered, for example by implementing the liberalization of the telecom market.

We have to work on a new capital-market approach in Europe on risk-taking. We want to increase the number of entrepreneurs and to raise the survival rate of small businesses. It is the policy of the European Socialists and Social-Democrats to reduce the barriers that exist - fiscal, administrative, economic and cultural.

At the same time, the use of state aids has to be carefully controlled and monitored.

With a single currency greater price transparency will increase the scope for crossborder competition. It will make it easier for consumers to compare prices and shop around. Firms will come under pressure to compete on quality, value for money and innovation. Firms tend to avoid increased competition by price cartels or mergers.

That is, why we need policies that offer fair competition in product markets through attacking cartels, monopolies, and vested interests. Fair rules of competition are an essential element of the European Way.

Economic and social cohesion: solidarity on an international level

The European Way involves solidarity not only within our societies but also between regions and member states. Enlargement of the European Union will increase the diversity of levels of development. Therefore, economic and social cohesion will become even more important. This forms part of a wider historic challenge, consolidating peace and prosperity across our continent.

Within the general need for budgetary discipline in the EU budget as elsewhere, the EU must make available to the applicant countries to the EU the assistance they need to take on the responsibilities of membership, while continuing the cohesion effort for disadvantaged regions in the existing EU.

Neither must Economic and Monetary Union simply fuel the economic success of Europe's core

regions; it must help to drive the performance of every region in Europe closer to its full potential. In order to achieve this, it is essential to modernize the economies of peripheral regions and to increase their competitiveness.

The emphasis must be on the development of a skilled and motivated workforce, as well as a modern transport and communications infrastructure.

At the European level, the Trans-European Networks, integrated transport and telecommunication systems, are an essential underpinning for the single market, and a means of ensuring access for peripheral regions. Their employment impact is essentially long term, enhancing the competitiveness of the European economy as a whole.

An effective state and public sector: key-elements for Europe's success

In a global economy the role of the state and the public sector has changed. An effective and efficient state has to take up the core competences of creating a stable macroeconomic framework and common rules for fair competition. In the interest of people and the society as a whole the state acts, where markets fail.

State intervention may involve maintaining efficient public service when appropriate, but also requires developing new services, and avoiding that technological change gives rise to new forms of inequality. This includes public-private partnerships.

The costs associated with the supply of public services can only be justified to both citizens and the private sector if they concentrate on areas clearly requiring the presence of the public sector, and if they are supplied through value for money in an economically efficient way.

Also there are areas in which public authorities could act as enablers rather than owners of public service, ensuring a service is available at a lower cost to the tax payer than might be the case at present.

In several areas, public services will have to face increasing competition in coming years, such as the supply of gas, electricity or telecommunication services. Simultaneously we need a new culture of regulation for such former public sector goods.

While consumers and businesses should benefit from increased competition in these areas in terms of prices and quality, we should continue to ensure that an adequate level of service will be provided to all users. Consideration should be given to requirements

for universal service in all sectors concerned.

Public investment in infrastructure and the public services are vital for the future of the prosperity of our society. Therefore, other means of financing the infrastructure needed to provide services for the public good must be found. Properly structured public-private partnerships between the State and private companies providing investments, services and finance, can offer a cost-effective method of building infrastructure projects. This will be valuable in ensuring further progress in the implementation of Trans-European Networks. Moreover, the EIB should take an active role in this process.

Tax policy coordination

Taxation should not distort economic decisions with regard to labour, capital and services. In the last decade evidence from the EU has shown a disproportionate increase in the fiscal burden on immobile factors, especially labour, coupled with a reduction on the burden on immobile factors, especially capital.

We welcome the political agreement reached among member states on the fiscal package as a first step in the right direction. EMU will intensify the potential for tax competition. Therefore, further efforts have to be undertaken to avoid harmful tax competition among the member states.

We must make further progress in tax and benefit reform to help safeguard and create jobs in Europe implementing an effective Code of Conduct as soon as possible, by greening the tax system, by relieving businesses of the burden of bureaucracy and by coordinating savings and corporate taxation. To avoid increasing flows of saving and investment from the EU towards third countries and European territories, to which the Treaty does not apply, we must actively promote an OECD wide approach to tax policy coordination.

6. Conclusion - Europe's Future

A United Europe is our response to the challenge globalization poses to old nation state policies. In European cooperation between nations, we develop new transnational initiatives which alone are strong enough to guide and regulate global forces.

Globalization is not just a matter of economics, it is a changed view of the world, on the part of individuals as well as governments. The citizens of today know as well as their leaders that we live in an interdependent world, ultimately sharing a common fate with the rest of humanity.

Out of this global involvement we will develop a Europe that is more outward looking and more dynamic. A Europe that will maximise our contribution to global stability and growth. A Europe

that builds on our long standing strengths of stability and social cohesion as a continent, but which makes reforms where necessary, to compete more effectively globally.

This is what European Socialist and Social Democrats stand for:

A European Way that combines a new economic dynamism with our well established and enduring commitment to solidarity, equal opportunities and social justice.