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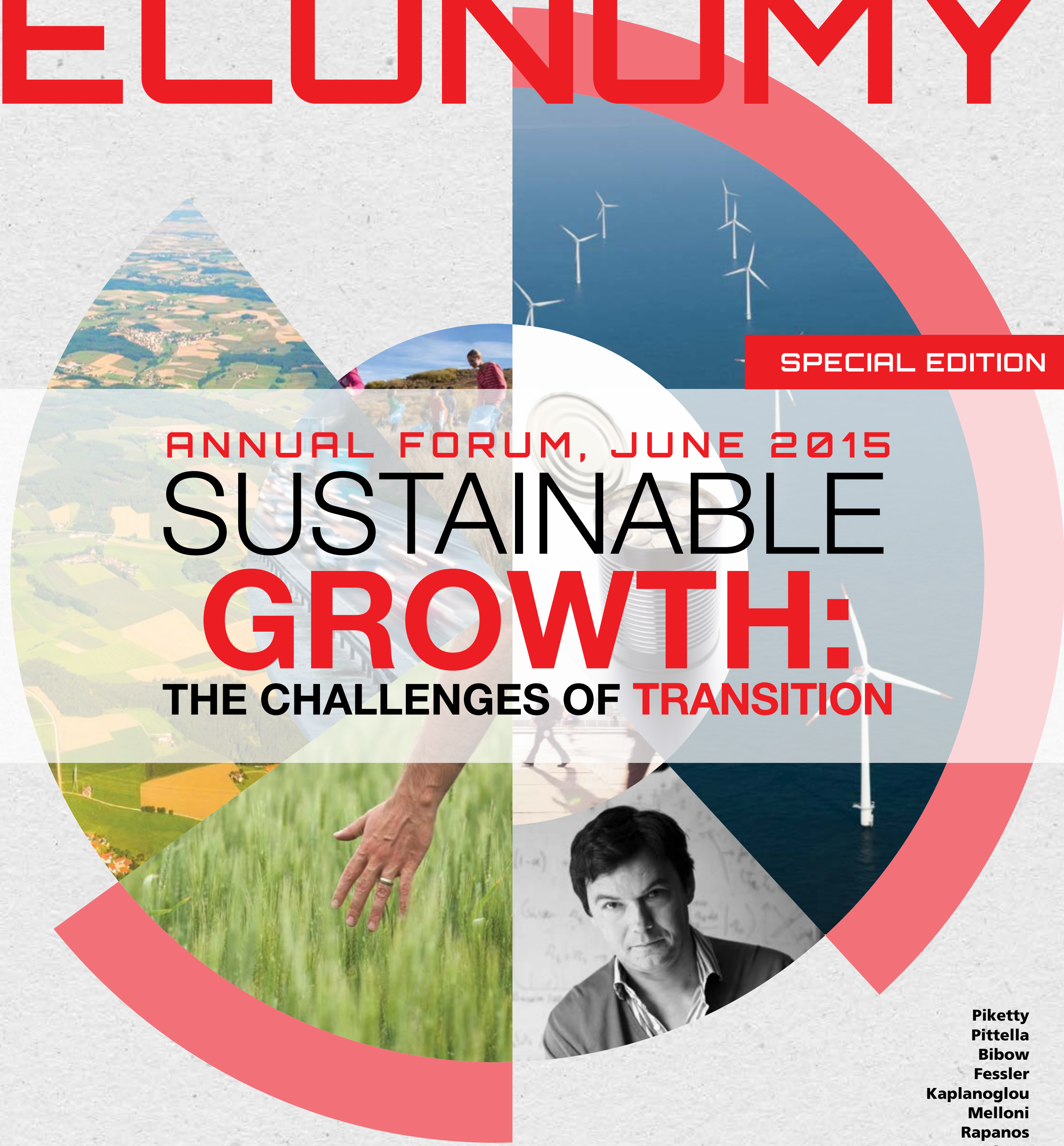

SPECIAL EDITION

ANNUAL FORUM, JUNE 2015

SUSTAINABLE GROWTH: THE CHALLENGES OF TRANSITION

Piketty
Pittella
Bibow
Fessler
Kaplanoglou
Melloni
Rapanos
Schürz
Truger

PROGRESSIVE ECONOMY

www.progressiveeconomy.eu

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WHAT IS PROGRESSIVE ECONOMY?

Progressive Economy is an initiative launched in 2012 with a major objective: to generate a truly public and informed debate on **economic, social and environmental policy** at national, European and global levels and actively promote progressive thinking at academic and at political levels.

Initially a purely economic initiative, the scope has broadened to encompass the idea of sustainable development. We focus on the interplay between economic, social and environmental policies and how they work together in our progressive vision for Europe's economy.

In order to achieve this we organise **internal workshops** exploring the key issues in these workstreams, bringing together leading progressive academics, experts and politicians, both in the European Parliament and in national capitals across Europe. Alongside this we organise a number of **public conferences**, our largest being the **Annual Forum** which is attended by hundreds of people and webstreamed by thousands. We commission the ***Independent* Annual Growth Survey** to be carried out by renowned economic institutes. It gives our political group a sound a credible basis with which to discuss the Commission's Annual Growth Survey. We also produce a quarterly **Journal** meant to promote and publicise progressive ideas and have an active online presence through our website, Facebook and Twitter pages.

Through our work we have built and continue to build a **parliamentary network** of progressive MEPs and national MPs across the Member States of the EU. Through this we aim to strengthen the political cooperation between European and national parliaments to deepen the democratic input into European economic, social and environmental governance.

Alongside our political network we have built a large **academic network**, led by our Scientific Board, which is co-chaired by Jean-Paul Fitoussi and Joseph Stiglitz. This network is always expanding, with more academics with expertise in sustainability and social issues joining as we widen the scope of our work.

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FOREWORD by the PRESIDENT of the S&D GROUP

There is no equality without freedom. We stressed this principle during the Progressive Economy Annual Forum 2015 loud and clear as Europeans pay a high price for the irresponsibility of financial markets through damaging austerity policies.
A fair and sustainable society cannot allow 1% of the world's population to own more than 50% of global wealth.

Professor Piketty addressed the crucial issue of inequality in Europe. In his book "Capital in the 21st Century", he quotes the first Article of the French Declaration of the Rights of Man and of the Citizen of 1789; "Men are born and remain free and equal in rights. Social distinctions may be founded only upon the general good".
The Annual Forum invited key experts to debate the transition towards sustainable growth and quality jobs in Europe. Sustainability is a major and complex challenge for Europe. Responsibility and creativity have to be at the centre of new solutions.
On Wednesday 3 June 2015, the Progressive Economy team welcomed around 500 people in the European Parliament in Brussels and thousands of people online. It was an interactive debate, with the audience participating directly with questions and comments to the speakers or through the Progressive Economy Twitter account, which greatly enriched the discussions.

This special edition of the Journal is intended to present the wide range of opinions expressed at the Annual Forum.

Hoping to see you next year at the third Progressive Economy Annual Forum.

Gianni Pittella MEP
President of the S&D Group in the European Parliament

1 Annual Forum on Sustainable Growth

ANNUAL FORUM SPECIAL GUEST THOMAS PIKETTY

Thomas Piketty is Professor of Economics at the Paris School of Economics. He is the author of numerous articles published in journals such as the Quarterly Journal of Economics, the Journal of Political Economy, the American Economic Review and the Review of Economic Studies. One of his major successes is undoubtedly his bestselling book "Capital in the 21st Century".

He was invited to the Progressive Economy Annual Forum as keynote speaker to a full room, to deliver his analysis on one of the major challenges facing Europe: Inequality. He first presented the long-term evolution of inequality arguing that over the course of the 20th century, Europe became more egalitarian than the United States. He made a clear distinction between income inequality and wealth inequality in both Europe and the United States. Despite this positive conclusion on Europe, he went on to explain that the social state in Europe is fragile. According to Professor Piketty, the lack of fiscal union, rising tax competition, the public debt crisis, high unemployment and the renewed rise of nationalism are some of the main causes. He offered several solutions to address these challenges, from a common fiscal union to major institutional change.

You can watch his keynote speech via the Progressive Economy website www.progressiveeconomy.eu

Over the next few pages you will discover more on the topic in our special interview with Professor Piketty.

EXCLUSIVE INTERVIEW THOMAS PIKETTY

1. Your book "Capital in the Twenty-First Century", based on fifteen years of research, is a worldwide success and has got many politicians talking. Do you think this is just hot air or do you witness moves in the right direction? How important is it to take a global stance over this issue?

> The European social model is threatened by financial opacity and the rise of tax competition, tax evasion and tax havens.

The success of my book can be explained, I believe, by the fact that there is a strong and rising global demand for some form of democratization of economic knowledge. In my book, I put together a lot of historical material about the long run evolution of the structure and distribution of national wealth and national income in over 20 countries since the industrial revolution. This database was collected by a large team of international scholars. This is a long book, but it is non-technical, and it is readable by anyone, with no particular background. I think this explains the success of the book. There are many people across the world who are tired of hearing that economic and financial issues are too complicated for them, and that they should be left to a small group of self-proclaimed experts. Issues about capital ownership, public debt, income and wealth, are not technical issues: these are political issues, and everyone can and should have an opinion. As I show in my book, we have already seen in the past many inequality or public debt crises, some of them even bigger in magnitude than what we see today. The good news is that we have always found ways to get around them, and also that there are different ways to do so. This is the main lesson from history: there are always alternatives.

2. The absence of consensus about the definition of tax fairness has a negative impact on the European social model. Is a common euro-corporate tax the appropriate measure to reduce inequalities, and what would be the most desirable rate? What about labour taxation?

The European social model is threatened by financial opacity and the rise of tax competition, tax evasion and tax havens. If small and medium size businesses feel that they are paying higher effective tax rates than large multinationals, if the middle class feels that they are paying more than the very rich, then it is our basic social contract that is at stake. Fiscal consent is fragile and can disappear. European leaders have been talking a lot about financial opacity and tax havens, but with little action so far. Regarding the corporate tax, it is not enough for Juncker to apologize after the LuxLeaks scandal. We now need to establish a common corporate tax base and rate, otherwise there will be other similar scandals in the future. In the US, the federal corporate tax rate is 35%, and on top of this you have state corporate tax rates of 5% to 10%, which makes a total rate of 40% to 45%. Given that the total tax burden is higher in Europe than in the US, I see no reason why the corporate tax rate should be smaller in Europe. Otherwise you end up over-taxing labour, which is certainly not good for employment and job creation. More generally, we need to establish a European registry of financial assets, so that we can effectively tax high wealth and high income individuals and companies. There is a lot of hypocrisy about fiscal transparency in Europe right now: we ask the Greeks to modernize their tax system, but at the same time our banks in Germany, France or Luxembourg are happy to receive the asset holdings of wealthy Greeks and other Europeans and to help them not to pay taxes anywhere. And now we are going to privatize vast quantities of public assets in Greece so that these same people can purchase them at low prices instead of paying taxes...

3. At the Progressive Economy Forum you proposed setting up a Euro-Chamber, based upon members of national parliaments, to replace the Eurogroup when it comes to decisions regarding the Eurozone. Can you please elaborate on this idea? Does

institutional integration inevitably lead to a dual institutional set-up and, consequently, to a two-speed European Union?

At this stage, each national parliament has in effect a veto power on whatever budgetary, financial or fiscal decisions we might want to take in the Euro zone, for instance if we want to decide about a new aid plan for Greece, or if we want to reform the corporate tax so as to make large multinationals pay their fair share. We cannot make substantial progress towards a closer political, fiscal and budgetary union with 19 veto powers. So I think we need to set up a Euro Chamber where each Euro zone country would be represented by a number of national parliament members, in proportion to its population, and ideally in proportion to the different political groups that are represented in national parliaments. This Euro Chamber would be able to take majority-rule decisions on a number of budgetary and fiscal issues that we would decide to delegate to it, such as the common corporate tax, sanctions against tax havens and financial opacity, or the democratic supervision of the ESM. In some cases, we may prefer qualified majority decision making, say with 60% or 70% majority rules to adopt common policies. But the 85% majority rule that we currently have for the ESM grants is too high. Most importantly, we need public democratic deliberation, which is not at all what we currently have with the ESM or the Eurogroup of the European Council. I believe this same reasoning would also apply in a situation where all 28 countries would have adopted the euro: we would still need a European Chamber based upon national parliaments, in addition to the European Parliament that is directly elected by citizens. Europe has yet to invent its own original form of bicameralism. We will never build a truly European

" We need to set up a Euro Chamber where each Euro zone country would be represented by a number of national parliament members. "

democracy without the national parliaments. Anyway, for a long time to come, the set of EU countries and the set of Euro zone countries will be different, and we need the Euro Chamber now. The 2012 budgetary treaty seems to assume that we can forget about democracy and public deliberation. This is a major mistake that needs to be corrected.

4. How can we explain to European citizens the need for more European integration? How can we ensure that any change to the current institutional set-up is seen as democratic progress rather than yet another top-down imposition?

Bottom and middle socioeconomic groups feel that Europe is not working for them. The only way to reconcile them with the European idea is to set clear targets in our new European treaties. For instance, we should set as a minimal target the objective that large companies and high income and wealth individuals pay effective tax rates that are at least as large as companies and individuals in the middle or at the bottom of the distribution. Most importantly, we should disclose information so that citizens can monitor whether such targets are fulfilled. We should set social targets, e.g. about minimum wages in Europe. We also need a major debt conference in Europe, similar to what happened after World War 2, and from which many countries - particularly Germany - strongly benefited for their future growth performance. We cannot construct Europe simply with targets on public deficits. We have to look ahead and propose a new future to the young generations and the most fragile economic groups.

5. After the long meeting of 13 July 2015, where a third bailout was agreed by Eurozone leaders, German authorities were accused of having taken a too harsh stance towards the Greek authorities. Do you think that these criticisms were justified? Do these clashes risk further jeopardising European integration?

It seems to me that many German political leaders, from the right but also from the left, have contributed in recent years, months and weeks to exacerbating irrational nationalist attitudes in their country rather than to explaining what was really going on. Greece has reduced its public deficit from almost 15% of GDP in 2009 to close to 0% (or even a small primary surplus) in 2014-2015. This was too fast, and as a consequence Greek GDP is now 25% below its 2007 level. As long as Greek GDP is not back to its 2007 level, or even to a small but positive growth trajectory since 2007, we should ask Greece nothing more than a small primary surplus (say, 1% of GDP or less). With such a low level of economic activity, it makes absolutely no sense to ask Greece to raise their primary surplus to 2% in 2016, 3% in 2017, and so on. This is bad policy for Greece, and particularly for the young generations who suffer from austerity and unemployment. And this is also bad policy for the creditors: how do you want to be repaid if you push Greek GDP to even lower levels? The mixture of irrational nationalism, lack of common sense, and historical amnesia that we have seen recently in Germany is extremely frightening for the future of Europe. We all have a lot to learn from the German social and industrial model, and from the great success of German unification. But Germany also has to learn from other countries, and in any case cannot contribute to European unification simply by giving lessons to other countries.

PUBLIC DEBT, TAXATION and INEQUALITY IN EUROPE

by Maria João Rodrigues & Isabelle Thomas

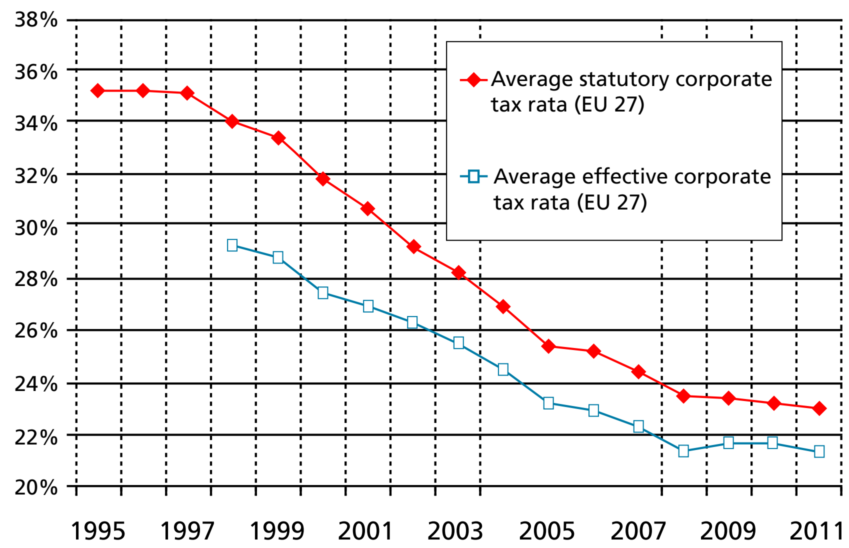
After Thomas Piketty's captivating opening speech, he answered questions directly from the audience.

Maria João Rodrigues and Isabelle Thomas began the discussion by focusing on one of the key topics at the moment; taxation policy. They specifically asked what his recommendations would be in this area in order to rekindle hope for young Europeans.

Professor Piketty outlined the need to reform our tax system in a way that is acceptable for people across Europe. It is difficult for hardworking people to stomach paying more tax than big companies, and it seriously undermines the principle of fairness that should be at the heart of any tax system. Using the graphic n°1, Professor Piketty showed that tax competition between European countries is increasing in such a way that the effective tax rates on large companies could be close to 0% in the long-run if the trend continues. As a solution to this problem, Professor Piketty proposed the creation of a common euro-corporate tax to prevent tax competition between Member States.

> **"We need to improve the interplay between the European Parliament and the national parliaments"** *Maria João Rodrigues*

Graphic 1: Corporate tax competition in the EU



Source: Taxation trends in the EU, Eurostat 2011

In order to reinforce the common dimension of this proposal, Isabelle Thomas insisted on the fact that it should be assigned to the EU budget as a new own resource.

He further expanded his reasoning in his answer to Maria João Rodrigues and Isabelle Thomas' questions regarding fiscal capacity in the Eurozone. Professor Piketty argued that a euro-corporate tax would be a significant basis for creating fiscal capacity at European level.

MARIA JOÃO RODRIGUES

Member of the European Parliament, S&D Vice-President

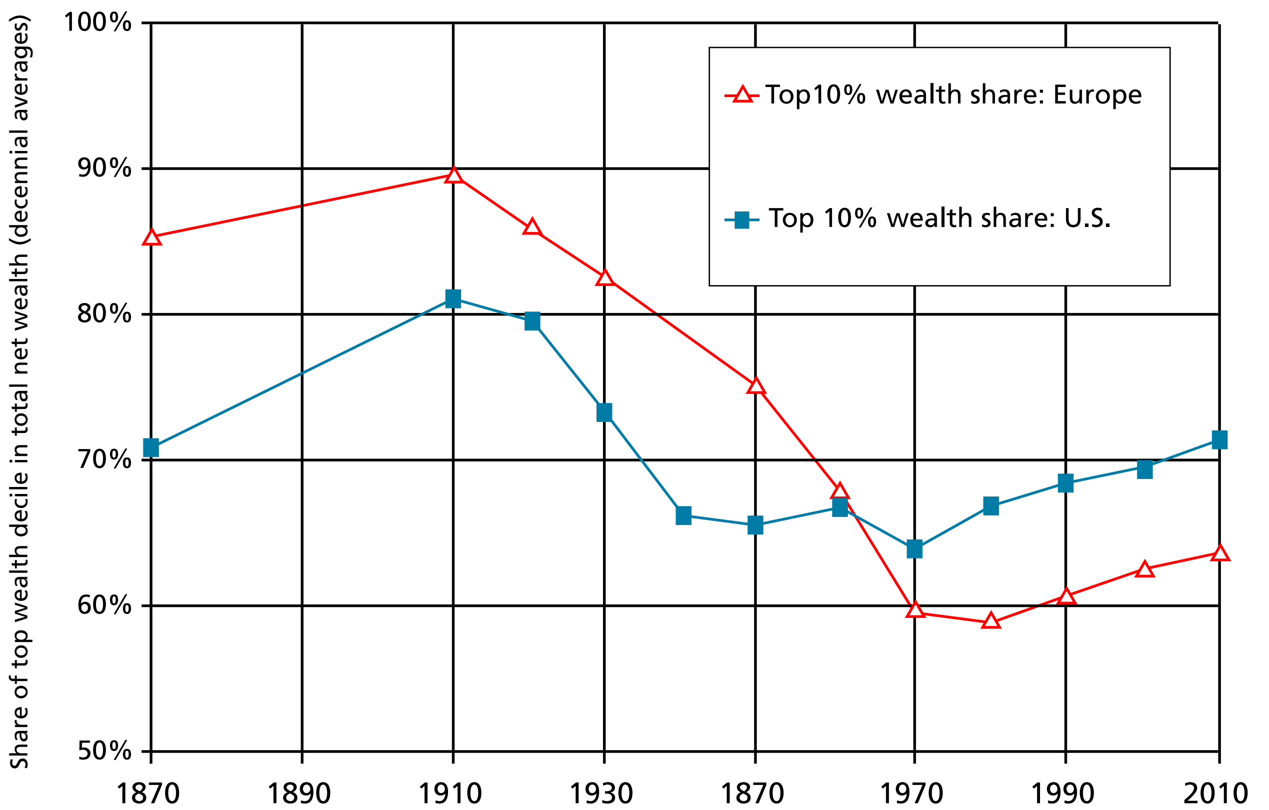
Maria João Rodrigues is a Member of the European Parliament and S&D Group Vice-President for the Social and Economic Model. Before that she was Minister of Employment in Portugal and has been a policy maker working with the European institutions since 2000. In academic terms, she was professor of European economic policies in the European Studies Institute - Université Libre de Bruxelles and in the Lisbon University Institute. She was also the chair of the European Commission Advisory Board for socio-economic sciences.

In this way, Europe would be able to finance a number of policies of common interest. Priority should be given to investment in innovation and green technology, as well as universities and access to higher education.

Professor Piketty also focused on the evolution of wealth inequality in Europe from 1970 until 2010. He illustrated in the graphic n°2 that the private wealth of some individuals relative to national income has risen steadily in Europe. In order for this to be reversed, Maria João Rodrigues reiterated the need for young Europeans to be able to create wealth, rather than solely relying on wealth distribution.

Furthermore, Maria João Rodrigues and Isabelle Thomas reiterated the importance of increased dialogue between national parliaments and the European Parliament, involving them in the discussion of Eurozone issues. Professor Piketty went further by proposing a fundamental reform of the existing institutional architecture of the European Union by way of a Euro-chamber made up of members of national parliaments. Under this system, key policies for the Euro-zone would be adopted by a majority rather than unanimity.

Graphic 2: Wealth inequality: Europe and the U.S., 1870-2010



The share of total net wealth belonging to top decle wealth holders has become higher in the US than in Europe over the course of the 20th century. But it is still smaller than wha it was in Europe before World War 1.

Sources and series: see piketty.pse.ens.fr/capital21c (fig.10,6)

The European Parliament has strange budgetary competencies: we vote on expenditure but not on revenue

Isabelle Thomas

ISABELLE **THOMAS**

Member of the European Parliament, S&D Vice-President

Isabelle Thomas is a Member of the European Parliament and S&D Group Vice-President for the Budget, Fisheries and Agriculture. She is a lawyer by profession and joined the European Parliament in 2012. For two years, she defended maritime jobs and sustainable development in the Committee on Fisheries. For her second term, she is a Member of the Committee on Budgets and the Committee on Fisheries. Before her election, she had been in charge of energy, and the sea and coastline in the Regional Council of Brittany since 2004.

HIGH-LEVEL DEBATE - TRANSITION TO **SUSTAINABLE GROWTH** AND TO **QUALITY JOBS**

by Kathleen Van Brempt

The second part of the Annual Forum was a high level debate on the transition to sustainable growth and quality jobs with S&D Vice-President Kathleen Van Brempt MEP alongside six key speakers.

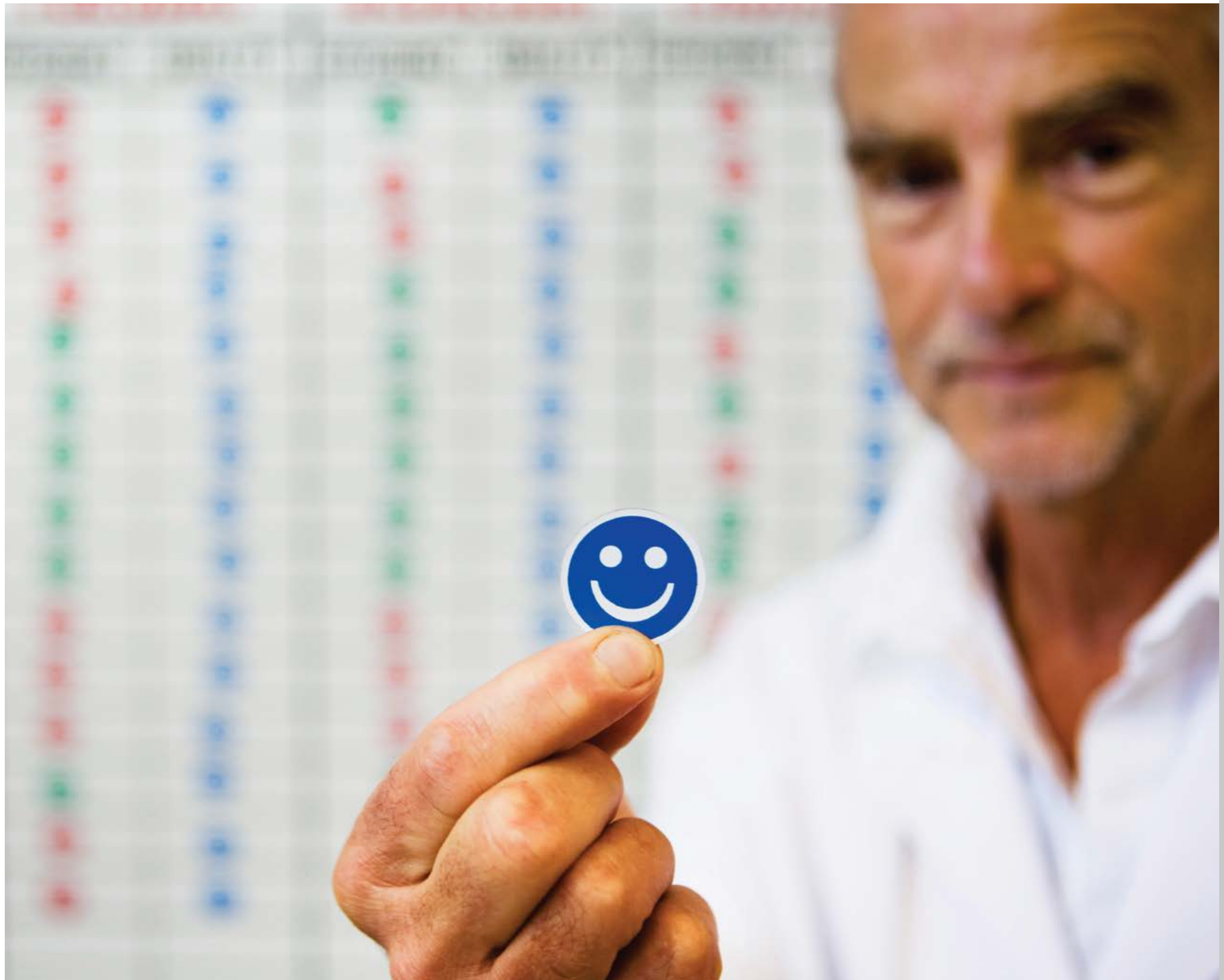
Most speakers agreed on the insufficient effort so far to build a real European environmental transition; some of them went further. Józef Niemiec expressed the view that the European institutions are not ambitious enough, even though they have the power to address job creation and climate change. Sébastien Godinot noted the absence of environmental sustainability in the Juncker Strategy. The Head of Cabinet to Commissioner Vella, Patrick Costello explained that the new Commission is producing a new Circular Economy Package that will be presented by the end of this year.

As CEO and co-founder of Futureproofed, Serge De Gheldere stressed the need for strong governments with strong investments looking towards the future. This year, the Annual Forum invited him to present one of the circular economy projects: Kalundborg industrial symbiosis. It is an industrial ecosystem, where the residual by-product of one enterprise is used as a resource by another enterprise, in a closed cycle. Public and private enterprises collaborate by buying and selling residual products and the benefits are both economic and environmental.

Indeed, it has led to a saving of € 80 million each year as well as 240 tonnes less CO_2 emitted into the air.

Many other challenges were identified. Teresa Cavero explained that poverty and inequality must be addressed by policy makers in order to move towards sustainable growth.

In Europe, 123 million people are at risk of poverty or social exclusion. Kathleen Van Brempt drew attention to the Investment Plan. In her view, the Commission proposal should focus more on public investments and be accompanied by fresh money.



KATHLEEN **VAN BREMPT**

Member of the European Parliament, S&D Vice-President

MEP Kathleen Van Brempt is a Belgian social-democratic politician and vice-president of S&D, responsible for sustainability. Van Brempt studied sociology at the University of Leuven. She served as State Secretary for Labour Organization and Welfare in the Belgian federal government and as Minister for Mobility, Social Economy and Equal Opportunities in the Flemish government.

She was a member of the European Parliament from 2000 until 2003 and returned to the European Parliament in 2009.

Van Brempt is also a member of the city council of her hometown Antwerp.

JÓZEF **NIEMIEC**
ETUC Deputy Secretary General
&
SÉBASTIEN **GODINOT**
Economist of WWF European Policy Office

Józef Niemiec is the Deputy Secretary General of the European Trade Union Confederation (ETUC). He is responsible for Employment and Labour Market Policy; Health and Safety; the Europe 2020 strategy; Sustainable Development; Energy and Climate Change; Industrial Policy and EU Enlargement. From 2003 to 2011, he was Confederal Secretary of the European Trade Union Confederation. Since 1980, he is Member of NSZZ Solidarność with responsibilities at enterprise, regional and national levels.

Sébastien Godinot has worked in the environmental sector for over 13 years and is currently the economist of WWF European Policy Office. His area of expertise lies in public and private finance, subsidies, green economy, and how they can unlock opportunities for a sustainable economy. He has published an influential two volume analysis "Unlocking the Potential of the EU Budget". He holds a postgraduate degree in Environmental Law from the University of Strasbourg, a Master's degree in Private and Economic Law at Lyon University.

The great challenge according to Patrick Costello is the accepted view during the financial crisis and the recession that environmental policies and economic growth are mutually exclusive. Sébastien Godinot identified 3 key challenges: Europe focuses too much on GDP growth, which he labelled as "a narrow minded indicator"; general market prices of products are artificially low, they do not take into account environmental and social factors; Europe failed to regulate financial markets. He called for great prudence when it comes to the massive speculative bubbles in Europe. Józef Niemiec focused on the negative impact of austerity policies on workers. In the name of competitiveness, the prospects for quality jobs and confidence in European policies are seriously questioned. European workers fear for their future because of fewer resources and less secure working conditions. On the latter topic, Frank Vandenbroucke underlined the lack of confidence young people often voice with regard to the future of our welfare states, notably our pension systems.

> **"We need political leadership at European level to ensure the transition to sustainable growth"**
> *Kathleen Van Brempt*

As a Professor, he has observed that many students have the feeling their future has been ruined by the generation preceding them. He was supported by Teresa Cavero who mentioned that people are increasingly frustrated with politicians because they perceive that they make decisions based not only on their own interests, but also on those of the financial sector and business. In addition, she mentioned that in Spain, 8 out of 10 people think that regulation benefits the richest.

In order to ensure the panellists provided some solutions to the problems they outlined, the moderator Jacki Davis asked each panellist to present what in their view would be the key tools to move forward.

With the agreement of other panellists, Kathleen Van Brempt called for real political leadership at European level, with a common strategy. Sébastien Godinot underlined the need to boost the efficiency of European economies through resource and energy efficiency. Being more resource efficient would mean that Europe would not import as much energy as it does today, reducing its dependence on expensive imports, estimated at €420 billion per year, from increasingly unreliable third country suppliers. Józef Niemiec added that energy efficiency could have a significant impact on future jobs, creating up to 2 million jobs in the building sector.

Kathleen Van Brempt also focused on taxation. She proposed a shift in tax away from labour and towards non-renewable resources. With the support of other speakers, she also promoted the creation of a carbon tax to ensure that market prices reflect

PATRICK **COSTELLO**
Head of Cabinet for Commissioner Karmenu Vella
&
SERGE **DE GHELDERE**
CEO Futureproofed

Patrick Costello is Head of Cabinet for Commissioner Karmenu Vella, responsible for Environment, Maritime Affairs and Fisheries. He has been working in the European institutions since 1996 when he joined the secretariat of the Socialist Group in the European Parliament and has worked in the Cabinets of two other Commissioners (Margot Wallström and Chris Patten) and for one President of the Parliament, Josep Borrell. In addition he has worked as adviser to Enrique Baron Crespo as President of the Socialist Group.

Serge De Gheldere is the CEO and co-founder of Futureproofed, a consultancy focused completely on tackling climate change with business models. In 2006, Serge was part of a select group of individuals personally trained by Al Gore to become a global warming "ambassador". Since then Serge has given many hundreds of lectures on climate change, oil decline and the opportunity of a low-carbon future to a wide variety of audiences. He is trained as an electro-mechanical engineer in Groep T Engineering School, Leuven with a focus on materials technology and product design, and as a master in polymer and composites engineering at the *Katholieke Universiteit* Leuven.

the full environmental costs. Frank Vandenbroucke agreed but added that measures would need to be adopted to protect vulnerable European citizens from price increases, rather than opposing such price increases. Van Brempt added that one way to help the population adjust to higher energy prices would be massive investment in new and quality public transport systems.

Europeans have to be involved in the transition to sustainable growth. Concretely, the speakers agreed on the need to invest in education and training, so that workers will have the new skills needed for future jobs. In parallel, Europe should increase investments in research and development and innovation. These are crucial in order to strengthen the EU's leadership in driving forward the sustainable shift.

TERESA **CAVERO**
Head of Research at Oxfam Intermon
&
FRANK
VANDENBROUCKE
Professor of Social Economic Analysis, Universities of Leuven, Antwerp and Amsterdam

Teresa Cavero is Head of Research at Oxfam Intermon in Spain and Senior Policy Researcher of Oxfam International. Her areas of policy research and specialization include poverty, inequality, impact of austerity policies, agriculture and food security, international agricultural trade, genetically modified crops and food price volatility. Relevant publications: "Tanto tienes, ¿tanto pagas?" (Spanish tax system), "A Cautionary Tale: The true cost of austerity in Europe" (co-author).

Frank Vandenbroucke is a Professor at the Universities of Leuven, Antwerp and Amsterdam and also a member of the Progressive Economy Scientific Board. He studied economics in Leuven and Cambridge, UK, and received his D.Phil in Oxford. He was Minister for Social Security, Health Insurance, Pensions and Employment in the Belgian Federal Government (1999-2004), and Minister for Education and Employment in the Flemish Government (2004-2009).

Call for Papers 2015

THE PROGRESSIVE ECONOMY
SCIENTIFIC BOARD

WINNERS
CONTRIBUTIONS

Once again there was considerable interest in the Progressive Economy Annual Call for Papers, with over 100 abstracts received. The papers were whittled down by the prestigious Progressive Economy Scientific Board, co-chaired by Joseph Stiglitz and Jean-Paul Fitoussi, and the winners of the Call for Papers 2015 received their awards from S&D President Gianni Pittella at the Annual Forum.

The second edition of the Call for Papers focused on four research topics: "Inequality and the crisis", "Alternatives to austerity policies", Reforming European economic governance" and "Rethinking economic policy under the threat of deflation".

The Members of the Progressive Economy Scientific Board were fully involved at all stages of the Call for Papers. Of the hundred abstracts submitted, 14 were selected by the Scientific Board, and their authors were invited to submit their full papers. All papers submitted can be found on the Progressive Economy website.

In September 2015, the Progressive Economy initiative will launch the third edition of the Call for Papers, which will be announced on the Progressive Economy website, as well as our Twitter and Facebook accounts. This year there will be a more diverse range of topics, covering the different aspects of sustainable development that the initiative works on.

Achim Truger, Georgia Kaplanoglou, Gianni Pittella, Nicola Melloni and Jörg Bibow

- **ALTERNATIVES TO AUSTERITY**
  Achim Truger - Austerity, cyclical adjustment and the remaining leeway for expansionary fiscal policies within the current European fiscal framework
- **REFORMING EUROPEAN ECONOMIC GOVERNANCE**
  Jörg Bibow - Making the Euro viable: the Euro Treasury plan
- **INEQUALITY AND THE CRISIS**
  Georgia Kaplanoglou and **Vassilis T. Rapanos** - Evolutions in consumption inequality and poverty in Greece: the impact of the crisis and austerity policies

  Pirmin Fessler and **Martin Schürz** - Private wealth across European countries: the role of income, inheritance and the welfare state
- **RETHINKING ECONOMIC POLICY UNDER THE THREAT OF DEFLATION**
  Nicola Melloni - The political economy of post-crisis economic policies

Gianni Pittella and Georgia Kaplanoglou

Pirmin Fessler and Gianni Pittella

Gianni Pittella and Nicola Melloni

Gianni Pittella and Jörg Bibow

AUSTERITY, CYCLICAL ADJUSTMENT and the REMAINING LEEWAY for EXPANSIONARY FISCAL POLICIES within the CURRENT EUROPEAN FISCAL FRAMEWORK

by Achim Truger

Members of the Progressive Economy Scientific Board thought this paper was clear and well-formulated and took a realistic approach to the room-for-manoeuvre within the current monetary and fiscal framework.

INTRODUCTION

Fiscal policy in most Euro area countries has been dominated for several years by austerity measures implemented under the 'reformed' Stability and Growth Pact (SGP) and the 'fiscal compact' (FC). From a Keynesian perspective the outcome in terms of devastating economic, social and political consequences was predictable (Truger 2013).

Recently the calls for a more expansionary fiscal policy have become louder: In his Jackson Hole speech, Mario Draghi called for a more expansionary fiscal stance for the Euro area as a whole and a public investment programme insisting, however, that the existing rules of the SGP be respected. The European Council in June 2014 also saw the need to enhance growth respecting the current institutional framework. The European Commission has launched two initiatives, thereby substantially enlarging its predecessor's efforts: The 'Juncker-Plan' and a clarification on making 'optimal use of the flexibility within the SGP'.

Against this background the central question is whether the current institutional framework still allows for a fiscal expansion strong enough to spark off a real recovery in the stagnating Euro area economy.

CYCLICAL ADJUSTMENT OF PUBLIC FINANCES IN TIMES OF AUSTERITY

Cyclical adjustment of public finances plays a major role in the EU Commission's concept of budgetary surveillance within the framework of the SGP (Larch and Turrini 2010). With the exception of the excessive deficit threshold, all target values for the government budget balance are expressed in terms of structural, i.e. cyclically adjusted, values, and the cyclical condition of the economy plays a major role in assessing the necessary consolidation effort and potential exceptions. The most important concept in this respect is the structural budget balance, i.e. the cyclically adjusted government budget balance corrected for one-off measures in terms of which the consolidation requirements under the SGP and the FC are expressed.

The main problem is that the method employed by the EU Commission has proven to be highly sensitive to the endogeneity bias, i.e. the problem that potential output is highly sensitive to variations in actual output (see e.g. Klär 2013; Truger and Will 2013).

Table 1: Output gap in % of potential GDP, EMU-12 countries 2007-2015 with potential GDP growth of EU Commission's spring 2014 forecast compared to EU Commission's spring 2010 forecast

	Output gap with potential GDP from EU Commission spring 2014								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Euro area (12 countries)	2.8	1.7	-3.4	-2.1	-1.3	-2.4	-3.3	-2.7	-1.8
Belgium	2.6	2.0	-1.9	-0.8	-0.3	-1.3	-1.7	-1.1	-0.5
Germany	1.9	1.8	-4.2	-1.4	0.6	-0.1	-1.1	-0.7	-0.3
Ireland	4.5	1.3	-4.1	-4.1	-1.2	-0.6	-1.4	-1.0	0.0
Greece	3.2	1.5	-1.5	-4.7	-8.7	-12.2	-12.6	-9.3	-4.0
Spain	2.8	0.9	-4.0	-5.3	-5.9	-7.3	-8.1	-6.7	-4.7
France	3.4	1.8	-2.4	-1.8	-0.9	-2.0	-2.7	-2.8	-2.4
Italy	3.4	1.8	-3.5	-1.7	-1.4	-3.0	-4.3	-3.6	-2.5
Luxembourg	4.6	1.3	-5.0	-2.4	-1.8	-3.6	-2.8	-1.6	-0.3
Netherlands	2.1	2.2	-2.5	-1.4	-1.0	-2.4	-3.3	-2.6	-1.8
Austria	2.1	1.9	-2.9	-2.0	-0.1	-0.4	-1.1	-0.8	-0.4
Portugal	1.1	0.3	-3.0	-1.6	-2.6	-5.0	-5.6	-4.0	-2.3
Finland	5.0	3.8	-5.4	-2.5	-0.1	-1.4	-2.7	-2.6	-1.9
	Output gap with potential GDP from EU Commission spring 2010								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Euro area (12 countries)	2.9	1.9	-3.3	-2.2	-1.7	-3.6	-5.4	-5.7	-5.6
Belgium	2.3	1.5	-2.4	-1.1	-0.5	-1.7	-2.6	-2.3	-2.0
Germany	3.2	3.3	-2.8	0.2	2.2	1.2	0.0	0.2	0.6
Ireland	4.0	0.0	-6.0	-6.2	-4.4	-6.0	-8.9	-10.5	-10.9
Greece	3.3	1.1	-3.4	-8.9	-16.1	-22.3	-25.7	-25.8	-24.3
Spain	1.8	0.8	-3.8	-4.4	-4.8	-7.3	-9.9	-10.5	-10.3
France	1.7	0.0	-4.3	-3.9	-3.0	-4.2	-5.3	-5.7	-5.6
Italy	3.8	2.3	-3.4	-2.0	-2.2	-5.3	-8.0	-8.7	-8.8
Luxembourg	4.6	0.4	-7.3	-6.4	-6.9	-9.9	-11.1	-12.0	-12.7
Netherlands	2.5	2.4	-2.6	-2.0	-2.3	-4.8	-7.3	-8.2	-8.9
Austria	3.6	3.2	-2.0	-1.7	-0.3	-1.2	-2.5	-2.8	-2.9
Portugal	4.9	4.2	1.1	2.7	0.9	-3.5	-6.2	-6.6	-6.8
Finland	5.5	3.7	-6.2	-4.0	-2.6	-4.9	-7.6	-8.8	-9.3

Source: European Commission (2010a, 2014a, 2014c); author's calculations.

During economic contractions – especially during large and durable contractions such as those observed in the Euro crisis – the estimates of potential output are revised substantially downwards.

In this article the spring 2010 forecast is used as a baseline, because at the time potential GDP estimates had already been revised downwards very substantially. At the same time, most Euro area economies were recovering, before in the summer of 2010, a switch to a fast exit and the beginning of austerity in the Euro area was decided. Table 1 shows the Commission's spring 2014 estimates of member states' output gaps and contrasts them with the output gaps that would have been estimated had the spring 2010 potential GDP forecasts remained unchanged. From 2013 to 2015, for all countries with the exception of Germany, the output gap would have been substantially higher had it not been for the crisis induced downward revision of potential GDP since spring 2010.

Such dramatic downward revisions of potential GDP have substantial consequences for the calculation of structural budget balances and the assessment of consolidation efforts. These efforts will usually be underestimated because a substantial part of the fiscal effort is wiped out, as a larger part of the actual deficit is registered as structural although in fact it may well just be cyclical, i.e. caused by a temporary contraction (see table 3).

THE EU COMMISSION'S INSUFFICIENT STRATEGY FOR PUBLIC INVESTMENT AND FISCAL STIMULUS

The new Commission has launched two initiatives to boost the economy. First, an Investment Plan for Europe, the 'Juncker-Plan' and second a re-interpretation of the SGP with the aim of providing more fiscal leeway for member states under adverse economic conditions and/or implementing structural reforms.

The Juncker-Plan aims at a European-wide total investment impact of 315 bn. Euros from 2015 to 2017. This is supposed to be reached by the creation of a European Fund for Strategic Investments (EFSI) which is guaranteed by 21 bn. Euros from the EU budget (16 bn. through reallocation from existing resources) and EIB reserves (5 bn.). The fund is to mobilise finance for investments in key areas such as infrastructure, education, research and innovation. Whether the Plan will really deliver is quite doubtful.

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The most important doubts relate to the question whether it will be possible to mobilise sufficient additional investment: If it is to stimulate private investment, particularly in the crisis countries it will be difficult to find investors almost irrespective of the terms of the programme due to pessimistic expectations. If investors are found, the danger of windfall gains will be large. If the fund offers private investors attractive returns then these returns will have to be paid for, either directly by the public contributor involved or indirectly through charges to the private sector that might otherwise have been avoided. If the fund is to stimulate public investment, one may wonder why this could not be realized by national governments' regular investment. All in all, therefore, the risk is high that the Investment Plan for Europe will deliver disappointingly little too late.

The clarifications and formalisations of the interpretation of the SGP contain several measures. All in all, they constitute some progress. They may contribute to relieve the pressure from public budgets and slow down the pace of consolidation somewhat, but obviously they are designed to permit only a slightly less restrictive fiscal stance but not to provide a truly positive fiscal stimulus.

TOWARDS A MORE AMBITIOUS RE-INTERPRETATION OF THE SGP

What can be done instead to help the Euro area economy recover? Of course, the current institutional framework with the SGP and the FC does not generally offer a favourable climate for expansionary fiscal policy. As in the short run major institutional reforms do not seem likely, alternative means will have to be found within the existing framework.

If the Commission used the interpretational leeway that the current institutions afford, it could provide substantial room for manoeuvre for national governments to switch to a truly expansionary fiscal policy. Indeed, the clarification by the Commission in relation to making optimal use of the flexibility can be seen as hinting at the direction that would need to be followed. It would at some points simply need a few further interpretational steps to enable a substantial fiscal boost. At least the following eight measures that are generally complementary to each other should be considered (see table 2).[1]

There are at least four possibilities to explicitly strengthen public investment within the current fiscal framework (measures 1 to 4). Indeed, strengthening public investment should be of the highest priority: It is particularly conducive to growth both in the short and the long run (see Truger 2015: chapter 3) and it has suffered from austerity policies in a disproportionally strong way (Barbiero and Darvas 2014).

First, the so-called 'investment clause' should at least be opened to unconditionally include all investment that is supported by European funds as was called for by the European Parliament (measure 1). Furthermore, additional net investment could be justified if it came in the form of a temporary investment programme, analogous to the way the Commission interprets contributions to the EFSI (measure 2). Additionally or alternatively, it may also be possible to treat a sufficiently comprehensive investment programme as a structural reform that temporarily allows for deviations from MTO or the adjustment path towards it (measure 3). All of this could further be supported if realistically high multiplier values were used in assessing the budgetary impact of additional investment, which may not be significantly negative or even positive. This would mean that such additional investment could be irrelevant at least under the excessive deficit procedure as it would (almost) not increase the deficit: If the Commission adopted a realistic attitude to fiscal multipliers

Table 2: Eight ways to strengthen investment and facilitate an expansionary overall fiscal policy stance in Europe

(1) more active use of the 'investment clause'
(2) allow for temporary investiment programmes (analogous to EFSI)
(3) interpret temporary investment programmes as structural reforms
(4) incorporate realistic investment multiplier in budgetary analysis ex ante
(5) use leeway in economically bad times
(6) use exception for severe downturn in EU or Euro area
(7) temporarily higher spending with a view to Europe 2020 goals
(8) implement better methods of cyclical adjustment

Source: author's compilation.

[1] This article only includes measures that could doubtlessly be implemented without any changes in the current institutional framework and therefore does not include a proposal of a Golden Rule for Public Investment that would generally allow debt financing of net public investment, although the case for such a rule is strong (Truger 2015).

Table 3: output gap, structural budget balance (EU Commission spring 2014 estimate and modification) 2014 and medium term objective for 12 Euro area countries in % of GDP

	Output gap 2014 (Commission)	Output gap 2014 (modification)	Structural balance 2014 (Commission)	Structural balance 2014 (modification)	Medium term objective (MTO)
Euro area (12 countr.)	-2,7	-5,7	-1,1	0,4	-0,2[1)]
Belgium	-1,1	-2,3	-2,3	-1,5	0,75
Germany	-0,7	0,2	0,5	0,0	-0,5
Ireland	-1,0	-10,5	-4,5	-0,7	0
Greece	-9,3	-25,8	1,0	9,1	--
Spain	-6,7	-10,5	-2,4	-0,8	0
France	-2,8	-5,7	-2,3	-0,8	0
Italy	-3,6	-8,7	-0,8	1,9	0
Luxembourg	-1,6	-12,0	0,6	5,7	0,5
Netherlands	-2,6	-8,2	-1,3	2,0	-0,5
Austria	-0,8	-2,8	-1,2	-0,3	-0,45
Portugal	-4,0	-6,6	--	--	-0,5
Finland	-2,6	-8,8	-0,9	2,1	-0,5

[1)] weighted average of available values.

Source: European Commission (2010a, 2014a, 2014c); author's calculations.

that was in line with the recent literature (see Gechert 2015), any increase in public (investment) spending would lead to a much smaller increase in the deficit due to its positive macroeconomic effects. As seen, spending multipliers – especially for public investment – are well above one which means that such spending increases will be self-financing to a substantial extent (e.g. 50-75%).

In addition to the four measures to specifically increase public investment at least four more exist to justify a more expansionary fiscal policy stance, be it to (further) promote public investment or other desired stimulus measures (measures 5-8). For example, reference to adverse cyclical conditions may help to increase fiscal leeway even further (measure 5), although this could create the danger of a stop-and-go policy, if cyclical conditions improve as can be expected under a stimulus programme. Probably the most convincing way to avoid this would be to use the provision concerning a severe downturn in the Euro area or the EU to justify a temporary deviation from the consolidation path, thus allowing for a substantial European stimulus programme (measure 6). The Commission has explicitly made a comparison with the 2008 European Economic Recovery Plan to give an example of the potential use of this provision. One option for the direction of the programme would be to use it in order to start phasing in traditional net public investment. Alternatively or additionally, such a programme could also be used to allow for spending needs beyond the narrow national accounts definition of public investment (measure 7). This could be investment in education, including child care, but it could more generally focus on spending with a view to achieving the currently neglected Europe 2020 goals that have strongly suffered from austerity over the last years.

Last, but certainly not least, a reconsideration of the EU Commission's method of cyclical adjustment (measure 8) would help tremendously in creating further leeway as it would

increase the cyclical part of the budget deficit thus reducing the structural deficit. This could lead to a much more adequate picture of the fiscal effort that has already been undertaken by the member states which in turn would make it easier to justify exceptional circumstances under the preventive and the corrective arm. The upward revision of (negative) output gaps (table 1) would underline the extremely bad cyclical condition in which many member states are trapped. It is simply ridiculous to assume (as the Commission does) that the Greek output gap in 2015 will only be -4 % when the Greek economy will have lost about a quarter of its pre-crisis output. Last but not least, the estimates of the structural budget balance would then be revised upwards lifting a number of member states above their MTOs so that they would enjoy additional leeway. For example, table 3 shows that in addition to Germany, Italy, Luxembourg, the Netherlands, Austria and Finland would already have reached their MTOs in 2014 if the structural balance had been calculated with the potential growth estimates of the pre-austerity-era in spring 2010. And for almost all other countries the distance to their MTOs would have been reduced substantially.

Taking all of the proposals for a more expansionary interpretation of the existing institutional framework together, a Euro area-wide expansionary fiscal stance of two to three per cent of GDP would be quite realistic.

CONCLUSION

Most parts of the Euro area have seen seven years of deep economic crisis. Austerity policies have played a major role in this economic, social and political tragedy. The EU needs to address these problems. The previous strategy of tightening the fiscal constraints of the SGP was wrong as it has disempowered national fiscal policy as a macroeconomic policy instrument. Unfortunately, in the current situation, with depressed aggregate demand, deflationary tendencies and monetary policy at the lower bound, fiscal policy is the only instrument left that could bring about a sustained recovery.

In the medium to long run the Euro area and the EU will probably need a far-reaching reform of its institutional framework to foster growth and employment and to protect and strengthen the welfare state. However, even in the short run, the current institutional framework offers sufficient interpretational leeway to allow for a substantial fiscal expansion that could boost the European economy at least for the next two or three years. If the European Commission acted responsibly and used the opportunity in a way similar to the one sketched, the prospects for a strong recovery in the Euro area would not be too bad. All it would need is the will to be a bit more consequential in using the leeway provided by the current framework. It is to be hoped that it will not again take years of stagnation and more millions of unemployed before European policy makers draw the right conclusions and start reviving fiscal policy.

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MAKING THE EURO VIABLE: THE EURO TREASURY PLAN

by Jörg Bibow

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The Progressive Economy Scientific Board recognised the added value of the paper in focusing on a specific shortfall of the present EU governance system, namely its lack of a central fiscal institution with the power to spend, tax, and issue debt.

The euro crisis has exposed existential flaws in the euro regime. Intra-area divergences and the corresponding buildup of grave imbalances had remained unchecked prior to the crisis. As those imbalances eventually imploded, member states were found extremely vulnerable to systemic banking problems and abruptly deteriorating public finances. Lacking a (federal) treasury partner, the European Central Bank (ECB) battled to stem area-wide contagion while becoming exposed to legal challenges. Today, most members continue struggling under stagnation, high unemployment, and adverse debt dynamics, while questions remain over the effectiveness of the ECB's recently launched "quantitative easing" (QE) initiative. Vulnerable to global developments, on which it is unduly reliant as mirrored in a soaring current account surplus, the euro currency union remains stuck in a crisis of its own making, with little hope for a vigorous recovery under its flawed and dysfunctional policy regime.

Investment spending is stuck at a deeply depressed level. Laboring under the Stability and Growth Pact (SGP) and Fiscal Compact, governments across the eurozone have cut public investment spending to an extraordinarily low level. The jointly-undertaken austerity frenzy has proved socially devastating and counterproductive from both a cyclical and long-term growth perspective. Essentially, governments are not only recklessly spoiling the economic fortunes of current generations, but also reneging on the economic possibilities for our grandchildren.

The proposal put forward here features a joint recovery program through an area-wide boost to public investment. In that regard it is not unique (see iAGS 2015,[1] for instance). What is novel about the "Euro Treasury Plan" is the way in which it joins the spending and financing sides of a recovery program that would simultaneously also fill the void in the current euro regime and heal its essential flaw and ultimate source of vulnerability: the decoupling of central bank and treasury institutions.

The euro is lacking a safe footing for as long as the ECB is missing a federal treasury partner – establishing the vital treasury-central bank axis that stands at the center of power in sovereign states (Goodhart 1998). The current regime leaves all players vulnerable. Lacking a central bank partner the national treasuries are subject to default and hence runs. Lacking a Euro Treasury partner and euro treasury debt the ECB is subject to legal challenges of its quasi-fiscal policies as applied to national debts. The Euro Treasury Plan kills two, if not more, birds with one stone, while going a long way towards accommodating some key German reservations as well.

VEHICLE FOR JOINT FUNDING OF PUBLIC INVESTMENT

At the heart of the Euro Treasury scheme is a simple and straight-forward idea: to create a Euro Treasury as a vehicle to pool future eurozone public investment spending and have it funded by proper eurozone treasury securities. Member state governments would agree on the initial volume of common area-wide public investment spending and its annual growth rate thereafter. Otherwise the Euro Treasury operates on auto-pilot.

For instance, assume agreement on an initial volume of public investment of 3 percent of GDP, annually increased at a 5 percent rate thereafter. If the implicit Maastricht assumption of five percent nominal GDP growth were to hold, the eurozone would henceforth see steady investment in its common infrastructure while the common Euro Treasury debt stock funding would converge to a steady-state level of 60 percent of GDP by the end of the century. The adjustment would be largely completed within 35 years. Within one generation Europeans would share both a common infrastructure stock and the public debt that has funded it.

This is not simply another "euro bonds" proposal though. There is no debt mutualization of existing national debts involved here, for which member states alone would remain responsible as the no-bail-out clause would stay in place. The Euro Treasury scheme is purely forward-looking, with new common debt funding new public investment as the basis of the region's – much alluded to but currently grimly neglected – common destiny and future.

The Euro Treasury will not directly undertake the investment spending itself. Instead, it will give investment grants to member state governments exactly in line with members' GDP shares. The point is that both investment grants and interest payment obligations are calculated based on member states' GDP shares. Redistribution is thereby excluded by design: The Euro Treasury is specifically designed not to be a transfer union. It is separate from and runs parallel to the EU budget, which remains the sole instrument of any intra-regional redistribution.

The Euro Treasury functions by auto-pilot as there is a strong political case for organizing public investment spending on a strict rule when managed and funded from the center for as long as there is no full-fledged parliamentary democracy in place in the eurozone. Moreover, and in line with the EU's subsidiarity principle, the Euro Treasury's power to tax is strictly limited to obtaining revenues to service the interest on the debt and to keeping the debt ratio stable at its target level. On the revenue side of the plan, special tax provisions are designed to generate revenue earmarked for servicing the debt.

[1] Independent Annual Growth Survey 2015: Third Report (OFCE, IMK and ECLM (2014) (www.iags-project.org/documents/iags_report2015.pdf).

MEMBER STATES MUST ABIDE BY CURRENT FISCAL RULES

Member states will still be required to abide by all the rules of the current euro regime, *but applied to current public expenditures only* – as national public capital expenditures now form a separate capital budget funded through common euro treasury securities. This makes a vital difference.

The current regime envisions member states running (near-) balanced public budgets forever, which would see public debt ratios decline towards (near) zero in the long run. This is a truly impossible endeavor. Not only would it starve the financial system of safe assets. It also creates financial and economic fragilities. Debt – and in fact growing public debt – is a very natural concomitant phenomenon of economic growth. The euro regime is lacking a central fiscal institution with the power to spend, tax, and issue (safe) debt. This void is the key source of its vulnerability and ill-performance.

Especially following a financial crisis, marked by excessive leverage, the private sector will seek to run a financial surplus. Only when the recovery has turned into a new boom, can we expect the private sector to reach a balanced financial position. Given a structural financial surplus for the private sector over the cycle, the public sector can only realistically balance its own books structurally if the country (or currency union) runs perpetual external surpluses. This amounts to the German model. Replicating the German model for the eurozone as a whole will persistently depress domestic demand and provoke global tensions. The German model is the wrong model for the eurozone (Bibow 2001, 2012).

As to the evolution of national public debts under the Euro Treasury Plan, steady deficit-spending on public investment funded at the center will finally allow and enable national treasuries to (nearly) balance their structural current budgets. Within one generation there will be little national public debt left to worry about. This overall outcome would resemble the situation in another – functioning – currency union: the United States.

MINIMALISTIC FISCAL UNION THAT SAFE-GUARDS EUROPE'S INFRASTRUC-TURE AND COMMON FUTURE

The Euro Treasury Plan would create a minimalistic but functional fiscal union that follows the subsidiarity principle and accommodates some key German reservations: the proposal does not constitute a transfer union, requires that the member states abide by the current rules, and foresees that the Euro Treasury operates on a fixed rule rather than discretion. The fixed rule for its operation is known as the "golden rule of public finance", which was anchored in Germany's constitution until it was replaced by the "debt brake" in 2009. The latter essentially amounts to a balanced-budget rule, while the former acknowledges that public investment should be debt-financed.

By steadying public investment at an adequate level, the Euro Treasury would provide a basic ingredient for turning the euro into an engine for joint prosperity rather than joint impoverishment. The Euro Treasury epitomizes the fact that both sides of the balance sheet matter: issuance of common Euro Treasury bonds serves to fund the infrastructure upon which Europe's future will rest. The current austerity crusade denies the conventional wisdom of the "golden rule" and impoverishes Europe. The Euro Treasury turns the golden rule of sound public finances into the anchor of European integration.

BEYOND THE BASICS: OTHER BENEFITS AND POTENTIAL FUNCTIONS

The Euro Treasury Plan has more to offer still. **First,** the Euro Treasury would empower

the national automatic fiscal stabilizers. The experience of macroeconomic performance under the euro regime has revealed insufficient fiscal stabilization capacity. While public investment spending funded by the Euro Treasury will not be counter-cyclical but merely steady, indirectly the Euro Treasury contributes to the public finance function of stabilization in significant ways. Most importantly, by requiring *and enabling* the decline of national public debt ratios to very low levels in abidance with the rule of balancing *structural current* budgets at the national level, member states will restore their fiscal space. National automatic stabilizers would thereby regain the necessary breathing room to actually do their job.

Second, it would be easy to augment the strict ("golden") rule for debt-financing steady public investment spending by allowing the Euro Treasury to do more in a severe downturn. If GDP declines by, say, 2 percent or more, the Euro Treasury could (automatically) extend additional all-purpose grants to member states (based on GDP shares) that support member states' budgets. This would provide extra breathing room for quasi-automatic stabilization put into effect in a decentralized way. Once recovery is established the tax for servicing Euro Treasury debt could be *temporarily* raised so as to assure re-convergence to the target debt ratio for euro treasury debt within a certain time period.

Third, as a flexible and reliable emergency funding source, the Euro Treasury is the natural fiscal backstop for the "banking union", breaking the infamous "bank-sovereign doom-loop" that arises as the two parties are closely intertwined in terms of their liquidity and solvency status. Troubled banks can bring down the sovereign – and vice versa, especially if national treasuries are divorced from their central bank. The solvency backstops currently foreseen in the banking union are insufficient and remain largely national. The European Stability Mechanism (ESM) is too small and unwieldy. Not being in a position to effectively counter systemic events risks calamitous accidents. Coupling the ECB's quick pockets with the Euro Treasury's deep pockets would provide a strong bulwark against any threat of financial meltdown. The ECB would henceforth operate in euro treasury debt only but never touch national sovereign debt again. Accompanied by banking regulations that effectively prevent the concentration of national sovereign debt on bank balance sheets, the Euro Treasury will thereby cut

through the "doom loop" and make the "no-bailout clause" workable at the same time. Discretion is inevitable in this regard, which is no different from the current situation; only that the Euro Treasury rests on a much sounder funding basis than the ESM and restores the treasury-central bank axis of power at the center.

Fourth, the Euro Treasury would provide the common safe asset that the common market yearns for, serving to establish a common term structure of (risk-free) interest rates. Currently private creditors across the eurozone are facing diverging borrowing costs and credit spreads based on their nationality as private credit risks continue to be priced off their respective national benchmark. This situation starkly conflicts with the whole purpose of both the common market and the common currency. The Euro Treasury plan would overcome this fundamental inconsistency.

Fifth, the Euro Treasury could facilitate mutual insurance. Mutual insurance differs from redistribution policy. The latter features permanent transfers designed to reduce disparities in income levels among member states. In the EU this is mainly handled through the EU budget; a very limited "transfer union". By contrast, a mutual insurance scheme featuring *temporary* fiscal transfers may be specifically designed to stabilize – rather than level – incomes. Mutual insurance is called for to counter "asymmetric shocks", shocks that affect currency union members differently (European Council 2012). The Euro Treasury would serve as the conduit through which member states make or receive temporary fiscal transfers depending on their relative cyclical position vis-à-vis the eurozone average. The required size of the mutual insurance budget could be very small in practice, but still provide significant stabilizing effects (Pisani-Ferry, Italianer and Lescure 1993). An important caveat arises here. Mutual insurance runs into trouble if lasting divergences in competitiveness positions are not prevented – as witnessed prior to the crisis. Such divergences result in a buildup of imbalances that can ultimately give rise to permanent transfers. A currency union may be able to sustain income disparities among members with minimal redistribution policies for quite some time. But failure to maintain balanced competitiveness positions can drive weaker member states into bankruptcy fairly quickly. As a rule, unit-labor cost trends of member states must stay aligned with the currency union's common price stability norm (i.e. the ECB's inflation target of "below, but close to, 2 percent"). When German wages stopped growing under the euro, Germany's partners inevitably lost competitiveness. The eventual implosion of these imbalances is behind the still unresolved euro crisis (Bibow 2006, 2012, Flassbeck 2007). Preventing permanent transfers presupposes preventing persistent divergences in competitiveness positions.

Last, but not least, the Euro Treasury Plan is also a recovery program. A direct stimulus arises from simply normalizing public investment spending, which, due to counterproductive austerity, currently stands at only 2 percent of GDP. A return to a more normal 3 percent of GDP (or temporarily more) would provide a corresponding boost to growth. At the national level fiscal space will be restored through refocusing the fiscal regime toward balancing national structural *current* budgets and through a declining interest burden. Member states will see their tax contributions to finance the interest burden on the euro treasury debt gradually build up over time as their debt service on national public debt is set to decline simultaneously. Gradually transitioning from servicing high-interest national debt to servicing low-interest common debt will result in significant overall budgetary relief. Ultimately dynamics for the euro treasury debt should be similarly favorable as in the U.S. case. Permanent primary deficits are a realistic prospect. Note also that the (automatic) "Euro Treasury Recovery Program" would foster a more benign rebalancing of intra-area competitiveness positions, namely by providing a broad-based, area-wide stimulus. Currently the rebalancing process inside the euro currency union is very asymmetric: euro crisis countries are forced to undergo "internal devaluation" without any concomitant pressure on creditor countries to expand. Faster domestic demand growth and higher wage-price inflation in creditor countries is vital and would contribute greatly towards a more benign rebalancing and proper recovery of the eurozone as a whole.

SUMMARY: THE EURO TREASURY MAKES THE EURO VIABLE

The euro crisis remains unresolved and the euro currency union incomplete and extraordinarily vulnerable.
The Euro Treasury Plan amounts to a rudimentary fiscal union, not a transfer union though, as benefits and contributions are shared proportionately. The Euro Treasury would allocate investment grants to member states based on their GDP shares. And it would collect taxes to service the interest on the common debt, also exactly in line with member states' GDP shares. The plan is purely forward-looking. Following the "golden rule of public finance" the Euro Treasury would issue common Euro Treasury debt to jointly fund the infrastructure spending which is the basis for the union's joint future.

Member states would still be required to abide by all the rules of the existing euro regime, but this would apply to current public expenditures only—as national public capital expenditures would form a separate capital budget funded through common Euro Treasury bonds. The Euro Treasury Plan thereby enables the decline in national public debt ratios to low and safe levels, restoring the fiscal space for automatic stabilizers to operate freely at the national level.

The ECB needs Euro Treasury debt for monetary policy purposes. And the markets need Euro Treasury debt to establish a common benchmark for financial instruments issued by debtors of euro member states, irrespective of nationality. The Euro Treasury would establish the vital treasury–central bank axis of power, healing the euro's potentially fatal birth defects.

It would also provide the needed stimulus to end the crisis. As a recovery program, the Euro Treasury Plan involves an immediate boost to public investment spending across the Eurozone. The switch to applying the SGP to national current expenditures and the prospective decline in the interest burden will open up further fiscal space. The resulting area-wide fiscal stimulus will allow a more benign (less deflationary) intra-area rebalancing to unfold.

Hopefully improved overall performance under the new euro regime proposed here will lead to more solidarity and forgiveness of blunders of joint responsibility over time. Acknowledging that full-fledged political union may be a long way off and German fears of a "transfer union" difficult to appease, the Euro Treasury Plan more narrowly focuses on what may be feasible in the near term. Arguably, the Euro Treasury Plan would both stimulate a broad-based recovery and prepare the ground for further integration in the future.

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INEQUALITY AND THE CRISIS

EVOLUTIONS IN CONSUMPTION INEQUALITY AND POVERTY IN GREECE:

THE IMPACT OF THE CRISIS AND AUSTERITY POLICIES

by Georgia Kaplanoglou & Vassilis T. Rapanos

Greece is the country hit hardest in output terms by the crisis and subsequent fiscal consolidation strategies, suffering a cumulative output loss of about 30% since 2008. Along with declining average living standards, consumption inequality has seriously grown, fuelled primarily by a disproportionate drop in the consumption levels of what can be considered the middle class. Moreover, several reforms launched in the name of reducing labour costs, broadening the tax base or rationalizing the targeting of social benefits have had detrimental effects on one of the most vulnerable population groups, namely families with children. The alarming increase of child poverty in Greece and the dramatic decline of the private and public resources most children currently live on is not only the most repulsive facet of the economic crisis, but also undermines future growth prospects and implies structural changes with regard to future social mobility and the equalization of the opportunity structure of the society.

The Greek crisis is well documented.[1] The global financial crisis, the complete derailment of the 2009 public deficit and the exceedingly high public debt pushed the country into an insolvent financial position. The financial assistance finally provided by the European Commission, the European Central Bank and the International Monetary Fund was accompanied by an economic adjustment programme designed to put the fiscal house in order. Since then fiscal policy has been severely restrictive, as the fiscal impulse, generally measured by the change in the structural fiscal balance, amounted to a cumulative -19.3% of GDP in the 2010-2013 period, compared to a Eurozone average of just -4.3% of GDP (OFCE et al, 2014). The cost of rapid fiscal consolidation in output terms has been high, amounting to a cumulative output loss of about 30% since 2008. Greek households cut back on their consumption expenditure by a commensurate percentage of almost 30%. The economic crisis manifested itself in changes both to the labour market and wages and public policy changes to tax, transfer and public sector pay costs. Each of these changes has had quite heterogeneous impacts on the population and it is difficult to understand *a priori* who is impacted most by these changes. It is quite important therefore from a public perspective to understand the distributional impacts of these changes with respect to the evolution of overall inequality and poverty.

The results point to a significant rise of inequality of consumption expenditure among Greek households during the crisis, fuelled primarily by a disproportionate drop in the consumption levels of what can be considered the "middle class". Although consumption poverty does not significantly rise in relative terms, it climbs to around 45% once the poverty threshold is anchored to 2008 in real terms. The paper also documents an extremely worrying outcome of the crisis that has not received proper attention so far. On top of the increase in unemployment rates and wage cuts among parents, a range of seemingly unrelated measures have had a dramatic cumulative impact on the well-being of one of the most vulnerable groups in society, i.e. children. There appears to be a massive move of families with children towards the lowest end of the welfare distribution, with around half of Greek children now living as the "2008 poor". Consumption patterns of Greek households have also drastically changed as a result of the crisis and so did the extent of progressivity or regressivity of particular taxes. Despite the fact that poor households have substituted their consumption away from commodities mostly hit by indirect tax hikes, the distributional impact of such hikes is regressive. If the current system of indirect taxes were to be replaced by an equal-yield proportionate VAT, inequality would fall, suggesting that indirect taxes overall further increase consumption inequality.

CONSUMPTION INEQUALITY HAS GROWN PRIMARILY AT THE EXPENSE OF THE "MIDDLE CLASS"

Our assessments are based on Household Expenditure Survey (HES) microdata, collected by the Hellenic Statistical Authority (EL.STAT.) in 2008 and 2013 (the last year available). Contrary to existing studies, we focus on household consumption expenditure, rather than income.

[1] For two very recent comprehensive reviews, see Katseli (2015) and Karamessini (2014).

GEORGIA KAPLANOGLOU & VASSILIS T. RAPANOS

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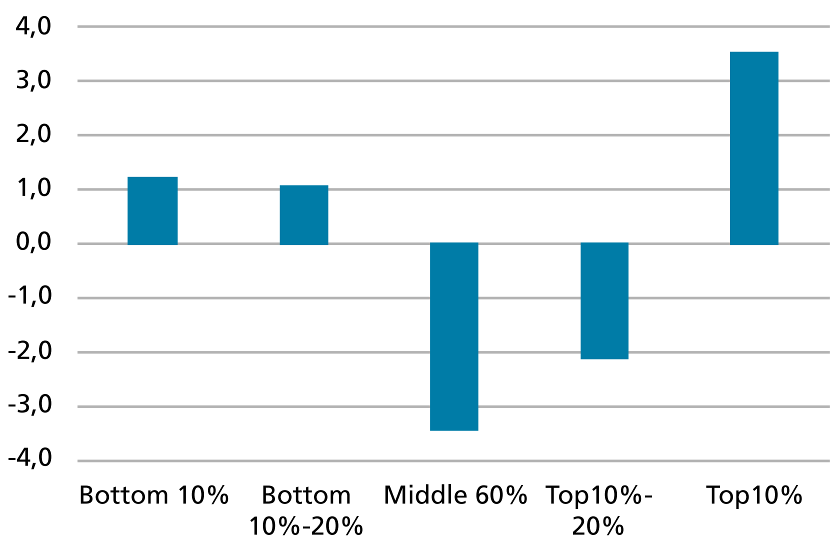
Since consumption is more likely than income to capture the effects of saving and dissaving, the ownership of durable goods such as houses and cars, access to credit, as well as private and government transfers, the impact of the crisis and austerity on the actual living standards of households is better documented.

According to all inequality indices employed, consumption inequality has seriously increased since the onset of the crisis. One would further like to know whether the inequality change is driven by the bottom or the top of the distribution and what has happened to the middle, especially against the backdrop of the renewed interest in the middle class in view of the growth-related and political implications of its evolvement (e.g. Easterly, 2001, López-Calva and Ortiz-Juarez, 2014). Adjusting the methodology of Atkinson and Brandolini (2011), Figure 1 shows the change in the expenditure shares of the middle 60 per cent of the population, ranked by increasing equivalised consumption expenditure, together with the shares of the bottom and top two deciles, in 2008 and 2013. The evidence is rather worrying, as it indicates that the impoverishment of the middle class lies behind the trend towards increased inequality. The top 10 per cent experienced the lowest relative loss, improving its share in total consumption. The bottom 20 per cent broadly maintained its expenditure share. This is not particularly comforting since consumption expenditure has dropped by around 30% implying huge budget cuts anyway.

Figure 1. Expenditure share of the bottom, middle and top expenditure groups,change between 2008 and 2013



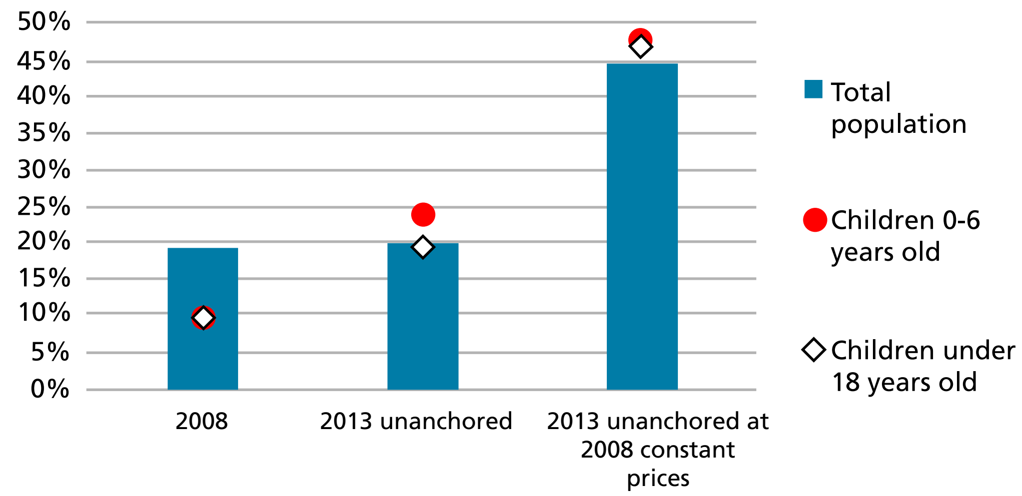
Source: Greek Household Expenditure Survey data, 2008 and 2013.

ANCHORED POVERTY HAS MORE THAN DOUBLED – ANCHORED CHILD POVERTY HAS GROWN BY A FACTOR OF 5

Another indicator documenting the decline in living standards during the crisis is the risk-of-poverty rate. The standard relative poverty measure is unanchored and defined as the proportion of the population whose equalized expenditure is below 60 percent of the median expenditure. In the context of the crisis experienced in the particular country, however, sizeable GDP declines also turn into serious declines in median expenditure, so that the relative poverty measure masks the real impoverishment of Greek households. The preferred measure when analysing changes in poverty during the crisis would therefore be the anchored risk-of-poverty rate, as the median expenditure is anchored in 2008. The anchored measure in this case is defined as the proportion of the households whose equivalised expenditure is below 60 percent of median equivalised expenditure in 2008 – adjusted for inflation.

Figure 2 shows the risk-of-poverty rate in 2008, in 2013 (unanchored) and in 2013 anchored in 2008. Relative poverty remained practically stable at around 20% during the crisis for the population as a whole (see blue bar of part (a) of Figure 2). The mild picture on the evolution of poverty is totally reversed once we look at anchored poverty. The proportion of households in 2013 living as the "2008 poor" shoots up to 45%, which itself manifests the extent of impoverishment of Greek households during the crisis.

Figure 2. Percent of population at risk-of-poverty 2008-2013

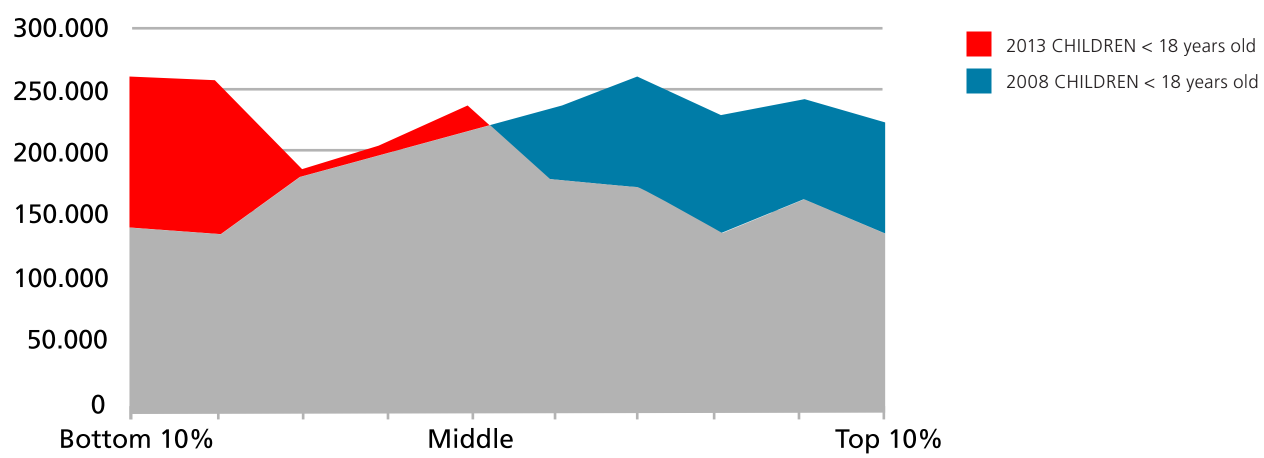


Source: Greek Household Expenditure Survey data, 2008 and 2013.

The evolution of child poverty is truly alarming. Before the outbreak of the crisis, children seem to have been doing well in comparison to the average, since they were under-represented among those at-risk of poverty (see the marks in Figure 2). The relative position of children completely reversed within the next five years. Child poverty rates have literally shot up during the crisis. Almost half of children in Greece now reside in households with the living standards of the "2008 poor".

In fact, families with children have massively moved to the lower end of the distribution, as is apparent in Figure 3. This unfavourable development is due to a combination of factors. A growing percentage of children live in households with unemployed parent(s). Even parents in employment have faced substantial wage cuts, since the real wages per head in the whole economy fell by 25.6 per cent between 2009 and 2013 (Karamessini, 2014). At the same time, several reforms introduced in the tax and benefit system after 2012 on the basis of rationalizing the targeting of child benefits or expanding the income tax base have apparently had a big negative cumulative impact on families with children. Universal child benefits for families with three or more children were replaced in 2013 with means-tested child benefits, so that families belonging to the middle class were no longer entitled to such benefits. Even more importantly, until 2012 families with children were granted an additional tax allowance (its level depending on the number of children). This was abolished in 2013.

Figure 3. Frequency distribution of children across deciles, 2008 and 2013



Source: Greek Household Expenditure Survey data, 2008 and 2013.

The decline in the living standards of children within their families comes at a time when the quality of education, health and social care services provided by the state is deteriorating as well, putting pressure on the family as welfare provider. This is likely to create a child poverty trap with detrimental effects, since poverty has a direct or indirect negative impact on children's educational outcomes, health and future life opportunities (European Commission, 2008, OFCE et al 2013, 2014).

MAJOR INDIRECT TAX HIKES FURTHER IMPINGED ON CONSUMPTION INEQUALITY

Greece stands out among developed countries in its unusually high share of indirect taxes in total tax revenue. Consumption has been the primary tax base throughout the country's recent history, with the direct/indirect tax revenue ratio in 2011 standing at 1.5 compared to a Eurozone average of approximately 1. Fiscal consolidation measures adopted after 2009 as a response to the severe fiscal crisis involved major indirect tax hikes in all VAT rates and all excises, most of which more than doubled. The most extreme increase regards heating oil, as in the autumn of 2012 the government, in an effort to contain evasion, aligned heating oil and transport fuel excises at 330€ per hl, which implied a 450% rise in the heating oil excise. Moreover, excise duties were introduced on electricity consumption in May 2010 and on natural gas in July 2011.

As a result, Greek households faced an increase of their indirect tax burden of about 30% on average between 2008 and 2013. The average increase masks significant variations both across commodities and across household deciles. While the 2008 indirect tax system had a broadly neutral effect on expenditure inequality, by 2013 the system clearly increases inequality compared to a uniform equal-yield tax. At the same time, however, the rise in inequality is more moderate the more one cares for the poor (i.e. for higher values of the inequality aversion parameter). This at first sight paradoxical result is explained by the fact that the consumption patterns of households and the degree to which each household could or had to substitute consumption away from highly taxed commodities is the primary factor determining how much more tax it had to pay. Poor households substituted expenditure away from heavily taxed commodities whose relative price has sizably increased. This effect shifts overall tax payments towards wealthier households, who can still afford such commodities. In this context, however, taxes on even textbook necessities like heating oil or medicines are no longer particularly regressive, as poor households, faced with the need to slash their overall budget, seriously cut back expenditure on such items as well. Therefore, behavioural responses of households are expected to have a moderating effect on the recorded regressivity of the indirect tax system and partly mask the distributional impact of recent indirect tax hikes. This is an issue certainly worth taking up in future research.

CONCLUDING REMARKS

After years of stepwise convergence of its per capita GDP to the European Union average, Greece has seriously diverged following the outbreak of the fiscal and economic crisis in 2009. The present paper presents evidence that along with declining average living standards, consumption inequality has seriously grown by all inequality indices employed. The rise in inequality is driven primarily by a weakening of the middle class, as the middle 60 per cent of the population lost expenditure shares to the benefit primarily of the richest. Perhaps even more worrying is the fact that families with children have massively moved to the lower end of the welfare distribution, with around half of Greek children now living as the "2008 poor". Looking at the distribution as a whole, the proportion of children living in the middle-class or upper middle groups has shrunk from around 80 per cent in 2008 to 35 per cent by 2013.

Since the effects of the crisis and most tax and benefit reforms are in a way encompassed in the shrinking budgets of households, the paper further explores the distributional impact of consumption taxes and how this changed during the crisis. Successive indirect tax hikes have resulted in an increase of the indirect tax burden by 30 per cent for the average household. Despite the fact that there are evident distortions in the consumption patterns particularly of the least well-off away from highly-taxed commodities, indirect taxes overall exacerbate consumption inequality. Shrinking budgets and unequally-valenced tax hikes have also changed the progressivity/regressivity features of several taxes.

Even if growth picks up in the years to come, the social consequences of the crisis will be long-lasting. Unemployment has reached 27 per cent, 72 per cent of which is already long-term (Karamessini, 2014), so that Greece now records by far the highest level of long-term unemployment in the European Union (OFCE et al, 2014). The slow and yet unsteady speed of economic recovery in Greece suggests that the long-term unemployed bear the risk of getting marginalized and that inequality and poverty are likely to persist for long. High inequality and child poverty are connected with lower education outcomes (Wilkinson et al, 2010), while increases in inequality and poverty can put the political legitimacy at stake (Vandenbroucke et al, 2013).

The process under way in a sense serves as a counter example of the Nordic paradigm of the post 1960s where the income distribution was compressed through minimizing unemployment at the bottom of the social pyramid, instead of maximizing the welfare benefits to the poor (see Esping-Andersen, 2015). Boosting employment opportunities for both parents, in conjunction with a universally high quality school and pre-school system acted as effective guarantees against child poverty and enhanced the equality of opportunity. Seen under this light, the alarming increase of child poverty in Greece and the dramatic decline of the private and public resources most children currently live on is not only the most repulsive facet of the economic crisis, but also undermines future growth prospects and implies structural changes with regard to future social mobility and the equalization of the opportunity structure of the society.

In a climate of still severe financing problems of the public budget and continuing technical and political negotiations, concrete policy advice is hard to give. Yet, the policy conclusions of the present study are far-reaching. Rapid fiscal consolidation of the kind implemented in Greece has seriously damaged social cohesion, has introduced major inequalities, especially regarding the shrinking of the middle class and the exacerbation of consumption poverty, and has impacted most severely on the most vulnerable population groups (like families with children). The Greek experience should therefore serve as a "don't try it at home" experiment and foster the understanding at a European level that fiscal consolidation strategies should be more distributionally sensitive.

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INEQUALITY AND THE CRISIS

PRIVATE WEALTH ACROSS EUROPEAN COUNTRIES:

THE ROLE OF **INCOME**, **INHERITANCE** AND **THE WELFARE STATE**

by Pirmin Fessler and Martin Schürz

In his recent book 'Capital in the Twenty-First Century', Piketty argues that since the rate of return on capital is generally higher than the growth rate of the economy, labor income loses importance as a source of wealth over time while the relevance of inheritances grows.

Our study examines three main contributors to household wealth: inheritances, income, and welfare state spending. To examine their relationship to the private wealth of households, we use the Household Finance and Consumption Survey (HFCS) (see ECB 2013). The initial wave of the HFCS 2010 represents the first harmonized data set on wealth among the Euro area countries. Even with a harmonized data set, some differences in survey methodology remain and underline the importance of data transparency. Even in an elaborate approach where a variety of inequality dimensions are taken into account, comparing across countries is especially difficult. Historical, institutional and cultural differences between countries are large and the normative anchor of debates on well-being is too often missing: what is the optimal Gini-coefficient in a society? Is the Gini-coefficient of income inequality more important than the one for wealth inequality? What is the adequate relationship between wealth and welfare in a democratic society?

Households accumulate wealth in different ways. First, households may save out of their labor income. Second, households may receive intergenerational transfers or gifts and if they do not consume them then the wealth transfers will increase their wealth. Third, the rich increase their wealth via income from wealth in a kind of self-alimenting process. Capital income on previously accumulated wealth plays an important role for wealth accumulation in the top wealth percentiles. To be specific, profits, interest and dividends are only important in the upper part of the wealth distribution. In contrast, the majority of the population accumulates wealth if their labor market income exceeds expenditures and their main motive of saving is to have at least some reserves for a rainy day.

INHERITANCES

Across all euro area countries, inheritance plays a decisive role in defining the relative position of households in the distribution of wealth. Heir households hold substantially higher net wealth levels than their non-heir counterparts. This finding holds along different household types as well as along the entire net wealth distribution, controlling for a large set of socioeconomic characteristics of households. To control for household structure, we also apply very flexible controls based on the number of household members as well as possible combinations of age and gender categories (see Fessler/ Lindner/Segalla 2014). Especially in Europe such controls are necessary, as different institutional environments and historical and cultural traits lead to large differences in household formation and resulting household size and composition with regard to age and gender of household members.

Using methods from the decomposition literature, we compare heir households to their most similar non-heir counterparts. The results are impressive: the difference in net wealth reaches about 100,000 Euro at the median level of net wealth and increases up to more than 1 million Euro at the 99th percentile of the net wealth distribution. These values are considerable, as the net wealth of heir-households in the Euro area amounts to about 210,000 Euro at the median and about 3,000,000 Euro at the 99th percentile. Over the full distribution, heir-households have considerably higher levels of net wealth than their non-heir counterparts.

But our analysis goes a few steps further and studies the role of welfare state policies in explaining differences in household net wealth within and between euro area countries once differences due to inheritance, income and other observable household characteristics are controlled for.

PIRMIN **FESSLER** & MARTIN **SCHÜRZ**

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Martin Schürz is head of monetary unit at the Austrian central bank. He studied economics at the Economic University of Vienna and political science at the Institute of Advanced Studies. His current research focuses on wealth inequality and inheritances.

RELATIVE WEALTH

We argue in favour of focusing on the households' relative position with regard to other households as opposed to the households' absolute wealth or income values. Why?

We prefer this approach oriented on one's relative position in a society because it matters a lot for comparisons of social status. For issues of recognition (Axel Honneth) in a society the question of whether households belong to the bottom, the middle or the top of society matters more than the absolute amount of their wealth, and as Wilkinson/Pickett 2009 show these forms of status comparisons matter for well-being. How people perceive or misperceive their relative position in the wealth ranking matters even for their judgements on justice and well-being (see Melchior/Schürz 2015). Wealth and poverty are relative phenomena in a society. Only poverty has in addition to its relative dimension an absolute meaning in the form of social exclusion, material suffering and in the extreme case dying from hunger. Thus, if one wants to talk about wealth and poverty one has to talk about it in relative terms.

Statistically a relative analysis is favorable as it is less exposed to measurement errors, and cross-country comparisons of wealth amounts are less meaningful because of differences in the socioeconomic circumstances, which matter for the meaning of a certain wealth or income level; cross-country differences with regard to prices in particular.

On average, an intergenerational transfer lifts a household by 14 net wealth percentiles in the wealth distribution, while an additional percentile in the income distribution is associated with 0.4 percentiles in the net wealth distribution. Receiving an intergenerational transfer is therefore a much higher contributor to net wealth, being equivalent to an income increase that leads to a new rank in the income distribution about 35 percentiles higher. This superior importance of intergenerational transfers versus income position varies among countries but holds true for all countries. It ranges from about 25 (Slovakia) income percentiles, being equivalent to an intergenerational transfer, to 52 (Austria).

This result underlines that empirical wealth inequality cannot be legitimized by meritocracy. Obviously people can only marginally influence their inheriting probabilities, and they can also not choose to move from a worker's salary to a public servant's or self-employed person's income. To jump more than half of the income positions in a society, such as from the median to the top 1%, is a very unrealistic variant of the *American dream*. The reality is rather that of social immobility in many societies. Thus, the advantage of the inheritors in comparison to people only saving from their labor income is substantial and almost impossible to be compensated by even harder work. To claim that this is possible would rather be another form of *"meritocratic extremism"* (Piketty 2014).

WEALTH AND WELFARE

A central idea in our paper is that public welfare plays a specific role in determining private wealth accumulation. The welfare state provides private households with income or different forms of insurance and plays a major role in reducing income inequality. It is the primary way to ensure a minimum level of resources for all members of a particular society. Thus, the reduction of social protection in the last decades has contributed to an increase of income inequality. However, the relationship between the welfare state and wealth inequality is a lot more complicated.

The welfare state is associated with egalitarian values in a society. In particular it focuses on needs and not on inequality: From a policy point of view Martin Feldstein argued: *"the emphasis should be on eliminating poverty and not on the overall distribution of income or the general extent of inequality."* However, one could argue that income inequality itself is disadvantageous for a society (see Wilkinson/Pickett 2009). And referring to implications of wealth inequality makes a normative evaluation even more difficult as wealth is not only a material resource.

As early as 1900, German sociologist Georg Simmel identified a crucial feature of wealth in his seminal work *"The Philosophy of Money."* Wealth itself holds out the promise of "being a means to an end." This is what Simmel has in mind when he writes that *"a great fortune is encircled by innumerable possibilities of use, as though by an astral body, which extend far beyond the employment of the income from it or the benefits which the income brings to other people."* Undeniably, the more wealth is involved, the more options and possibilities in society will come into play for the wealthy.

Wealth fulfills different functions for its owners, more functions for the rich than for the poor. The relative importance of the specific functions depends on the volume, the components and the composition of wealth. Especially lower income households try to save money in order to survive hardships. Home ownership – the main asset component of the middle - allows use and income generation (imputed rents for owner occupiers); sometimes it provides status (prestige in society); great fortunes do not exhaust themselves in these functions, but fulfill transfer (dynastic component) and power functions (economic and political). Especially large wealth levels and the particular form of enterprise wealth endow its owners with economic and political supremacy (see Illustration 1).

The "well-being" of individuals is often the ultimate reference of inequality analyses of income, consumption and wealth. The economic well-being of a person is influenced among other factors by private resources (income and wealth) from the market, the family (inheritances, gift, non-monetary support) and the public (public wealth, welfare transfers, subsidies). Income, wealth and government transfers are mutually determined, and this interplay takes place in a complex way that is often ignored in analyses of inequality.

The nature of public welfare is different from the one of private wealth, as the former involves by definition a group of people organizing social structures. While private wealth is at the disposal of the individual owner, public welfare entitlements depend on future policy decisions of the state. Wealth is a stock and welfare transfers are flows; no accumulation of welfare at the individual level is possible; on the other hand concentrated wealth is accumulated in a dynastic way over generations; furthermore, public pension claims can neither be liquidated, transferred to other people, nor used as collateral.

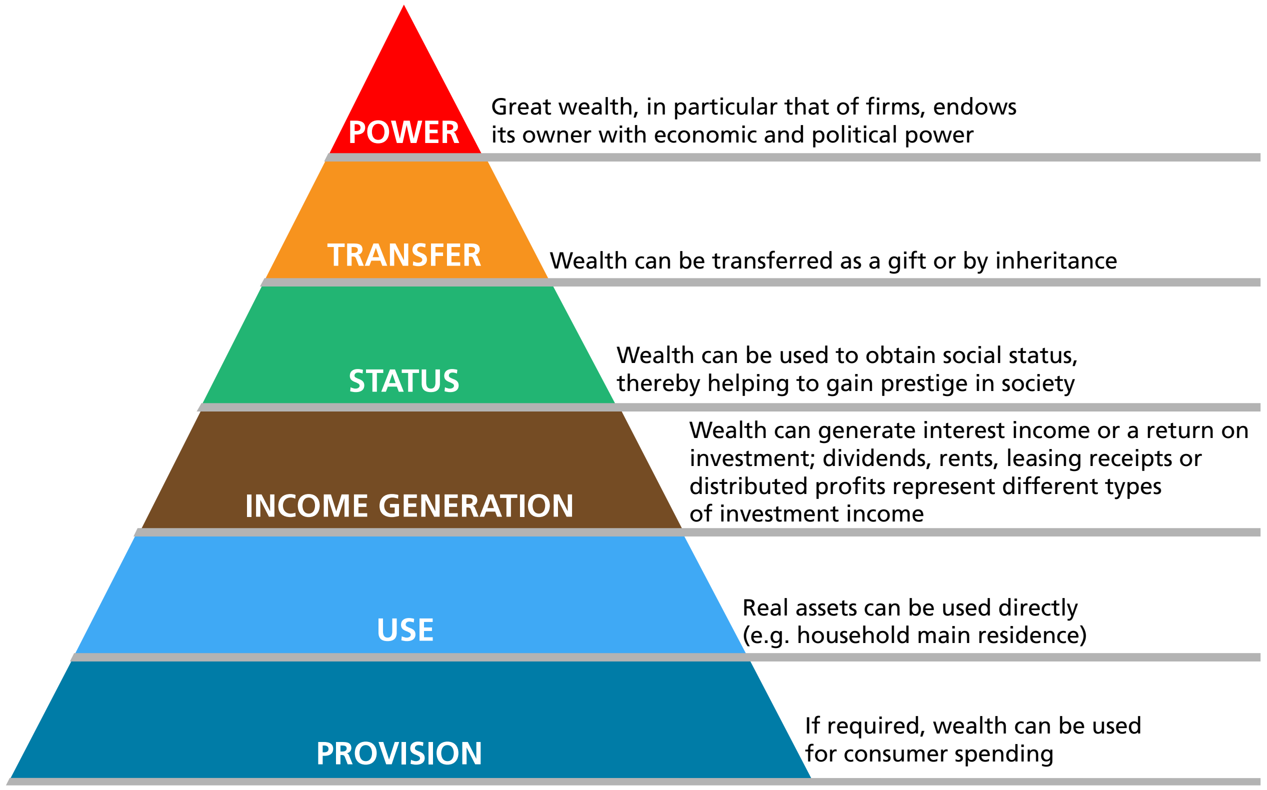
Welfare states aim with their transfers and activities mostly at the bottom and the middle. The rich however gain through fewer costs to secure their private property and a safer and more comfortable social environment in general. If the rich gain shares of total private wealth or income this is not *per se* of concern for the welfare state but it may matter for issues of power and democracy. Thus, private wealth and public welfare have to be understood as separate entities, even if they both have to be acknowledged in a coherent conceptualization of well-being.

In defence of large wealth inequality, some conservatives argue in policy debates that a high Gini Coefficient is relativized by low income inequality (such as in Germany or Austria) or by a well-functioning welfare state. For policy makers this would imply no reason to worry about a high Gini-coefficient in wealth inequality and no reason to care about the poor as long as they receive sufficient income through welfare.

We show that the relevance of public welfare relative to private wealth is larger at the bottom of the social hierarchy. They are not perfect

Ilustration 1

Functions of Wealth



Note: As wealth increases, the number of the possible functions of wealth also tends to increase.

Source: Fessler, P., Mooslechner, P., Schürz, M. (2012): Eurosystem Household Finance and Consumption Survey 2010 First Results for Austria. Monetary Policy and the Economy Q3/12

substitutes at all positions in the wealth distribution. To neglect the conceptual differences between wealth and welfare will lead to ideological blindness. Conservatives would have to argue consistently that higher wealth inequality is acceptable only in a society with an effective welfare state. Normally they do not argue in favor of the welfare state. You cannot claim that social housing and shares are perfect substitutes, as rich people will not choose to live among the poor in segmented communities, and the poor will have to stay in social housing because they have no other options, and cannot afford to buy shares as the stock exchange does not fulfill their need for safety for precautionary savings.

The degree to which states provide welfare to their citizens differs from country to country. We investigate the relationship between household wealth and welfare policies on three dimensions, which we use as proxies for general welfare state activities: pension expenditures, social security expenditures, and labor market policies: welfare state expenditures are in a particular way substitutes for private wealth accumulation. The collective helps individuals in certain phases of their lives. The more insurance the state provides against the contingencies of life, the less need households have to accumulate wealth for precautionary reasons. An expansion of the public provisioning for life contingencies will in particular allow poor households to save less and to consume more, which in turn will lower their wealth holdings. The pro-poor effect of public welfare works through the channel of promoting the consumption of the poor. It allows them to deplete their savings. We may even imagine an *income world* where the well-being of most people is not influenced by their savings.

The link between private wealth and public welfare translates to relatively lower average net wealth holdings for households in countries with higher welfare state expenditures. In multilevel cross-country regressions for the Euro area we show that the extent of welfare state activities across countries, such as pension and social security expenditures, are negatively correlated with net wealth levels. These findings indicate that social services provided by the state are substitutes for private wealth accumulation and to a certain degree explain observed differences in levels of household net wealth across euro area countries.

The substitution effect of welfare state expenditures with regard to private wealth holdings is significant throughout the full net wealth distribution, but relative to net wealth it is lower at higher levels of net wealth. As the state organizes and offers more public insurance, there is less need for relatively poor households to hold precautionary savings, and more income might be used for consumption purposes. Given these mechanisms, it might be that increases in welfare state activity are accompanied by more and not less wealth inequality, as they might allow households, especially those at the lower end of the distribution, to consume more, which in turn will lower their (precautionary) wealth holdings. Given an increase in welfare state expenditure, the percentage decrease in net wealth of poorer households is relatively stronger than for households in the upper part of the wealth distribution. This finding implies that given an increase of welfare state expenditure, wealth inequality measured by the Gini-coefficient will increase. Public spending affects households across the income and wealth distributions differently. More public expenditure can go along with more inequality of private wealth in the short run. Welfare state policies influence long term inequality through different channels. Positive effects on social mobility might lead to lower inequality in the long term.

As it comes with relatively low risk, state social security tends to be a substitute for low risk assets. Therefore while for the poor the effect will mainly be that they can consume more and need less precautionary saving, for the rich the impact will be different. It might allow the wealthy to take more risk in their private wealth portfolios and reduce the less risky part of their portfolio, leading to higher returns on the portfolios of wealthier households.

POLICY CONCLUSIONS

A key finding of our paper is the importance of the interplay between private wealth accumulation and the welfare state for the distribution of wealth. An effective and well developed welfare state goes hand in hand with lower levels of private wealth in the short run. It would be a normative mistake to judge inequality in a society as unfair only by looking at the inequality of private wealth. It would also be wrong to look only at the working of the welfare state and forget the power of the rich because wealth concentration destroys democracy. Furthermore the "return" of welfare state activity for the rich is hard to measure, as it works through a safer social environment, less segregation and less (private) costs to protect their property. Thus, the answer to the question of an optimal Gini-coefficient is not a specific number but a multidimensional consideration of a more equal income and wealth distribution together with a well-functioning welfare state.

For policy in the Euro area we need an inheritance tax, wealth tax and a strong welfare state as recently stated by Nobel Laureate Robert M. Solow (https://www.youtube.com/watch?v=DGmUtJkTaqc).

State social security can be a substitute for low risk assets. If the poor have any wealth, then mostly they hold low-risk financial assets (accounts, saving books). Welfare transfers allow them a bit more consumption and permit them to go for less precautionary saving. At the same time social security allows the rich to take more risk in their private wealth portfolios as they can reduce the less risky part of their portfolio. This may lead to even higher returns on the portfolios of wealthier households.

The rise of the importance of private wealth goes hand in hand with a rising importance of inheritances and a withdrawal of the welfare state since the 1970s. By reducing the size of the welfare state, measured wealth inequality may go down. However, from a normative point of social justice this is no sign of progress. It implies rather a dangerous risk shift from society to the individual (Hacker 2008). On the other hand, rising wealth concentration cannot be stopped by the welfare state. Rising wealth concentration means the rising power of a tiny minority at the very top and this destroys democracy. *"Extreme inequalities in the ownership of property are in my view undesirable quite apart from any inequalities of income they may imply. A man with much property has great bargaining strength and a great sense of security, independence and freedom; he enjoys these things not only vis-à-vis his propertyless fellow citizens but also vis-à-vis the public authorities."* (Meade (1964, 38)

While our multilevel analysis (see Fessler/Schürz 2015) is a useful instrument to understand the important interconnectedness between wealth, income and welfare, social reality is a lot more complicated and ambiguous. More research in social science is necessary to understand the complex mechanisms between public welfare and private wealth, their policy implications and last but not least their normative implications for social justice.

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RETHINKING ECONOMIC POLICY UNDER THE THREAT OF DEFLATION

THE **POLITICAL ECONOMY** OF
POST-CRISIS ECONOMIC POLICIES

by Nicola Melloni

The European debt crisis has been the main theme of discussion of the past years. Much has been said about the debt, the deficit and their relation to economic growth; several studies have debated the impact of austerity on the economy, society and the political system. Only a few, however, have attempted to explain the political economy of the European crisis.

This article examines some key elements to understand why and how austerity took place in the eurozone, and who actually promoted it. To do so, it provides (1) a discursive explanation of creditors' interest, examining market forces and geopolitical actors; and, (2) it introduces an institutional analysis of the EU crisis management package by focusing on the economic and political level of the Euro area institutional framework.

WHY AUSTERITY?

Austerity is often portrayed as a set of budgetary cuts to guarantee creditors. If the financial meltdown was mainly a debt-driven crisis (subprime in the US, state-debt in Europe), then austerity is seen as the medicine to cure the malaise. This type of explanation for austerity is, in reality, declined in various ways and degrees. Is austerity a means to pay back the debt or to reassure the creditors? And who are the actual creditors? Equally importantly, we should also clarify who supports austerity, rather than just interpreting the sentiment of the creditors.

DID THE MARKETS DEMAND AUSTERITY?

The common justification for austerity at the beginning of the debt crisis was that the not-particularly-well-defined entity called "markets" demanded that the debt problem be addressed. As Alesina et al. stated in the *incipit* of their paper "Austerity in 2009-2013": "The deficit reduction policies (often referred to as fiscal "austerity") followed by several OECD countries in 2009-13 were motivated, especially in the European Union, by the bond market reaction to large debts and deficits." (2014:1) Similarly, in 2010, then ECB Governor Jean Claude Trichet in an interview with the Italian newspaper *la Repubblica*, stated:
"In fact, in these circumstances, everything that helps to increase the confidence of households, firms and investors in the sustainability of public finances is good for the consolidation of growth and job creation. I firmly believe that in the current circumstances confidence-inspiring policies will foster and not hamper economic recovery, because confidence is the key factor today." [1]

Two studies by well-respected economists (Alesina and Ardagna, 2009; Reinhart and Rogoff, 2010) laid the theoretical basis for austerity: budgetary cuts would improve the confidence of market agents and push them to invest more; sustained growth is only possible with levels of debt below 90% of GDP. Austerity was the answer to re-establish the credibility of the debtors. The "markets" seemed to agree. That is to say, two sets of market actors supported austerity. On the one hand, rating agencies fully embraced the austerity discourse, constantly downgrading the t-bills of states that were not carrying out sufficient budgetary cuts and examining and marking governments' budgets.[2] On the other hand, Wall Street and City based economists also, if somewhat mildly, agreed on the necessity of austerity.[3]

Results, however, were disappointing. The works by Alesina and Ardagna and Reihnart and Rogoff were marked by mistakes and inconsistencies (Guajardo et al., 2011; Batini et al., 2012; Herndon et al., 2013; Eberhardt, 2014; Eyraud and Weber, 2013). Several studies proved that austerity was not only ineffective at improving the fiscal positions of the most exposed states but that it could be self-defeating in certain circumstances (Holland and Portes, 2012; De Long and Summers, 2012). The IMF (IMF, 2012; IMF, 2014; Blanchard and Leigh, 2013), despite promoting austerity in Greece and Europe, acknowledged that a too soon, too harsh austerity could hurt economies already in downturn and pointed at serious mistakes in the calculation of the fiscal multiplier to explain the unexpected consequences of fiscal cuts.

Austerity deepened the crisis of the eurozone, and the markets, concerned with growth and profits, were hardly impressed. Despite high debt, creditors were optimistic about the prospects of countries such as the US, UK and, especially, Japan. When Standard&Poor's downgraded the US debt, interest rates kept falling. In Italy and Spain interest rates differentials reached their peak in the midst of the austerity programme. Those same interest rates collapsed after Mr Draghi's famous "whatever it takes" speech. Markets, or creditors, were not so much afraid of the inability of debtors to repay a fast increasing debt; rather, they were afraid of debtors deprived of their ability to control their own monetary policy, as in the case of the Euro area's most indebted countries (De Grauwe, 2011).

[1] https://www.ecb.europa.eu/press/key/date/2010/html/sp100624.en.html
[2] See for example the stance of Standard&Poor's on The Netherlands' budget: http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245327300815
[3] http://www.ft.com/cms/s/0/a59899b2-72e1-11e3-b05b-00144feabdc0.html?siteedition=intl#axzz3X9VruDHX

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His research deals with the institutional roots and the social and political consequences of financial crises. He has written about the transition from the USSR to Russia, the Russian financial crisis, and the political and ideological foundations of neo-liberalism. More recently he has been working on the European economic and institutional crisis. Dr Melloni writes regularly for a number of media outlets in Italy and, lately, in the US.

THE GEO-POLITICS OF AUSTERITY

Not surprisingly then, at least in the Euro area, the pro-austerity rhetoric has shifted away from the original idea of "market demanded" cuts. Politics and geo-politics have become the main framework in which austerity is taking place. The scope of the analysis, though, does not change: we still need to investigate the interests and motivations of the creditors in imposing cuts and reforms. The stake-holders, in this case, are states rather than markets. And, in the case of Greece, the Germans, along with the French, were the largest creditors of Greece. By initially not allowing ECB defence of the Euro, and by imposing an austerity plan that focused on debt repayment rather than growth, it seems that Germany defended German interests. According to Karl Otto Pohl, a former Bundesbank President, "It was about protecting German banks, but especially the French banks, from debt write-off." German and French banks had the lion's share of Greek debt in 2009, a debt now redistributed evenly across European states – which had contributed to the Greek rescue package according to the size of their economy – a bail-out of the financial system disguised as a Greek bail-out the ultimate implication of which is that the entire burden of the reckless lending activities of Franco-German banks falls upon the Greek taxpayers.

However, it is still debatable whether austerity serves creditors' interests best. Recession makes the public debt dynamic worse – and ultimately impedes repayment. The markets were aware of this, and did not endorse austerity. Public creditors, however, have a different system of incentive from private ones. First of all, electoral dynamics may have had an impact. The German government – along with the then opposition – seemed overly concerned about domestic politics. The Germans have always reluctantly agreed to any rescue packages that were increasingly delayed or restructured according to the German domestic political agenda. Austerity has always been part of the deal – a deal that needed to be sold to German electors to start with: "You can get our money, but you will have to sweat for it – and you will have to pay back every penny."

At the same time, power relations within the EU may also explain the behaviour of the creditors/partners. The Greeks, by cooking the books to enter the Euro area, had lied to all of Europe, had betrayed the trust of their partners, had ruined the reputation of the EU. According to the memoirs of then American Treasury Secretary Geithner, European leaders seemed to be very determined in punishing Greece. In the unpublished excerpts of his book that appeared in the press, we can read:
"I said at that dinner, that meeting, because the Europeans came into that meeting basically saying: 'We're going to teach the Greeks a lesson. They are really terrible. They lied to us. They suck and they were profligate and took advantage of the whole basic thing and we're going to crush them."

It seems like it was more a problem of domestic and international credibility, rather than macroeconomic management:
"They were lied to by the Greeks. It was embarrassing to them because the Greeks had ended up borrowing all this money and they were mad and angry and they were like: 'Definitely get out the bats.'"[4]

[4] http://blogs.ft.com/brusselsblog/2014/11/11/draghis-ecb-management-the-leaked-geithner-files/

Austerity was not so much an economic measure, but rather a moral instrument. It is well known that the German word for debt (*schuld*) is the same one for guilt – and the idea that austerity was a punishment was so accepted that Greek Finance Minister Varoufakis declared that Greece shall not be *"treated as a debt colony that should **suffer** what it must"* (emphasis added). Even when it became clear that austerity was not working – that is, if the aim was to reduce the debt – it remained the only option available. Any type of debt forgiveness – notwithstanding the enormity of the Greek debt, the impossibility to repay it, the mythological European solidarity and, last but not least, the macroeconomic miscalculations of the Troika (Geckert, Rannenberg, 2015) – has been excluded, or better, not even discussed.

INSTITUTIONAL CONSTRAINT

An alternative, though complementary, view to understand why austerity got so much traction in Europe is to analyse the institutional constraint of the EU.

The EU is a hybrid system, a single market without a single government. It is composed of many different governments, whose actions are severely limited by international treaties. The liberal framework is not entirely *neo-liberal.* Although it shares with the monetarist view an aversion to lax fiscal policy and concern about inflation, the EU is quite far from the "north American" diffidence towards the state. The EU is an over-bureaucratised organisation that believes in setting strong rules to make the market work, the classic ordo-liberal system inherited undoubtedly from the strong German influence in the institutional building of the European Union.

This is particularly important when it comes to crisis management. In the (flexible) neo-liberal influenced American political system, expansionary fiscal policies are a hotly debated topic, but there is a general consensus on the importance of monetary policy. The EU has a rather different approach, which refrains from using both fiscal *and* monetary policy as instruments of crisis management. In reality, both in its ideological inspiration and in its institutional construction, the EU relies extensively, and solely, on internal devaluation (Dornbusch, 1996) and supply-side adjustments as a response to economic crises, hence the emphasis on reform (i.e. the rules of the game in the ordo-liberal approach) in Europe, which is totally absent in the US.

In many aspects, it has re-created the very experience of the Gold Standard, an international (multi-national, in this case) market based on a single currency, unchangeable rules and quasi-automatic mechanisms of adjustment based on market incentive. Under this framework, the crisis, which in its development is not pan-European but rather nationally located, can only be solved via domestic adjustments: debt is a proxy for lack of competitiveness, and this can only be re-acquired via supply side interventions. Why, then, this difference with the US? The answer is to be found in the multi-national nature of the EU. There is simply no alternative to austerity. Expansionary fiscal policies are not provided for in the treaties for politically and institutionally driven economic reasons: because the eurozone is a monetary union, there are no national Central Banks to monetise national debts. Monetary policy, too, is not an option: given the absence of a central government, the ECB is not allowed to bail out states because that would mean switching the debt burden from one state to another, a geo-politically untenable proposition. In sum, fiscal and monetary policies alike are restricted because there is a single monetary authority rather than 19 and this monetary authority cannot intervene because there are still 19 states rather than one sovereign authority. The only option left is supply side intervention.

DISEMPOWERMENT OF DEMOCRACY

Every economic construction relies on political systems able to support it. The Gold Standard failed mostly because of the impossibility of reconciling the rules of that international monetary regime – fixed exchange rate, free movement of capital (and labour) – with the democratic requests of the XX century mass society (Eichengreen, 1992). Well aware of these problems, as well as of the failures of the pre-Euro EMU, the EU builders, and especially the German leadership, knew that a single market and a single currency could work only with a credible commitment from all the member states. If every single government was allowed to put national interests before European ones, the coherence of the EU would be compromised. Hence, the only possible commitment was to reduce the scope for national government intervention in the economy – a sterilisation of democracy.

As a result, the EU has restricted the political space available (Mair, 2013), by (1) the harmonization of policies via the *acquis*, establishing a common playing field across Europe that reduces political options non-aligned to the mainstream; and (2) by

the de-politicization of several institutions and certain areas of intervention – mainly economic-related – that are now not subjected to partisan politics.

In addition, both Conservatives and Socialists have largely agreed to avoid any debate over the "constitutional" level of the EU, the so-called Monnet method. This creates a sort of double level of subordination to EU rules: every country is constrained by the common rules at the communitarian level, and political options are restrained *within* every country by the common understanding, shared by the main political parties, that EU rules are not to be put under discussion in the political debate.

AUSTERITY AS AN INSTITUTIONAL AND DISCIPLINARY RESPONSE TO THE CRISIS

The debt crisis was the first shock encountered by the new Euro-area and one that immediately showed the frailty of the European project.

The economic response was the one that the institutional foundation of the EU allowed and provided: austerity and supply-side response. Governments could not use the classic tools of macro-economic management because they were no more at their disposal; and the European level denied any real transfer of money from North to South because Northern states (and electorates) would not agree. Reliance on austerity, however, had major political consequences – and Greece became the focal point of a new crisis, not so much economic but rather political and institutional.

Greece was and is sinful in many aspects that concern the overarching European pact. Athens lied to its partners and breached the rules, a potentially destructive action for an institution that has to be credible to survive. Even more importantly, though, the Greeks violated the most important rule of the EU, the prevalence of European rules over national interests. When then Greek Prime Minister Papandreu suggested that a referendum should be held in Greece on austerity and a potential Grexit, the reaction was of anger and disbelief, and the pressure on the Greek government was so strong that the idea disappeared overnight. Similarly, again, the most outspoken confrontation in the whole history of the EU happened between German Finance Minister Schäuble and the newly elected Syriza-led Greek government. The problem was not so much (or not only) the actual Greek proposal – never truly explained – but rather the previously unheard request to discuss the treaties on the basis of an *electoral mandate*.

Syriza poses a threat to the constitutional level of the EU, as national interests may become more important than treaties and pacts. And so do any alternatives to austerity, which would have to rely on a *vulnus* of the European rules. If Greece is allowed to breach them, the contagion effect could destroy the Euro.

Austerity is the pillar of the European edifice; it is the very essence of the constitutional level upon which the EU was built. It is based on two different but communicating levels. The economic level is the one already encapsulated in the original treaties. Austerity is not only a politics of fiscal cuts aimed at reducing debt. As explained in the first section, it would be mightily failing if that were the only scope. It is, rather, a complex system of internal devaluation to be achieved via budgetary cuts *and* reforms, aimed at increasing competitiveness. The deeper the economic crisis, the harsher the programme of austerity.

This second, political, level has a strong disciplinary connotation. Countries which are unreliable lose autonomy; discretionary politics is not allowed in any form. Debt is now partially guaranteed – via intra-state support and ECB intervention – but only in exchange for further limitation of sovereignty – the debt colony, according to Varoufakis – that guarantees the creditors. Countries at fault have to pay the consequences of their actions; countries that question the norms are threatened – no more financial support from any European institutions, even possible "voluntary" expulsion from the eurozone.

Austerity and political control are necessary to re-establish the credibility and authority of the European Union. "Punish Greece" – in Geithner's account – was then the disciplinary action to punish the outlier's behaviour that endangered the very foundations of the European edifice.

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SUSTAINABLE GROWTH: THE CHALLENGES OF TRANSITION

PUBLIC EVENT - EUROPEAN PARLIAMENT, BRUSSELS

WEDNESDAY, 3 JUNE 2015, 14.30 - 18.00

The forum was moderated by **Jacki Davis**, Meade Davis Communications

14.30-14.45 OPENING REMARKS AND PRESENTATION OF THE WINNERS OF THE CALL FOR PAPERS

- **Gianni Pittella MEP**, President of the S&D Group

Mr Gianni Pittella, President of the S&D Group, delivered some introductory remarks and welcomed the participants. He also called on stage the winners of the Call for Papers 2015 addressed at researchers and academics on four research topics under the authority of the initiative's Scientific Board.

14.45-15.15 KEYNOTE SPEECH - PUBLIC DEBT, TAXATION AND INEQUALITY IN EUROPE

- **Professor Thomas Piketty**, Professor of Economics at the Paris School of Economics and at the School for Advanced Studies in the Social Sciences

Professor Thomas Piketty, author of numerous articles published in the most important economic journals of the world and of a dozen books, has done major historical and theoretical work on the interplay between economic development and the distribution of income and wealth. He is the initiator of the recent literature on the long run evolution of top income shares in national income and the author of "Capital in the 21st century".

15.15-16.15 Q&A WITH THOMAS PIKETTY - INTERACTION WITH THE AUDIENCE

- **Maria João Rodrigues MEP**, Vice-President of the S&D Group
- **Isabelle Thomas MEP**, Vice-President of the S&D Group

16.15-18.00 HOW TO DRIVE THE TRANSITION TO SUSTAINABLE GROWTH AND TO QUALITY JOBS?

Consuming our resources responsibly has become an inescapable necessity. The challenges of expanding resource supply to meet future demand – whilst avoiding irreversible damage to our planet and devastating climate change - are unique. The added value of reducing greenhouse gas emissions, minimising energy and water waste, improving low-carbon mobility, and providing incentives to move to more sustainable and long-term resilient business models is evident - and yet, our economies are still largely linear and geared towards unsustainable growth. Attaining sustainable growth will mean changing opportunities in the labour market: potentially more jobs – but different. This requires a new social model to ensure that we can make the transition in a fair way, creating quality jobs. Are we providing the right incentives and support for these developments?

- **Teresa Cavero**, Head of Research for Campaigns in Oxfam Intermón (Spain)
- **Patrick Costello**, Head of Cabinet of Commissioner Karmenu Vella, Commissioner for Environment, Fisheries and Maritime affairs
- **Sebastian Godinot**, Chief Economist, WWF Europe
- **Józef Niemiec**, Deputy General Secretary, European Trade Union Confederation
- **Kathleen Van Brempt**, Vice-President of the S&D Group
- **Frank Vandenbroucke**, Professor at the KULeuven and Member of the Progressive Economy Scientific Board Contribution from **Mr Serge de Gheldere**, founder and CEO of Futureproofed


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TECHNOLOGICAL
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