POLICY PAPER 2 / 2016

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THE COALITION TREATY OF THE EUROPEAN ELITE

THE COURSE OF EUROPE'S FUTURE IS DUE TO BE SET IN SPRING 2017

It is crunch time in the European Union. The cold putsch against the Syriza government was designed to put a stop to potential progressive reforms at the EU level; the referendum on Brexit threatens to lead to further EU exits; and under pressure from many states, the European Union is treating war refugees from the Middle East inhumanely and working with NATO to keep them out. The political elites in the member states and in Brussels need to decide between abandoning their subservience to financial capitalism and pursuing an increasingly authoritarian style of governance. The choice is between social democracy and authoritarian executivism. Currently, it seems as though governments would rather govern to the detriment of their citizens than reduce the profit rates of financial capital. The Five Presidents' Report describes a strategy aimed at doing just this, and the European left would be well advised to have developed a coherent response to it by 2017.

In June 2015, the five presidents of the EU institutions – Jean-Claude Juncker (European Commission), Martin Schulz (European Parliament), Mario Draghi (European Central Bank), Donald Tusk (Euro Summit) and Jeroen Dijsselbloem (Eurogroup) – published a strategy paper entitled "Completing Europe's Economic and Monetary Union". Its authors aim to demonstrate a way out of the EU's many crises, and they do so by deploying two timelines. The initial reforms are to be completed by the middle of 2017 and can be implemented within the current legal framework of the EU. The remaining reforms, which would involve amending the Lisbon Treaty, are to be implemented by 2025. The European Commission intends to publish a white paper to this end in spring 2017.

It is worth discussing the Five Presidents' Report in detail, since a peculiarity of the EU means that, unlike nation-states, it is governed without a government. The EU has a set of state institutions, but it does not have a government that could breathe life into the individual elements of its institutional structure using a government policy statement or coalition agreement. Strategy papers play this role in Brussels. They are based on lengthy consensus talks, represent the "spirit" of the European Union, ensure all institutions understand the reasons behind their own actions, create hierarchies between the institutions and define interests. The Five Presidents' Report, therefore, represents a coalition agreement that has been developed by the European elite; and anyone wishing to know what the presidents are planning needs to study and formulate answers to this document. The following provides an overview of the Five Presidents' Report[1] and makes a number of fundamental criticisms.

THE OBJECTIVES OF THE PRESIDENTS' STRATEGY PAPER

The Five Presidents' Report aims to prepare the "next steps on better economic governance in the euro area" and develop "concrete mechanisms for stronger economic policy coordination, convergence and solidarity". Further, the report states that "completing and fully exploiting the Single Market in goods and services, digital, energy and capital markets should be part of a stronger boost towards economic union, as well as more jobs and higher growth". Better governance and higher levels of growth and employment are indeed reasonable aims at a time when the European Union is on the brink of economic and social collapse. But can they be achieved using the methods set out in the report?

It is striking that the Five President's Report mentions the problem of macro-economic shock right at the start. The report states that the existence of a single currency and a single monetary policy formulated by the European Central Bank (ECB), which also sets interest rates for the whole euro area, means that each country needs to be able to cushion the impact of shocks internally since "relative price adjustment will never occur as quickly as exchange rate adjustment" (p. 4). In the terminology of the European elite,

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"flexible prices" mean that wages can be lowered rapidly if national enterprises consider it necessary.

THE WORKERS ARE TO PAY FOR THE LACK OF INNOVATION

The report's chapter on economic union is concerned with the real economy of the euro states, and, in particular, how increased convergence and a similar pace of economic growth and stability can be brought about. It notes that monetary policy has already been centralised, and argues that it is time for other areas of the economy to come under central control. The report also states that it is in the interests of all concerned "to modernise economic structures and welfare systems, and make sure that citizens and businesses can adapt to, and benefit from, new demands, trends and challenges". This is said to be necessary for a monetary union such as the EMU where "large scale fiscal transfers between members are not foreseen and where labour mobility is relatively limited." Moreover, member states can only rely on their "comparative advantages within the Single Market", thereby "sustaining high levels of growth and employment" (p. 7). Finally, further structural reforms are said to be necessary in all member states.

A "euro area system of Competitiveness Authorities" is to be created so that "all Member States improve their competitiveness as part of the same momentum." The report also recommends "The creation by each euro area Member State of a national body in charge of tracking performance and policies in the field of competitiveness" (p. 7). The task of the national bodies would be to "assess whether wages are evolving in line with productivity" because "In the end, a competitive economy is one in which institutions and policies allow productive firms to thrive". The national bodies would be coordinated by the Commission and "[national actors] should use the opinions of the Authorities as guidance during wage setting negotiations" (p. 8).

When national bodies such as these were discussed at an event in Brussels at the end of April 2016, the Commission's representative expressly stated that the Commission wished to have an institution in all states that, first, conveyed information to the Commission, second, that influenced national discourse, and, third, that enabled such discourse to be internationally comparable. Thomas Händel, Chair of the Committee on Employment and Social Affairs at the European Parliament, voiced the criticism that the Commission essentially intended to institutionalise "a race to the bottom when it comes to wages".[2] His assessment was shown to be correct when a representative from the Commission argued that it was a scandal that four euro area countries had wage developments that were higher than their growth in productivity. Countries such as Germany, which managed to get their economy in shape years ago through wage dumping (and at a level far below the reasonable growth in wages), were not mentioned, and this occurred despite the fact that they contributed significantly to the crisis. Whether intentional or not, this demonstrates that the Commission is not interested in coordinating a progressive wage policy, although there is actually a great need for one, and, instead, is solely focused on lowering wages.

However, the Competitiveness Authorities would not only promote wage dumping. The economist Fabio De Masi, MEP for DIE LINKE, argues that they would also hinder growth, because the policy proposed in the report would amount to subsidising unproductive companies.[3] Perhaps the permanent reduction in wages as a proportion of GNP that they are striving for fits the general tendency in late capitalism towards a structural decline in productive growth and circumstances in which a "suitable profit rate" is only ensured by stepping up the exploitation of workers, rather than through added quality and investments.

REOPENING THE CASINO

The report's chapter on financial union focuses on establishing a single financial system for the euro as a single currency; in other words, it is about harmonising the euro area's banking system. Banks within the euro area are to operate and be monitored and protected under the same rules. The aim is to protect taxpayers from banks that collapse (banking union) in the event of economic and financial crisis and to ease the flow of capital between member states (capital union). The report claims that the latter would increase growth and protect against future shocks.

Banking union is to rest on three pillars: single bank supervision, centralised at the ECB, single bank resolution, and single deposit insurance. The EU already has central control of the first two. With respect to deposit insurance, all banks are to guarantee the deposits of their savers up to EUR 100,000. However, this insurance is not to be implemented until 2017 and will not be fully functional until 2024. Deposit insurance schemes like this seem a good idea at first, but they constitute a gift to financial capital, since the costs of insurance will not be paid by the banks, but by taxpayers, as the banks' contributions are far too small.[4] However, before citizens are expected to pay up, they are to be held accountable for the debts of "their" banks based on the new "bail-in" guidelines as they constitute the banks' investors. In other words, savers' credit balances are to be used to settle the banks' debts. By contrast, when it comes to banking union, there is no mention at all of a solution to the much bigger problem of banks being "too big to fail". Once again, this confirms that, as in the past, the intention is to protect the assets of the top one per cent, and this is being done under the guise of implementing (clearly necessary) reform.

According to the Commission, the European economy is primarily suffering because businesses do not have sufficient access to capital in order to invest, which, in turn, means that they continue to be overly dependent on banks for borrowing. Consequently, "more diversified sources of finance" are said to be needed. The Commission argues that "Truly integrated capital markets would also provide a buffer against systemic shocks in the financial sector and strengthen private sector risk-sharing across countries." In addition, legislation is to be amended in the course of the capital union to create "a revived EU market for high quality securitisation" (p. 12).

Although the issue of financial market supervision has gone out of fashion compared to the period during the immediate wake of the crisis, the question of how free a rein financial capital should be given is of vital importance to the sustainability of our societies. A common slogan during the crisis called on policy makers to "Make banking boring again!" As tedious as it might seem, the idea was simply that banks should safely invest savings and lend to businesses. In contrast, the Commission aims to return to the time just before the Lehman Brothers collapse. It intends to secure growth in the market for "securitisation", despite the fact

that this market was one of the leading causes and triggers of the crisis. Securitisation involves the parcelling off and resale of (unsecured) loans; during the crisis, the risk attached to bundled loans spread like wildfire across the whole financial industry. Contrary to prevailing economic opinion, the spread of risk did not stabilise the financial system, rather, it acted like a time bomb hidden in the banks' own accounts. When the bomb went off, it set off a chain reaction of unimaginable proportions.

In other words, the Commission is deliberately laying the groundwork for the next financial bubble. On the one hand, it is doing so out of compelling systemic reasons, but also because of the incredible influence exerted by the finance lobby in European capitals through law firms and think tanks. Let us not forget that Mario Monti and Lucas Papademos were employed at Goldman Sachs before the crisis, but afterwards were installed as the prime ministers of Italy and Greece respectively.[5] However, the ECB is just as important, and it faces the desperate situation of trying to achieve a normal rate of inflation (two per cent), while acting in an environment in which all economic sectors are attempting to rid themselves of debt.[6] States, companies and citizens want to save or have to do so. Nobody is spending, prices are crashing, and this is resulting in deflation. In times such as these, businesses may not be able to borrow as much as they would like. From around 2012, the ECB became interested in developing a booming securitisation market,[7] since this would result in increased lending. However, whether it would actually help the economy in the long term is debatable, and history suggests otherwise. Moreover, the zero-deficit ideology contributes to manoeuvring the ECB into a situation in which, for structural reasons, it is once again forced to fuel the market for securitisation.

RELUCTANCE TO OPEN THE PUBLIC PURSE

Fiscal policy involves state revenue (taxes), and expenditure (investments, welfare, the military, etc.). The report demonstrates that the five presidents want to keep public debt in check and are keen for "automatic stabilisers" to take effect. Unemployment benefit is an example of an automatic stabiliser, as during crises it places a greater burden on the public purse since there are more job seekers. Increased expenditure is of great importance to an economy on the brink of crisis, since it protects the vital demand for goods and the profits that result from this demand. Until now, automatic stabilisers have been financed domestically, but supranational protection is certainly desirable. However, the report argues that since national economies are not yet sufficiently integrated, there will be no joint EU budget in the foreseeable future. Instead, monitoring the budgets of individual member states remains the only way to prevent imbalances (p. 14). Even today, each member state has to submit a budget draft for the following year to the Commission before it presents it to its own parliament for deliberation. If the Commission believes that a member state will spend more funds than it is expected to have at its disposal, it can require that state to adjust its budget and resubmit it to the Commission.

One might reasonably welcome a call by the five presidents for the members of the euro area to join forces to a greater degree, since coordination could support the slumping economy and provide an opportunity for intelligent economic policy. However, the report expressly rejects increased coordination when it states that the aim of the "fiscal stabilisation function for the euro area" – in other words, the joint budget – "would not be to actively fine-tune the economic cycle at euro area level" (p. 14). Clearly then, instead of resulting in smart demand stimuli that could be used in emergencies to revive the economy, the budgetary coordination envisaged by the report simply means that states will be forced to comply with senseless stability criteria that will endlessly prolong austerity. In some form or another, this is likely to boil down to something similar to the way in which Merkel supports states by providing funds for investment, before demanding that they bow to structural adjustment.

The report, however, demonstrates that its authors do not seem to know what they want. They vacillate between an awareness of the need for a more active economic policy and their neoliberal ideology, which views state intervention into the economic cycle as the work of the devil. For instance, a "pool of financing sources and investment projects" is to be created based on the Junker fund that could "be tapped into according to the business cycle". But the report also points out that the stabilisation function "should not be an instrument for crisis management." In fact "it should not lead to permanent transfers between countries or to transfers in one direction only" and the pool for investments should not be used to equalise income (p. 15).

With respect to the fiscal union, the five presidents and the forces representing them do not have a clear strategy on how to shape the revenue side of the EU and that of its member states. Despite this, they cannot entirely ignore the reality that their austerity policies are causing a permanent crisis in the real economy.

DEMOCRACY AS WISHFUL THINKING

With respect to the political union, the five presidents are aware that "at the height of the crisis, far-reaching decisions had often to be taken in a rush, sometimes overnight. In several cases, intergovernmental solutions were chosen to speed up decisions or overcome opposition. Now is the time to review and consolidate our political construct – and to build the next stage of our Economic and Monetary Union" (p. 17). In the first stage (until mid-2017), the presidents propose improving "accountability" and "participation". Under the heading "A key role for the European Parliament and national parliaments", the report describes how the right of parliaments to "engage" with the Commission's representatives in plenary debates could be strengthened (p. 17) and in which types of parliamentary meetings the Commission could participate. Particular importance is placed on the right of national parliaments to convene a Commissioner "for a presentation of the Commission's opinion on a draft budgetary plan or of its recommendation to a member state in Excessive Deficit Procedure" (p. 17).

The EU's democratic deficit, which can hardly be ignored, is often explained away with reference to Europe's linguistic diversity. As there is no European 'people' (no European "dêmos"), so the argument goes, it is better to remain within a national framework and one's own national culture – as though there were no democracy in multilingual Switzerland, in highly multicultural and multilingual India, or in the US, where Spanish is gaining ground. The contrast is, therefore, less between national and transnational parliaments than between a genuine democracy and an executive system with the regular election of an appended parliament in which governments largely have the final say. The latter, unfortunately,

is increasingly the case in Brussels and at the national level. It would be important to ensure that legislatures (parliaments) have control over their executives (their governments). For that reason, the European Parliament needs to be strengthened in relations with the Council and the Commission, and not necessarily when it comes to national parliaments. The presidents openly confirm the validity of this interpretation of the conflict underlying our political systems as their proposals make a mockery of both the European Parliament and national parliaments.

The entire chapter about political union is an exercise in wishful thinking. The relevant paragraphs deploy just as many verbs in the subjunctive as in the indicative. However, the report generally uses the indicative to describe past situations, whereas the text uses virtually nothing but the subjunctive when referring to strengthening democracy in the future. The overall message could have been summed up in a single sentence: "We could strengthen the economy, but we'll leave things the way they are instead."

In contrast, the future of the Eurogroup, which has an unclear status, is described in great detail. Just recall the way in which Greek Finance Minister Varoufakis was booted out; this could not be legally contested because the Eurogroup does not even exist in legal terms. Instead, it resembles a circle of friends, from which individuals can be ostracised as a matter of course. However, instead of strengthening the legislative foundations of this very powerful group, which could subject it to supervision, the report aims to strengthen the Eurogroup's apparatus and leadership. Three cheers for the executive!

OUTLOOK

At the start of 2016, the press believed that the Five Presidents' Report had had its day. Angela Merkel was said to have rejected it in favour of carrying out other reforms first.[8] This is both true and false. On the one hand, as was to be expected, the schedule set out in the report is untenable. On the other hand, the report is so important to the German government that it has instructed two of its most important think tanks – the Jacques Delors Institute in Berlin, and the Bertelsmann Foundation[9] – to develop a new version. The members of these organisations include representatives of state institutions belonging to the central EU countries (Germany, France and Italy), financial capital (insurance), the ECB, and central banks. So state and financial capital are planning the next steps to make the EU's centrepiece – the euro area – more secure, but more secure for whom?

For many years, political parties, social movements, trade unions and NGOs have been seeking to mobilise EU citizens to take joint action against the trend towards permanent austerity. The Five Presidents' Report provides a focal point for protests and an approach to which the European left can and must develop alternatives and counter visions. By the time the European Commission has published its white paper in spring 2017, the European left needs to have developed a coherent and genuine left-wing response to tackle the policies of the European elite in time for the crucial elections in the Czech Republic, Hungary, Germany and France.

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1 The Five Presidents' Report is available at: https://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf. The page numbers in the text refer to this report. **2** Thomas Händel's article is available at: www.igmetall-en.de/angriff-auf-tarifautonomie/. **3** Fünf Präsidenten auf Crashkurs. Fabio De Masi über Pläne zur Reform des Euros [Five presidents heading for a crash. Fabio De Masi on plans to reform the euro], Neues Deutschland, 14 January 2016. **4** Cf. the speech given by financial expert Axel Troost from DIE LINKE: Bankenunion: ein Haus mit Dachschaden [Banking union: a building with a damaged roof], 25 September 2014, available at: www.linksfraktion.de/reden/bankenunion-haus-dachschaden/. **5** Cf. Kulke, Roland: Post-Demokratie in Italien und Griechenland ganz praktisch. Eine Regierung der Banken, von den Banken, für die Banken [Post-democracy in Italy and Greece in very practical terms. A government of the banks, by the banks and for the banks], ed. Brussels Office of the Rosa-Luxemburg-Stiftung, 21 November 2011, available at: www.rosalux.eu/topics/global-power-and-resistance/post-demokratie-in-italien-und-griechenland-ganz-praktisch/. **6** Cf. the analysis of Koo, Richard: Bilanzrezessionen und die globale Wirtschaftskrise [Balance-sheet recessions and the global economic crisis], in: Flassbeck, Heiner et al.: Handelt Jetzt! Das globale Manifest zur Rettung der Wirtschaft [Act now! The global manifesto to save the economy], Frankfurt a.M. 2013, pp. 46–75. **7** This was the position put forward by Marina Hübner from the Max Planck Institute for the Study of Societies at an event held by the Brussels Office of the Rosa-Luxemburg-Stiftung on 23 May 2016 about the Five Presidents' Report. **8** Cf. e.g. Merkel blockt ab [Merkel stonewalls], taz, 19 January 2016, available at: www.taz.de/!5266616/. **9** Cf. Häring, Norbert: Making Europe Safe for Axa and Allianz. Das EU-Elitenprojekt startet mit Jörg Asmussen einen neuen Versuch [Making Europe Safe for Axa and Allianz. A new attempt at the EU elite project with Jörg Asmussen], 28 February 2016, available at: http://norberthaering.de/de/27-german/news/568-asmussen-delors#weiterlesen.

IMPRINT
POLICY PAPER 2/2016
is published by the Rosa-Luxemburg-Stiftung
Responsible: Henning Heine
Franz-Mehring-Platz 1 · 10243 Berlin, Germany · www.rosalux.de
ISSN 1867-3163 (Print), ISSN 1867-3171 (Internet)
Editorial deadline: July 2016
Translation: Eurideas
Editing: Simon Phillips, Linguatransfair
Setting/Production: MediaService GmbH Druck und Kommunikation
Printed on Circleoffset Premium White, 100% recycled paper