



Brussels, 7th July 2010

Time for a new deal on European economic policy

Open letter to European Council President H. Van Rompuy, European Commission President J.M. Barroso, European Parliament President J. Buzek, Eurogroup President J.C. Juncker and Belgian Prime Minister Y. Leterme

Dear Sirs,

We are writing to you with a sense of urgency for Europe's economic and social future. Much is at stake and the need for a more balanced, inclusive and sustainable European approach is great.

We believe that we can all agree that the challenges Europe is confronted with – high, and still increasing, unemployment, social exclusion, rising public debt and deficits and unprecedented threats to regional cohesion – require a strong and coordinated response. In particular, the level of unemployment, especially among young people, is alarming. More jobs are at risk, as simultaneous fiscal austerity plans are being gradually put in place. Therefore, in dealing with the crisis, the European Union needs to strike the right balance between consolidation of public finances and the promotion of sustainable jobs, growth and welfare.

For Europe to emerge stronger from the crisis, and to firmly engage on the path of sustainable development, there is not only a need for budget consolidation, but for financial regulation and investment, public as well as private. The Europe 2020 strategy can only be effectively implemented and delivered if it is underpinned by credible and adequate political and financial means.

Yes, we need to be tough on deficits and debts, but also on their causes. If we do not address the social and economic inequalities in society, the European economy will not recover in the way it should. The social consequences of the crisis will keep being felt for a long time by many millions of Europeans. This is not sustainable. We are convinced that it is possible to simultaneously reach fiscal stability on the one hand, and job creation, economic growth and social cohesion on the other. This would, however, require a qualitative leap in economic governance.

The citizens of Europe are asking for leadership in these difficult times. We therefore call for a new deal on economic governance, capable of delivering the right type of policies. A deal which is fiscally responsible, socially fair, economically effective, which would appeal to citizens, and strengthen our societies and welfare systems. A deal which must be underpinned by ambitious EU policy and legislative measures, within a reinforced and transparent Community method.



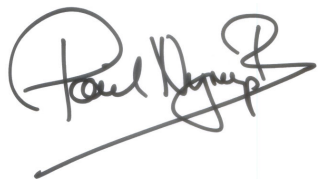
- We cannot accept a stronger and broader surveillance regarding public deficit and debt, competitiveness and current accounts, without giving equal priority to growth, employment and social cohesion within this surveillance.
- We cannot accept the alignment of the calendar of the stability and convergence programmes with the national reform programmes, unless it is ensured that growth priorities and fiscal consolidation are dealt with on equal terms, and thereby become mutually reinforcing. The “European Semester” should rather serve for more consistency between policy objectives and necessary financial means, at both European and national levels.
- To enforce discipline, there are sanctions laid down in the stability and growth pact. Fiscal responsibility is important in order to strengthen the EMU and the single currency. But we also need positive incentives. Member states able to redirect their expenditure and taxes towards the already agreed Europe 2020 objectives should be compensated, with more time to reduce their deficit, more access to EIB instruments or to the joint issuance of euro-denominated bonds. The EU structural funds should be used as a positive incentive, not as a part of sanctions.
- Regarding the reduction of macro-economic imbalances, balanced efforts should be made both by member states with a current account deficit and by countries with a current account surplus. Fair burden-sharing must be created, by introducing measures that respect both economic and social objectives.
- In a strategy for fiscal consolidation, we cannot accept addressing the expenditure side by implementing cuts, unless these selective cuts are consistent with the Europe 2020 objectives. We cannot accept cuts in welfare and in public investment for sustainable development. Moreover, the budget revenue side must be granted equal attention, by defining new sources of taxation and by improving tax collection through a more effective fight against tax fraud and tax havens.
- We cannot accept a higher tax burden on labour. Instead, the tax burden must be re-balanced in order to stimulate the demand for labour. This will also require taxation on financial transactions and on environmental pollution. Taxation must be aligned with the transition towards a more green, smart and inclusive economy.
- We need a clear response to the EU sovereign debt crisis, with more responsibility in public debt management. But we also need more effectiveness and solidarity in this area. The joint issuance of euro-denominated bonds, managed by a European debt agency, must therefore be made a reality. This must be combined with clear political conditionalities to ensure sound economic and sustainable growth.

Dear Sirs as you can see, our way out of the crisis does not question the need for the consolidation of public finances. On the contrary, it would lead to budget consolidation and debt control on the one hand, and stronger growth, employment and social cohesion on the other. This is our proposal for a new deal on European economic policy. There is a way out of the crisis, which combines fiscal responsibility and economic effectiveness with social justice. A way which will require a strengthening of all EU institutions, including the European Commission, in order to provide the necessary political framework for real, effective and legitimate economic coordination.

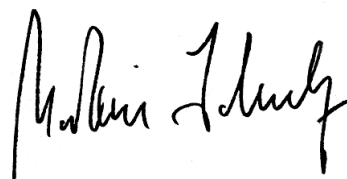
If you do refuse this deal, you will have to explain to the citizens why you chose a biased and unfair way. You would risk a Europe in decline, with disintegration and social tensions as a result. Europe's failure to provide a proper answer to the current challenges will encourage millions of citizens to turn their back on Europe, as a sustained social crisis will undermine already fragile



support in coming years. Do not make this mistake. Let us instead work together on a more balanced and fair way out of the crisis – for a prosperous, inclusive and sustainable European future.



Poul Nyrup Rasmussen
President
Party of European Socialists



Martin Schulz
President
S&D Group European Parliament

