

**Sigmar Gabriel, leader of the SPD**

## **Europe needs a new social balance**

*Sigmar Gabriel, the leader of Germany's main opposition party, the SPD, argues that the EU finds itself in the deepest crisis of its history. To speed up its emergence, it needs reforms that boost growth and increase social justice, rather than focussing solely on austerity measures. Policymakers, he says, must accept joint responsibility for the future of Europe, not pursue their own narrow national interests.*

What started as a financial market crisis continued as a debt crisis in individual EU member states and has now become a crisis of confidence that threatens the European Union to its very core. This triple crisis leaves the EU facing an unprecedented, historic test. How it responds will decide Europe's future.

Will European countries be able to work together to find an answer to the financial and monetary crisis, and to impose sensible regulation on financial markets through democratic policymaking? Will it be possible to instigate new dynamic and democratic processes so that a more integrated Europe emerges from the crisis? Or will we Europeans revive old nationalisms and become more divided? Will we allow Europe, instead of presenting a united front to the world, to manoeuvre itself onto the political and economic margins of global affairs?

A constant stream of rescue packages, each one bigger than its predecessor, have so far been unable to solve the Eurozone crisis effectively. Because European states were unable to master the crisis with their bailouts, the European Central Bank had to step in and buy up the government bonds of crisis-hit countries to stop things getting even worse. Meanwhile the stringent austerity policy prescribed for Europe by conservatives and liberals has forced the crisis countries into a spiral of economic slump and rising unemployment.

Youth unemployment now averages 23 per cent across the European Union. That is 8 million young people without work – a number not far off the total population of Austria. In Greece and Spain more than 50 per cent of young people are unemployed. A whole generation of young people, many of them well-educated, are at risk of being alienated from the European project because they no longer perceive the EU as a place of hope, a region of freedom, opportunities and social justice. For some their future in Europe is so bleak, that they are emigrating to South America, Africa or elsewhere. When young people desert their own continent in search of better prospects, that continent risks losing its own prospects.

**False analyses of the crisis and false prescriptions**

The failure to tackle the crisis stems from a too one-sided understanding of its causes. The centre-right in Europe, and first and foremost the German Chancellor Angela Merkel, point the finger of blame solely at the excessive indebtedness of individual states. No one doubts that this is part of the problem. States do need to bring their finances back into line through financial reform and fiscal austerity, as well as measures to increase competitiveness. It is also true that in some countries, especially Greece, fundamental reform of the state is needed – in particular the establishment of a functioning administration able to collect taxes fairly and effectively, to direct investment sensibly and to implement the requisite structural reforms.

But the real root of crisis does not lie with profligate governments. Rather it was excessive speculation on the financial markets and the resulting crash which forced many states to go massively into debt to bailout their banks. Governments, of left and right, took the responsible course in preventing a complete collapse of the financial system – even though it was very costly.

However, from the social democratic standpoint this financial crisis was and is more than a temporary malfunction in an otherwise functional system. It is a systemic crisis that has laid bare the fatal errors of the ideology of market fundamentalism that in previous years had led us to believe that only freedom of the markets could bring about progress for society. This ideology has spectacularly and conspicuously failed.

It follows that changes to the financial sector must not be limited to a few cosmetic corrections. Instead there should be fundamental reform, restoring the sector to its proper role of servicing the productive economy. The profits that many banks and speculators are once again making on the financial markets show us how far we still are in Europe from such a fundamental redefinition of the balance of power between politics and the economy, state and market. And this stems from the fact that conservatives and liberals in Europe still close their eyes to the role of finance in initiating the crisis and the task of reforming it.

### **Restoring the primacy of politics in a social market economy**

To achieve the rebalancing I want to see, then we need to reassert the primacy of politics and thus of democracy over unrestrained financial capitalism. And this is also the central task that Europe must undertake politically – through using the united political weight of the EU. What was at least partly possible in the second half of the twentieth century at national level - namely to harness capitalism in a social market economy - must now be fought for and implemented politically in the first half of this century at the European level.

If this is not done, Europe could drift apart, not only economically, but also politically. Social centrifugal forces also threaten to tear our societies apart internally. Already, in the countries particularly hard hit by the crisis, but also, for example, in Germany, we are seeing the gap between rich and poor becoming wider, social wealth being

distributed more and more unfairly, and a growing number of people at risk of falling into poverty and losing social status.

For the Social Democratic Party in Germany, which I lead this lack of social justice and the consequent fracture of social cohesion are key future issues both for our country and for Europe as a whole. And how we might bring about a better social balance in Germany will also be one of our key issues in the upcoming election campaign.

Fair wages for decent work, especially by means of a general minimum wage; fairer taxation by means of higher income taxes for the richer members of society and the taxation of large assets; establishment of proper child-care facilities throughout the country; investment in free education from kindergarten to college and university; protection against poverty in old age and much more – these are the issues that are important for our people and what we need to achieve greater social justice.

History teaches us that without a certain level of solidarity and social justice the foundations on which freedom, democracy and even peace rest, collapse all too easily. Establishing new social cohesion in our societies and implementing a balance of interests in a social market economy at home but also across Europe is not therefore a matter of starry-eyed, ‘feel-good’ idealism. It is an essential precondition for maintaining freedom, stability and prosperity in the future.

And I would argue that Conservatives and liberals in Europe are in danger of threatening these foundations. As we have seen a one-sided austerity policy produces the very opposite of the stability its advocates say they want to see. Instead it produces economic, social and, as a consequence, political instability. That in turn produces uncertainty and fear which damages the economic outlook even further. This vicious circle can be broken only if it is recognised that stability and prosperity require growth and social justice. This the conservatives and liberals in Europe continue, by and large, to deny. However, that is exactly the core of a social market economy. The challenge for the left in Europe is therefore to outline policies which are economically and politically credible, which reform state structures and bring down public debt, but which do much more to tame financial markets, to boost growth and to share the proceeds of that growth more fairly.

### **Harnessing the financial markets**

First and foremost, the SPD, together with our partners in Europe, wishes to do much more to harness the financial markets and subject them to sensible regulations. We are committed to introducing a financial transaction tax in order finally to get financial market actors to pay their share of the costs of the crisis and the financing of public welfare. We want to improve financial institutions’ resilience with regard to crises by means of stricter equity capital requirements. We also aim to end the liability of the state for speculation: instead of socialising further losses and privatising profits, risk and liability have to be brought together again. Tax payers must not be held hostage

by banks and speculators. The larger a bank is, the better its risk management must be and the higher its equity capital requirements. For the same reason we want a significant reduction in proprietary trading and a clear separation of investment and commercial banking business. We are also calling for the establishment of a European resolution authority and a bank-financed European restructuring fund for large systemically-important banks.

### **A better coordinated European policy for growth, innovation and employment**

Better regulation of the financial markets is not sufficient to help the European economy out of its difficulties and achieve more balance, however. For that purpose a specific effort must be made to combat long-term and excessive economic imbalances in the Eurozone. The birth defect of the euro – introducing a common currency without initiating a coordinated economic policy – must be corrected. We want therefore to expand the recently agreed European fiscal pact into a growth and social pact that ensures that all states contribute to reducing economic imbalances in the Eurozone. Economic policy must be coordinated at European level in a more binding way, with the common goal of getting Europe onto an innovation-based and sustainable growth path.

As an immediate response to the challenges of the crisis and to counterbalance the current austerity policy we urgently need a real European growth and employment programme, one which is worthy of the name and not merely a ragbag of isolated measures. There is a particular need for a kind of Marshall Plan for growth and jobs for the next 20–30 years for the crisis-hit states of Southern Europe. Besides revenues from the financial transaction tax the resources of the European Investment Bank and the EU structural funds should be used for a European reconstruction programme that invests in the real economy and really helps people.

### **Joint responsibility for a strong Europe**

From a social democratic standpoint all these are major tasks of the utmost importance for the future of Europe. Much will depend on the decisions Europe takes – or does not take – in the period ahead. Europe's future is more open than ever, with all the risks and opportunities which that entails. We want Europe to emerge strengthened from the crisis, not torn asunder. This will require an enhanced level of solidarity. European unification has, in our view, been an unparalleled success story because European political leaders have not restricted their European policy to pursuing short-term national interests but have always recognised and acknowledged an overall common interest in a strong Europe. Such a culture of joint responsibility must also be our guide in the current crisis.

Those who confine themselves to getting the best possible deal for themselves out of the EU and are not ready to invest in the European community weaken the EU overall and thus, in the long term, harm their own interests. The value of a strong and

united EU for us is obvious. And in the twenty-first century Europe will only have a chance to succeed in the global competition of ideas and values, politics and economy if it acts in concert. Neither Germany, France nor the United Kingdom is in a position to pursue their interests at global level as effectively alone as together. And for this reason it is so important that the United Kingdom continues to see its place in a united Europe because it has a political and economic weight that we urgently need.

The European Union at its best is a magnificent example of the cooperation of states and of the coexistence of peoples: in peace and political community, based on solidarity and the consciousness that together we will have a better future. The European idea should put cultural diversity above pressure to adapt, quality of life above wealth accumulation, sustainable development above ruthless exploitation of people and nature. It should also put cooperation above a one-sided exercise of power. If Europe is to succeed we need a new confidence in this idea, this European social contract.