



RESPONSE TO PRESIDENT MACRON

In agreement with the SPD party leadership, the Commission for fundamental values initiated economic workshops in 2018, which since then produced the 'Response to President Macron'. This paper by the Commission for fundamental values aims to contribute to the renewal of the debate within the SPD. The authors and signatories look forward to a wide-ranging discussion of their proposals.

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Response to President Emmanuel Macron concerning his speeches at the Humboldt University of Berlin (December 2016) and the Sorbonne in Paris (September 2017)

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I. Introduction

The European Union is the most successful peace project that has ever existed on our continent. There are not many people in Europe that were fortunate enough to live to the age of seventy without being exposed to war in their own country. This period of long peace has been and is one of the essential prerequisites why the living conditions of people have significantly improved, despite all deficits in and with the European Union. We cannot jeopardise this!

The bitter experiences of the past, as well as the significant achievements of brave politicians, that defied the hostilities after the Second World War by promoting a common understanding between the European neighbours, seem to fade into obscurity.

As social democrats, we have not forgotten that it was primarily the French who have stretched out their hands to us and, together with many others, created the foundation for the European success story.

It is time to engage with this part of our past deliberately and at the same time look ahead. We would have never achieved what we did without a strong and adamant European Union; we will also not be able to preserve or develop what we have without this union.

Right now, there is a risk that visions for a better world could be lost. Many people feel insecurity and a lack of perspective. As a result of this state, they are receptive to demagogues who spread the poison of destructive nationalism. It is precisely this poison that pushed twentieth-century Europe to the brink of two World Wars.

With his election and movement *En Marche*, the French President Emmanuel Macron has demonstrated in two consecutive parliamentary elections that it is possible to inspire enthusiasm in people for Europe and reverse the adverse trend. As social democrats, we thank President Emmanuel Macron for his inspiring speeches at the Humboldt University of Berlin as well as the Sorbonne University in Paris, during which he reminded us all of the shared European values, but also obligations, and their resulting commitment for European unification.

German social democracy shares Macrons judgment that the European Union is facing a dangerous security, economic, and refugee crisis. These three crises further aggravate one another. They cause feelings of insecurity among many people and mobilise oppositions to the European Union. The result is a growing consensus with populist nationalistic parties that take a xenophobic and anti-European stance. It is about time to counteract this quickly, decisively, and boldly.

Positive economic results alone are not enough to tackle these crises. The wounds caused by the austerity policies of recent years, in particular, in Greece, but also in Italy and Spain, are too deep. The crisis has long since reached a political dimension and, therefore, can only be overcome by political decisions and measures.

Thus, it is logical that Macron pushes political decisions for winning European sovereignty. Sovereignty is the ability to act in unity to protect the lives of the people, safeguard our institutions and defend our values. National states can no longer protect their citizens in an economically and technically borderless world.

We share this sentiment. A European Union capable of acting also requires that we improve communication as well as confidence and tackle taboos on both sides of the French-German relationship. In Germany, this kind of restriction of thinking shows itself in the topics of 'transfer union' and 'money remittance', in France it is 'contract amendment'. Thus, Macron suggests concentrating specifically on the shared European project. We concur.

It is essential to coordinate a joined French-German approach that includes all member states. The principles of a shared market – in the words of Jacques Delors, 'incentive offering competition', 'strengthening cooperation', and 'unifying solidarity' – should help all of Europe to gain vital confidence in each other.

There are a variety of projects that should and can be realised on short notice. Furthermore, there is a range of undertakings that will take longer to realise but should nonetheless be initiated already:

- II. Swiftly implementable projects: European Agency for significant innovations, European universities.

Macron's suggestions, for example, concerning the '*European Agency for significant innovations, European Universities*' according to the American DARPA model, or *European Universities Initiative* are swiftly actionable.

These kinds of measures could be implemented within the framework of the next EU budget talks. Germany, in the spirit of Macron, should primarily concentrate on the EU expenditure, in particular, on Europe's public goods, e.g. infrastructure, public services, energy, ecological resources, and the environmental change of the economy, to have all member states profit at the end. In the end, the times are over where the actions of a single nation dictate the events of our interwoven world.

III. Common African and European neighbourhood strategy, development cooperation, asylum as well as migration policy

One vital example by Macron is the development cooperation concerning the common African and European neighbourhood strategy. The parallel existence of dozens of European development policies wastes resources and prevents a coherent development strategy of all neighbouring European nations. The Europeanisation of national funds and politics, like the Africa policy, economic development of the Mediterranean, which would be beneficial for Southern Europe, but also the Middle Eastern and Eastern European strategies offer a chance to yield better results locally.

A successful strategy of the development cooperation with Africa is also a prerequisite for confining the refugee influx to Europe in the medium term. Furthermore, the SPD also agrees with President Macron that a consequent Europeanisation of the asylum and migration policy is required. It applies, in particular to the harmonisation of acceptance criteria for asylum seekers, the conditions of integration, as well as European **immigration law**. **If we do not find a fair way to control the migration to and within Europe, this topic will become the driver for far-right, anti-democratic movements. A dramatic example has been provided by the 2018 Spring election in Hungary.** The continuation of this trend would mark the end of Europe as a project for freedom and democracy.

An effective and at the same time human rights appropriate securing of European borders is only possible once we find a solidary Europe-wide settlement policy that ensures that Southern European arrival countries are not overburdened. At the same time, pressure from outside must be alleviated through a fruitful, if possible, mostly communal development cooperation, in particular, with Africa, but also through legalised entry procedures. A solidary decentralised settlement of refugees in the EU requires shared hotspots where the host country is not decided upon initial reception.

At the same time, a solidary decentralised settlement offers the chance to boost EU integration that is felt by its citizens, provided, we design it as voluntary participatory development and investment policy of the communities. It can turn the refugee crisis into a sustainable European growth opportunity. In his speech to the European Parliament on 17 April 2018, Emmanuel Macron accomplished an enormous feat by pleading for direct financing of the communities that want to accommodate refugees. Examination of this issue in the SPD have led to the following strategy: a significant first step would be the subsequent '*bilateral agreement*' in the European Council:

1. *The European Governments will be released from the, de facto, already ineffective necessity to show solidarity. Instead, they agree on the establishment of a well-equipped European 'Communal integration and development fund'.*

The European communities can apply for financial support, for the integration of the refugees they like to welcome, during the establishment of the fund. At the same time, they receive the same amount of financing for their development or investment projects. *Thus, solidarity is rewarded by supporting public development.* It also contributes to more equality between European and non-European people in need of support.

2. *In return, the national Governments within the European Council undertake to accept any refugees that have been welcomed by their communities. Governments that refuse take away the communities' chance to profit from the development and investment fund.*

Communities have the opportunity to invite the formation of so-called 'Multi-stakeholder-councils' to anchor the decentralised refugee settlement and refugee integration in the municipalities, but also to increase democratic political participation and its related identification with the supporting areas as well as with the financing EU. These councils enable politicians, employers, and organised civil societies (even refugees themselves) to prepare strategies for integration and communal development. Participation offers citizens opportunities to exert direct influence. The EU has gathered positive experience with this approach in its LEADER programme for rural development.

The EU must frame all steps, for example, the 'matching' between the expectations of refugees and communities, as well as the framework for European immigration law.

- IV. Common defence policy – partially financed by a minimum price for CO₂, corporate tax

The shared defence policy that Macron has demanded entails that a stronger Europeanisation would also have the potential to achieve more security and efficiency, without increasing overall spending for defence, as well as joint border management.

However, these tasks are somewhat challenging, and therefore, not all of them will have to be financed under the current EU budget. New tasks are an excellent reason for an increased EU budget if they manage to decrease national expenditure. In general, it should be possible to increase European expenditure to a greater extent than is necessary. The problem could be solved short-term by executing previous expenditure nationally but managing it on a European level.

As suggested by Macron, a medium-term solution could be a European minimum price for CO₂ that has not yet been realised, a CO₂ border tax adjustment, or a reasonable shared corporate tax (for which each nation can levy an individual corporate tax) that will raise the necessary capital for this task. The first step would be an accelerated alignment of an EU-wide measurement base for corporate tax. It would also be conceivable for France and Germany to move forward in favour of such a corporate tax.

V. European climate policy

However, a minimum price for CO₂ is primarily an instrument for better climate protection. The progressive climate change will be one of the most daunting but also significant challenges for the entire world community in the years to come. Social democracy understands the purpose of ambitious climate policy but also politics that enable and secure social equality with the mandate to allow future opportunities for subsequent generations in the context of international solidarity.

Emmanuel Macron suggested the introduction of a minimum price for CO₂ emission certificates in Europe. Together, France and Germany have, as promoters of Europe, the particular responsibility to secure sustainability as well as the basic needs of its citizens through lasting investments in climate neutral future technology with global export potential and combine these with the strengthening of social protection systems but also robust perspectives for attractive workplaces.

We advocate the multilateral determination of a minimum price. In this matter, France and Germany should not wait for other states of the world to realise similarly ambitious climate protection measures. A 'coalition of the keen and responsible' should precede and animate other states to join.

However, this must not lead to disadvantages for the industry of France, Germany or other states that are subject to international competition. It remains a compensation mechanism for internationally trading companies until all European states of the G20 and OECD have accepted the same CO2 price.

An actual reduction of CO2 emissions, and not only a distribution from one country to another must be ensured, should this measure only be implemented in some states.

A low-threshold introduction of the CO2 price is essential to prevent social hardships or distortions in manufacturing, small and medium-sized businesses, and trade. The CO2 price must be increased continuously over the period of several decades. Encumbrances for low-income earners and socially disadvantaged people could be entirely compensated via a reimbursement model similar to the one already in place by Switzerland.

The possibilities of digitisation can be used purposefully for climate protection, the creation and securing of jobs, as well as the strengthening of export. The introduction of a gradually increasing CO2 minimum price, therefore, can be used as an instrument to ensure planning security for all parties involved. Furthermore, the 'New Deal' would be associated with sustainability, the investment in climate neutral future technology as well as safe and attractive jobs.

VI. Socio-ecological change

Macron also considers climate protection a part of an essential socio-ecological change of production methods that he wants to make the centre of a new idea of progress.

The challenge is to operate within the planetary limits. In addition to mitigating climate change, it is also essential to preserve biodiversity and soil fertility, protect water cycles but also eliminate plastic waste that is threatening our eco-systems, to name but a few.

A socially-designed ecological change can be the essential driver for innovative economic development, the development of future markets, more employment, increasing income, and reducing inequality. In the next decade, we face two tasks: the reversal of existing damage as well as the recovery of the eco-system, along with the transformation to a more sustainable economy and society. This contribution is essential to regain dominance of real economic development over the financial capital, which must serve the real economy again.

The socially crafted ecological change would be the most substantial modernisation program of our time. It can only be accomplished through collaboration, both in the context of Europe and the world economy. The EU must lead and use its influence to develop and support global solutions. At the same time, the EU has substantial collaboration opportunities, in particular, with emerging markets that must follow a sustainable path, but also countries of the African continent that need to protect their natural resources better.

German social democracy suggests initiating a national and Europe-wide discussion on how to shape ecological change in a socially fair manner, to make it a central aim of European politics and accelerate this change. For this, we require more democracy, citizen participation as well as transparency for citizens that are involved in this dialogue; this will lead to greater involvement, vitality, and chances for everyone. Thus, we propose to focus on five questions within this dialogue:

- the future of cities – the socio-ecological change of metropolises;
- the energy revolution through reduced use, efficiency revolution, and renewable energy;
- the reorganisation of transport – the promotion of environmentally friendly mobility;
- the agricultural turnaround – sound environment – healthy life;
- ecological industrial-politics – which economic and consumer changes are needed?

A broad discussion on the social design of the ecological change in Germany and the EU counters the neoliberal ideology of a new and better economic and social development paradigm that could win the cultural hegemony: preserving the Earth, improving quality of life, participating in shaping society, and strengthening the overall economic innovation strength instead of allowing the financial markets to dominate.

VII. Strengthening of the European monetary union

We agree with Macron that the Eurozone requires a robust international currency for it to remain its position as a global economy but also to preserve the sovereignty of its business model in a globalised world. It is of utmost necessity to protect the interests of the European domestic economy and its business model, particularly in a time where other economic powers like the USA or China violate the agreed upon rules of international trade. We also agree with Macron on the continuing responsibility of each nation concerning growth stimulating reforms and innovation.

We also concur with the demand for instruments regarding the European Monetary Union that simplify the reciprocal adjustment in the reformation process but also support a unified economic strategy. That includes, for example, the commitment of governments to align with European macroeconomic objectives. That also applies to the compliance of labour market standards that permit wage formation, which in turn are in concordance with European price stability. It also implies the renunciation of any dumping or inflation strategies.

From the perspective of the SPD, a Eurozone budget is useful, albeit not entirely in the scope as suggested by Macron, to avoid the economic unbalance of the Eurozone altogether. Furthermore, the budget should be combined with other measures. The following elements would be essential:

1. Completing the banking union

The secure operability of the banking union still lacks a consistent European deposit insurance scheme as well as fiscal protection of the Single Resolution Mechanism (SRM). Germany has so far resisted the completion of the banking union based on justified fears that the balance-sheet risks in some euro area countries are still too high. Transfers from Germany to these countries via bank resolution and deposit insurance are to be prevented. The euro area countries should quickly establish a binding roadmap to alleviate these concerns, which specifies what criteria for assessing the risk reduction in the banking system of each country should be used and how deposit insurance and Single Resolution Mechanism (SRM) should be set up following sufficient progress. Rules should also be agreed to encourage banks to move away from investing primarily in government bonds of their national government. The fiscal protection of the banking union could be achieved through the eurozone budget.

2. Introducing a reinsurance scheme for national unemployment insurance systems

Such a system could be designed in a way that national social security funds would receive limited grants from a common fund whenever deep or prolonged recessions lead to massive increases in unemployment (as in Germany after 2001 or Spain after 2008). Calculations attest that, if constructed appropriately, such a fund could provide significant macroeconomic stabilisation for member states with minimal transfers.

3. An investment fund

The reformed Stability and Growth Pact and the Fiscal Compact have helped to consolidate public budgets in the crisis of confidence concerning the sustainability of the monetary union and public debt in Europe. However, this process has also revealed the weak points of the rules. Many euro area states have saved primarily at the expense of investments in the future. Public net investment in the euro area has fallen at an alarming rate since the beginning of the financial crisis in 2008/09. Public **net investment** in the entire eurozone **is now practically zero**. Public investment is thus just enough to offset the wear and tear on public infrastructure.

In the long term, this situation threatens economic growth and prosperity in Europe, since a growing national economy also requires an ever-increasing public capital stock – particularly in times when digitisation and the mobility revolution place massive demands on modern infrastructure. This European Investment Fund could help to raise the level of public investment in Europe again. Initially, this fund could pool investment funds for projects of cross-border importance and support countries in addressing structural problems of competitiveness through targeted investments. The fund should use revolving financial instruments such as loans wherever possible. The return will allow renewed funding and creates additional recurring financing capabilities. If successful, it could extend to more significant (not cross-border) investment in specific sectors that are particularly important for economic growth.

4. Tax competence

It would be ideal if the Eurozone Budget could be financed with limited taxes since it is desirable to have them harmonised in any case, for example, like a CO2 tax or a (low) corporate tax as an essential business tax. In the event of a crisis, this budget should also be designed to permit (limited) lending that must be serviced by national tax incomes. The introduction of a Eurozone-wide corporate tax would also prevent the euro members from reducing their effective tax burden below the joint tax level. This budget has a financial volume much lower as the one suggested by Macron. Starting with an entry volume of around one per cent of the Eurozone's GDP would be sufficient. The goal of these measures is increased growth. It assumes a higher investment activity that market forces cannot guarantee by themselves. A certain level of self-financing will occur as part of the programme, provided the unemployment insurances will be unburdened. The positive growth effects will cover a substantial part of the expenditure.

5. European monetary fund

At the same time, the European Stability Mechanism (ESM) should be, as requested by Macron, expanded to a European Monetary Fund (EMF) following European law. Thus, the coalition agreement of the grand coalition aims for a 'parliamentary controlled European Monetary Fund that is rooted in Union law'. Its role would be to aid European nations that experience payment difficulties through short-term lending, subject to restrictions – like it is practised by the International Monetary Fund (IMF). That would consolidate the macroeconomic stability of the Eurozone. It would, in particular, reduce the probability of a financial crisis substantially.

Its decisions should be based on a European perspective. It means that European criteria must be developed, for example, when the sustainable debt ceiling is reached. The limit is by no means evident and objectively determinable at all times but bound to uncertain long-term growth and interest rate expectations. Rising debt burden tends to be critical when the deficit is also evident in the balance of activities. It is an indicator that a national economy is continuously relying on external funds, which is not sustainable. Thus, institutional regulations on a European level are required for these situations.

Furthermore, no debt restructuring mechanism is required if the European Central Bank (ECB) functions as 'lender of last resort'.

6. Democratic and efficient decision structures / finance ministers or particular commissioner

Macron points out correctly that a strategic orientation of economic policy in the Eurozone requires **democratic and efficient decision-making structures**. Thus, an EU commissioner should be familiar with European monetary as well as fiscal budget procedures, chair the European group, and make leadership decisions in its interest. The person should also be accountable to the Eurozone Committee of the European Parliament, that consists of members of the European Parliament, which furthermore have the option to dismiss the EU commissioner with the aid of a no-confidence vote. Macron suggested that these EU commissioners bear the title 'European Finance Minister' without the need for an additional parallel institution, to have the Eurozone represented by this individual internationally.

VIII. Reforms for social Europe

The economic and social divergence of EU Member States, observable since the crisis in 2008, has been further compounded by social dumping and deregulation of national social and employment protection measures, which are among the main reasons for the growing political disintegration of the EU. The full achievement of a single market on the one hand, which guarantees the free movement of goods, services and capital as fundamental rights to freedom of enterprise, is contrasted by a patchwork of European labour and social laws along with a temporary currency structure that lacks a communitised fiscal policy on the other hand. On this basis, integration becomes increasingly difficult – on the contrary, the divide between north and south, issues concerning monetary matters and the East-West dichotomy, which concerns wage and social issues, increase the division noticeably. It accumulated initially in the U's request to withdraw from the EU.

Merely continuing the internal market agenda, while considering the social agenda only as a minor addition, would further fuel the discontent of EU citizens. The dismantling of national protection laws, privatisation of public services and stabilisation of the euro through European-controlled national debt brakes are not social-democratic projects. Since 2009, the SPD, together with its sister parties in Sweden and Austria, and the trade union confederations of the three countries DGB, LO and ÖGB, have been advocating a social progress protocol in the EU Treaties that gives precedence to labour rights and social protection over internal market freedoms. However, the integration of the protocol requires a change in the treaties.

Nonetheless, the recently concluded coalition agreement also provides the room for manoeuvre to implement short-term measures for a social Europe in the current legislative period. This agreement refers to a social pact, which aims to strengthen fair framework conditions for workers and fundamental social rights and improve coordination of labour market policies. The implementation should prioritise:

1. European Labour Authority (ELA)

The swift establishment of the **European Labour Authority (ELA)**, as proposed by the Commission, before the next round of European elections in May 2019. The ELA is designed to strengthen inter-agency cooperation in the enforcement of relevant Union law, including facilitation of joint inspections, mediate between national authorities or in cases of labour market disruptions, and facilitate access for individuals as well as employers to information on their rights and obligations in cross-border situations as well as access to services concerning cross-border labour mobility. Properly designed, such an authority can adopt a coordinating role, along the lines of Europol, in cases of cross-border labour as well as social rights violations and assist the relevant national authorities in the legal prosecution.

This function is also in line with the spirit of subsidiarity. Today, around 16 million Europeans work in a Member State other than that of their nationality, 1.7 million citizens are permanent or temporary cross-border commuters and many millions work for international companies in a pan-European market. At the same time, however, these figures are juxtaposed by 28 different labour laws and social insurance systems. Any action by the EU is restricted to areas where purely national safeguards cannot develop labour and social legislation further because its scope of application ends at national borders. It thus fails to combat wage and social dumping in particular.

2. A European Minister of Labour

However, the ELA must not just become another European agency. As Social Democrats, we, therefore, call for a **European Minister of Labour**, who will give new impetus to the development of European social and labour law, promote the socio-political agenda in the spirit of the Social Summit in Gothenburg but also make full use of the existing competences as defined in the TFEU. A European Minister of Labour would provide social Europe with a human face and represent the promotion of employment, the improvement of living and working conditions, proper social protection as well as lasting level of employment on a high level (Article 151 TFEU). With youth unemployment reaching up to 50% in countries affected by crises, the Minister should prioritise the implementation of the Youth Guarantee.

A European Minister of Labour could call for the **primacy of fundamental social rights following Title IV of the EU Charter of Fundamental Rights** in the face of internal market freedoms and promote the social progress protocol demanded by the SPD. The first step towards this would entail an institutionalised procedural involvement in the European courts in the matter of weighing issues between internal market freedoms and national labour as well as social protection standards. This involvement applies, in particular, but not exclusively, to all issues of EU policy-making role in **European company law involving the preservation and development of the collective labour law and participation** of employees.

3. Framework for minimum wage regulations

The postulate in the Coalition Agreement for a European **framework for minimum wage regulations** may require the Act Regulating a General Minimum Wage (Minimum Wage Act) to be adapted to European and internationally comparable standards. Outside of Germany, dynamic economic indicators generally determine the level of the minimum wage. A social Europe entails that the statutory minimum wage of all EU countries must not fall below the poverty threshold of 60% of the median (income). While France comes closest to this target, imperfections subsist, especially in Germany.

4. Non-regression clause, minimum harmonisation, upward convergence

Social democracy follows three principles in shaping a social Europe: the observance of the non-regression clause (i.e. the prohibited reduction of the general level of the existing social Acquis Communautaire), the requirement of minimum harmonisation (so-called 'gold-plating', i.e. the Member States may adopt standards that go beyond the harmonised minimum level of protection), and finally, the upward convergence towards the highest social standards in the EU. In this respect, the coalition agreement contains the declared will to develop a framework for national basic social security systems in the European states. This declaration should clearly and explicitly follow the above principles to counter widespread fears that a European framework legislation could reduce and harm the relatively high level of social protection.

IX. Concluding remark

The answers outlined here by the German social democracy in response to the proposals of Emmanuel Macron are characterised not only by a broad endorsement but at the same time by an effort to strengthen them through further development. They are guided by the idea of solidarity in the name of a well-understood self-interest. The solidarity-based strengthening of the European Union serves not only a French or a German but also a broader European interest. It enables Europe to adopt a credible stand for freedom, justice and solidarity in the service of a sustainable peace policy – not just within the EU, but indeed globally.

X. Authors and supporters

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