

For an Economy that Works for People

The worst of the economic crisis that plagued the economies of Europe since 2008 seems to have passed. In some countries there are even some signs of job growth. This is a welcome situation for those who can now find again a job. At the same time businesses and families are still struggling to pay off excess debts as public debts are at post-war highs in almost every EU Member State and cheap ECB money is necessary to keep many banks afloat. In the global economy the emerging economies, whose growth helped European exporters through the crisis, are now showing signs of stagnation.

This shows the fragility of the current design of our economic system. The crisis has demonstrated the major flaws which have to be dealt with in order to prevent a repetition. Simply continuing with the current system without addressing fundamental issues is not an option. The fundamental questions of poverty (and working poor), ownership, ecology, energy, ageing and resources cannot be ignored due to the simple fact that if these issues are not dealt with they will become the cause for a deeper crisis.

Towards a new economic paradigm

For this reason the relational paradigm has to be applied to our economy. Economy is in essence about life. In our view the purpose of all economic activities is to support life and advance the wellbeing for all. Economy is meant to provide sufficient means for all people, to support family life, to let people flourish with their creative talents and to find solutions for the problems we face¹.

This view leads to the conclusion that economy is not just about efficiency and competitiveness leading to a profit regardless of the socio-cultural context. Economy cannot be seen separated from culture, history and religion. The reverse is also true; our culture, convictions and history shape our economies². A process which demonstrates that our economy is a relational process.

However, at the moment, the one-dimensional view of the economy as a system of mere production and consumption, is still dominant regardless of its unsustainability in both economic and ecological terms. The dominant factor in this current view is capital which is seen as the most important input and result of the economic process. Seeing capital as the most dominant factor has resulted into an economic system in which capital markets do not only dominate the whole economic process but even become a threat to the real economy. A recent research report from McKinsey shows how the focus on profit for short-term shareholder value is toxic to the real economy of real people, real companies, real production and real services³. Worse even, the speculation on food prices has apparently lead to hunger and severe social problems in the global south.

The dominance of capital markets has even put democracy itself in jeopardy. In the last few years we have seen big investment funds and impersonal international bodies overriding the democratic process. In this way the decrease of economic 'ownership' has been translated into a situation in which people feel that their democratic influence has gone as well.

¹ See also 'After Capitalism, rethinking economic relationships', Jubilee Campaign & ECPF, 2012

² See also 'The Economics of Good and Evil', by Tomáš Sedláček, 2009

³ http://www.mckinsey.com/insights/leading_in_the_21st_century/focusing_capital_on_the_long_term

An important underlying cause of the economic crisis was the culture of excessive greed in the world of capital markets. This was partly possible due to the autonomy of these markets over the real economy, leading to a mere focus on money disconnected from its effects on real people. This culture is at the same time embedded in the idea that people are no more than producers and consumers who have to satisfy their desires. The latter becoming more and more indebted and disowned.

This situation raises two fundamental questions. It raises the question of values and the question of ownership in our economy. If competition and efficiency are the only values in economic policies then we will create an economy which ignores all other equally important values like trust, responsibility and reciprocity. It also puts fundamental values for a society under pressure like generosity and mutual care. A limited scope of values will therefore lead to the exclusion of important aspects of life and society and as a consequence lead to the exclusion of people.

This is indeed the case in the crisis that hit Europe. It is demonstrated in the described effects on democracy. We can see it even clearer in our economy. Unemployment has risen to unprecedented levels, especially among young people. According to the European Commission there has been a sharp rise of poverty in the EU. The traditional answer 'more jobs' to escape poverty is not sufficient in the face of a rise in the number of 'working poor'. The 2013 Employment Development in Europe review found that only half of the poor who take a job are able to escape poverty. The explosion of unemployment is clearly connected to the massive bankruptcy of small and medium sized enterprises (SME's) and massive lay-offs by multinationals. Both causes of this mass unemployment point to the need for a new and more inclusive direction of our economy.

What is needed therefore is a renewed emphasis on values and relations in our economic thinking and policies. It is now time for a system that offers no reward without responsibility, no investment without involvement and no profit without participation.

It is time for a relational paradigm that leads to a more inclusive approach in which the dignity of the human being, our common wellbeing and wise stewardship of resources is seen as equally important as competitiveness and efficiency. This approach can guide the EU as well as national governments in their economic policies.

Guidelines for EU policies

Based on the outlined idea of relational values in economic policies, policy making has to be done as closely connected to the people as possible. This narrows the scope of the EU policy making to issues that are currently dealt with at EU level. In its economic policies the EU can nevertheless place new goals and benchmarks that define economic success.

A major bench-mark change is to redefine growth beyond mere GDP terms. Growth has to become more than Purchasing Managers Indexes (PMI). Growth in this scenario has to be defined in the first place in inclusive terms. Economic growth is only present if there is rise in employment and decrease in poverty, including a decrease in the number of working poor. Inclusive growth can furthermore include the situation of SME's as a prime indication of sustainable and long-term improvement of our economy. One crucial growth marker is the decrease of economic pressure on families. We have to

drive the EU economy towards a goal: HDi (Human Development indicator)⁴ of EU countries should be in the top 35 countries (some EU Countries as Croatia, Romania, Bulgaria are in a lower position than Belarus, for instance, beyond the 50th place).

Another growth indicator is the rise in ownership and the decrease of private debt. Inclusive growth includes the extent of ecological pressure. The ecological costs cannot be passed to future generations. Therefore the EU should work to a 'circular economy' as recommend by the World Economic Forum in order to have a sustainable approach towards the usage of resources.

An important new goal for EU economic policies is to strive for real diversification in our economy and in the financing models of companies and other business models. A high degree of diversity will create a more sustainable economy, especially when this is accompanied by more diversity of financing. This will make our economy less depending on a few types of financing as it is the case at the moment. Sharing the best practices and bending the regulation to that goal can be important EU policy instruments. A culture of social responsibility in the capital markets can be stimulated, showing to the clients that they should chose firms with social responsibility and sustainability.

Encouraging inclusive growth and renewal of business life

In working towards a more relational economy it is crucial that there is a clear preference at EU level for all types of companies that are focused on stakeholder value. This policy preference should include the following non-exhaustive list of business models: SME's, co-operations, social enterprises and forms of shared ownership by employees. It also includes those companies who take social corporate responsibility seriously as an investment.

A facilitating EU means in this specific field that the EU will develop a way that will lead to an exchange of the best practices in inclusive business types. EU subsidies in the economic sphere can be directed towards an increase in inclusive business types in the EU. The EU can further encourage inclusive growth with a preference for local and regional SME's because they create long-term employment in a region. These preferences can be expressed in the rules for tendering

The ECPM questions with this proposal the emphasis on competition as expression of the idea of traditional free market principles applied to all spheres of economic and public life. It is time that the idea of the free market is completed with important fundamentals of our economic life like ecological sustainability and inclusive economic growth. It is as well time to question the expansion of the market to all types of public services. The EU should end its involvement in this regard and leave it to the member states to decide whether public services should be privatised or not. Especially in crucial important fields like healthcare, all EU pressure for more privatisation has to end.

At the same time the ECPM believes that undue state support for (most of the time big) companies is not compatible with an EU of free exchange of goods and services. Fair competition together with the notions of inclusive growth will lead to more innovation. Innovation in turn is a crucial engine for future economic progress and social improvements. Innovation is especially important to find answers to

⁴ <http://hdr.undp.org/en/statistics/hdi> United Nations explain clearly what and how HDI works.

crucial and pressing ecological questions. More green technologies in transport can be a major step forward to improve our economy, ecology and societies.

Energy

Green technologies are ever more important in EU energy policies. The ECPM applauds ambitious EU-wide green targets and national initiatives such as the German 'Energiewende', even though negative side-effects such as an increase in the use of coal for energy generation have to be tackled. We have seen an enormous increase in regional and local green energy co-operations in the last decade. Improving the grid at local level to facilitate further growth of private and shared green energy generation can further encourage a development that will make the EU less dependent on imported fossil fuels. At the same time the EU has to improve the energy grid at European level, in order to protect in particular the Eastern EU Member States from Russian power games. A sharp rise of energy costs must be avoided in order to enable a normal continuation of the economy.

At the same time these technologies have to be developed in a way that they will become less depending on rare earth metals, making them less dependent on Chinese export policies.

Agriculture

The same preference can be applied in the Common Agricultural Policy. In this field co-operation can be encouraged as an alternative to expansion, and green innovations can be encouraged. The direct payments (first pillar of CAP) should be better targeted on social objectives and sustainability needs. Second pillar policies should complement this and support the provision of green public services (preserving nature and respecting the relation with creation). Continuing and improving co-operatives, producer groups and interbranche organisations is a proven way to ensure food security, market transparency and fair remuneration for Europe. It is also a way to strengthen the position of farmers in the chain of agricultural industries.

Trade

Inclusive growth cannot be limited to the EU if it is to be truly inclusive. Due to the lack of progress in trade liberalization at the World Trade Organization (WTO), the EU is negotiating an increasing number of trade agreements with countries and regions all over the world. For these trade agreements to provide real value for people on both sides of the agreement, they will need serious fair trade. Fair trade includes furthering a level playing field, but is also addressing the so-called non trade concerns. The ECPM wants strong chapters on human rights and sustainable development, subject to the standard mechanisms for dispute settlement, as a minimum demand for consent to any trade agreement. Furthermore, in case of agreements with developing countries they can be accompanied by a process of exchange of green technology innovations.

The future of the euro

Temporal reductions of debts, primary budget surpluses and fragile economic growth cannot hide or take away the fact that a number of economies in the Eurozone cannot converge⁵. The cultural and connected economic differences can no longer be ignored. The policy with regard to the euro has to become far less ideological and much more practical. The ECPM does not back the idea that the EU and the Eurozone should become identical in the long run.

Before a new crisis will emerge an honest debate is necessary to determine which Eurozone economies have long-term potential to converge. For those economies who did not have these prospects a new path to prosperity has to be designed. In order to keep the EU democracy and economy sustainable and to avoid a repetition of the grim human costs, a slow and careful reset of the Eurozone is necessary.

⁵ See also ECPF publication: 'the future of the Euro' <http://www.ecpf.info/thefutureoftheeuro>