European Economists for an Alternative Economic Policy in Europe
-EuroMemo Group-

How should the EU cope with the polycrisis?

-EuroMemorandum 2024-

Contents

EuroMemorandum 2024 draws on discussions and papers presented at the 29th Workshop on Alternative Economic Policy in Europe, organised by the EuroMemo Group and jointly hosted with the University of Naples ‘Parthenope’, from 27th to 28th of September 2023 in Naples/Italy.

Introduction

As analysed in the 2023 Euromemorandum, developments in the EU need to be seen in the context of the disorder and *polycrisis* that has been generated by the process of disintegration of the neoliberal world order within which the EU was founded in 1993. Drawing on Adam Tooze's definition, the Euromemorandum Group understands a polycrisis as constituted by a multiplicity of shocks that may appear disparate, but that interact so that the whole becomes even more overwhelming that the sum of its parts. The 2023 Euromemorandum diagnosed the polycrisis in Europe as manifesting itself through the interactive effects of climate change, the Covid-19 pandemic, an energy crisis, cost-of-living, care, and reproduction crises, increasing inequalities, war in Ukraine, an emergent hegemonic rivalry between the US and China, and a crisis of democracy.

Although some of these shocks were acknowledged in the October 6, 2023 Council Granada Declaration[1] – a linchpin in the deliberations over the EU's 2024-29 Strategic Agenda – there is little in the concrete policy developments, reviewed in this year's Euromemorandum, that inspire confidence. EU policies across the board are quite inadequate for dealing with the polycrisis. They are the wrong solutions to the wrong problems.

As per the usual format, the 2024 Euromemorandum starts by analysing the macroeconomic environment and the EU's policy stance in chapter 1. Over recent years, the Euromemoranda have analyzed Europe's Green Deal (EGD), critiqued its reliance on finance-led mechanisms ('blended finance'), and argued for an EU-wide public investment programme as an alternative for dealing with climate change and the other dimensions of polycrisis. While the NextGeneration EU Covid-19 recovery fund could be interpreted as an embryonic vehicle for such a course, it is now clear that EU economic policy is moving in a different – namely business as usual - direction. Chapter 1 critiques the contractionary effects of EU monetary and fiscal policy, which, in a misplaced obsession with inflation and public debt, are indeed counterproductive in the context of an urgent need for essential long-term investments. The chapter is particularly critical of ECB's policy of raising interest rates and the highly disappointing outcome of the Stability and Growth Pact (SGP) review. The EU policy-stance has, despite policy advances following the Action Plan of the European Pillar of Social Rights, resulted in outright stagnation and exacerbated poverty, regional and social inequalities, as well as the crisis in social reproduction, the analysis of which is amplified in chapters 2 and 3. This is particularly concerning, given that the one concrete outcome likely to arise from the Granada Declaration – a renewed commitment to eastern enlargement in a geostrategic response to Russia's attack on Ukraine – will result in an even more

[1] European Council (2023, October 6). *The Granada Declaration.* Available at: https://www.consilium.europa.eu/en/press/press-releases/2023/10/06/granada-declaration/

unequal and heterogenous EU, for which the institutional architecture is completely inadequate.

Regional inequality, uneven development and divergence is a theme that is given particular attention in chapter 3 of the 2024 Euromemorandum. Drawing on the expertise mobilized at the 2023 Naples conference, the chapter contains an in-depth case study of Italy as symptomatic of post-financial crisis south European Eurozone member states that *'implemented harsh austerity and internal devaluation programmes that impoverished their population, reduced wages and employee rights, weakened their welfare states and social cohesion and impaired the productive capacity of their economies'* and that *'being …overindebted…..lack the financial means to upgrade their industrial structure and welfare states and carry out ecological and social transformation'*.

Altogether, the first three chapters of the 2024 Euromemorandum propose the following policy alternatives:

- EU-wide public investment plans that, in close co-ordination with corresponding national plans, promote a socio-ecological transformation and technological transformation of EU industry.
- A fiscal policy that is supported by monetary policy rather than the other way around. Fiscal policy requires an enlarged EU budget equivalent to 5% of GNI, financed by new resources, including taxation of the super-wealthy and of the windfall profits of corporations which benefited from the crisis, such as energy companies and banks. A permanent EU central fiscal capacity needs to be supported by common borrowing. As elaborated in chapter 3, fiscal transfers are essential for engendering capacities in the peripheral states of the EU to pursue the core aim of socio-ecological transformation.
- The EU's inflation problem should be dealt with through fiscal policy, including selective cuts in indirect taxation of essential goods and services, higher taxation for particular sectors and sections of the population, price controls in sectors of strategic importance (energy, rent, essential food items), support for middle-and-low-income households affected by the cost-of-living crisis, and for businesses with problems meeting increased energy bills.
- The ECB's mandate should be expanded to include full employment in addition to inflation control and socio-ecological sustainability. The inflation target should be increased from 2% to 4%.
- The new SGP is unlikely to succeed where previous versions failed. An alternative framework is needed where (i) the focus of policy shifts from numerical benchmarks to broader policy targets; (ii) guidelines are set by fiscal standards, rather than rigid rules; (iii) attention is paid to the cost of servicing the public debt relative to GDP, rather than its level; (iv) a 'golden rule' is included,

allowing the exemption from the budgetary balance of the net public investment required for socio-ecological transformation.

- The decline in real wages should be tackled by a fair deal for workers, including increases in minimum wages, pay rises, stricter wage indexation mechanisms, taxation and redistribution of excess profits and wealth. Specific attention should be devoted to female-dominated sectors such as the care sector where professional competencies should be better recognized and valued. Strengthening collective bargaining rights is essential in this context.
- Employment re-regulation, job quality and better working conditions should be at the top of the policy agenda. The failure of the December 2023 EU Council to approve the Platform Work Directive was a missed opportunity.
- Minimum income support should be based on a rights-based approach that avoids negative and punitive conditionalities. A rights-based approach would enhance the autonomy of income support recipients, and should secure a right to employment. Investing in a job guarantee would make it possible to combine a rights-based approach with investments in public services and infrastructure to foster socio-ecological transformation.
- Part of the public investment programme advocated by the Euromemo Group should be to foster a care economy as an aspect of a rights-based approach. After decades of fiscal austerity and in the aftermath of the pandemic, public care services are exhausted. Hospitals lack beds, doctors, nurses, carers; schools lack teachers; employment and social services lack resources.
- EU economic governance should be embedded in a democratic participatory framework, where the European Parliament participates in decision-making, oversees implementation, and holds the European Commission and the ECB to account.

Over the last several years, the Euromemorandum has had a dedicated chapter shadowing the policies of the European Green Deal. The 2023 Euromemorandum deepened and amplified our critique of the financialised mechanisms upon which the EGD relies. An overarching message has been that the mechanism is inadequate and not fit for purpose for the extent and speed with which economic transition needs to take place to avert a climate catastrophe. These inadequacies are pushing the EU and the Commission to rely increasingly on nuclear energy, hydrogen, as well as speculative technological innovation in the field of Carbon Capture Utilisation and Storage (CCUS). This year, chapter 4 is dedicated to a critique of Commission policy on CCUS. It is pointed out that these are high risk technologies that may contaminate ground- and drinking water, and generate explosions and earthquakes. There is no guarantee that the gas can be safely stored underground for thousands of years. Furthermore, reliance on such technologies is not compatible with the immediacy with which action against climate change needs to take place. More radical and democratic measures, advocated by the Euromemorandum group over the years, need to be taken, rather than hoping that the panacea of such 'miracle technologies' will save the day. More specifically, given the theme of the chapter, this year's Euromemo proposes that:

- A clear separation is made between emissions-reduction and carbon-capture and that ambitious targets are set for reducing residual quantities and that Carbon Capture and Storage technologies (CCS) and their offshoots are largely avoided in favour of ecological climate protection strategies.
- That the hierarchy of prevention, recycling and disposal, mandatorily laid down in EU Directives and laws of member states, must cover all areas of waste management, including carbon dioxide.
- A more ambitious phasing-out process is needed, including a 'target architecture' of binding quantified step-targets for permitted emissions (for 2030, 2040, 2050).
- The EU must implement its obligations under the Kunming-Montreal Global Biodiversity Framework of December 2023, including the strengthening of natural sinks.
- Reforestation and rewetting of fens must form an integral part of any responsible strategy against climate change.

Chapter 5 is dedicated to the global issue of human mobility and migration, and is based on contributions made by researchers from the Horizon 2020 OPPORTUNITIES project[2] to the 2023 Euromemorandum conference in Naples. It begins with an analysis of the contrast between the racialised nature of moral panics in European societies over migration as well as the EU's racialised and securitised migration regime, and contrasts this with the relatively modest level of migration (the non-EU migrant population in the EU is 5.3% of the total population.) The chapter critiques the Dublin Convention as being contrary to the interests of migrants and asylum seekers as well as contrary to the principle of solidarity between frontline and other member states. The result is that it feeds both a clandestine illegal market of human trafficking and xenophobic politics. On the basis of ethnographic 'cross-talk' methodology, sensitised to migrant voices 'from below', the chapter derives the following policy alternatives:

- De-securitize the migration regime and integrate it with labour market policy. This could provide an 'opportunity' to deal with the aspects of the EU's reproductive crisis pertaining to rapidly ageing societies.
- Replace the Dublin Convention with a regime based on the Solidarity Principle. The manner in which the EU dealt with refugee inflows following the war in Ukraine indicates that this is possible.

[2] For more information see: https://www.opportunitiesproject.eu/

The deliberations of the 2024-29 Strategic Agenda are premised on 'the world becom[ing] more unstable and complex'.[3] Chapter 6 is devoted to the analysis of this instability and complexity, which is amplified by the human tragedy that is the Israel-Hamas war in Gaza. That war threatens to engulf not only all of the Middle East but produce a direct military confrontation between the West and a coalition led by Iran. Situating the war in Ukraine within a broader context of geopolitical rivalry between the United States and China, Chapter 6 offers an alternative account to the self-congratulatory Granada Declaration and its contention of having reduced dependencies, increased resilience and having taken 'major decisions to protect our people and economies'.[4] It warns against the potentials of the so-called 'Thucydides Trap' becoming a self-fulfilling prophecy, fuelling the likelihood of war between the United States and China, where an increasingly militarised EU would be drawn in through increased dependencies on the US and the transatlantic alliance, while Russia aligns itself ever closer to China. The chapter points to the detrimental effects of militarisation on the prospects of achieving the targets for the European Green Deal and the dependence on China for the renewable transition, both in terms of raw materials and the market dominance of China in sectors that are strategic for this transition.

Given the current and dangerous security dynamics, chapter 6 advocates the following alternatives:

- Confidence and security building measures along with a ceasefire and peace agreement between Russia and Ukraine. A ceasefire is also needed in Gaza, where the violence needs to stop. In East Asia security and confidence-building measures are needed to ease tensions.
- A post-imperial sensibility in the West to avoid repeating the past world-historical cycles of hegemonic rivalry.
- Tackling the power of the military-industrial complex in different countries
- EU cooperation with China on matters such as environmental sustainability, tax evasion and trade without giving up the invocation of human rights.
- A fundamental reorganisation of the world political economy, involving
    a. global institutions and mechanisms that ensure everyone's ability to access and afford food that is nutritious and sufficient
    b. trade regime that allows for pluralist developmental policies and more space for autonomous economic policy
    c. building of new common global institutions ranging from a Clearing Union to global tax organizations and a world parliament.

[3] European Council (2024). *EU Strategic Agenda 2024-2029.* Available at: https://www.consilium.europa.eu/en/policies/strategic-agenda-2024-2029/ (accessed January 5, 2024)

[4] European Council (2023). *The Granada Declaration*

CHAPTER 1: The EU macroeconomic environment

The EU's macroeconomic policy-stance was contractionary in 2023, both in the monetary and fiscal spheres. The ECB continued to fight the 'beast' of inflation, even though its diagnosis of the latter's cause is wrong. Further, the fiscal policy guidelines set by the European Commission for member states, aimed to fight the 'beast' of the public debt in addition to that of inflation. It is these two 'beasts' with which the EU is mainly concerned in terms of its macroeconomic policy, even though it finds itself in the midst of, as per the introduction, a deepening polycrisis. The Council decision on SGP reform, following the SGP Review, confirms and locks in this priority of concerns. As a result, the EU economy developed the downside risks apparent already in 2022, duly stagnating in 2023. Its GDP grew at a meagre 0.6% on average while ten member states recorded negative growth rates, including Germany (-0.3%) (Table 1). According to the latest report from the European Commission, there was no 'solid growth driver', as private consumption on aggregate had stagnated, both private and public investment increased only marginally, while bank lending declined in many member states.[5]

1.1. Wrong solutions to the wrong problems in macroeconomic policy

With regard to monetary policy, the ECB continued its Quantitative Tightening (QT), embarked on in mid-2022. Between July 2022 and September 2023, it raised its key rates ten consecutive times from 0% to 4.5%, reaching a level not seen since the late 1990s.[6] Although zero interest rates are an anomaly, these aggressive hikes risk inducing a recession. In addition, the ECB is removing liquidity from the system through the banks repaying the loans, obtained on favourable terms during the pandemic (PEPP), and by unwinding its bond holdings acquired under its asset purchase programmes (APP)[7]. By October 2023, the ECB had shed €1.77 trillion or 20% of its total assets since the peak in June 2022. Overall, the ECB's QT policies have led to an increase in nominal interest rates and to a reduction in bank lending, thus hurting both households and businesses, as well as weighing on public finances and diverting resources from other uses.

So-called 'second-round effects' of rapid wage-inflation is clearly a key concern of the ECB in this context. But this is the wrong solution to the wrong problem. More specifically, the rate of inflation which appeared in late 2021 was largely the result of

[5] European Commission (2023, November 23). *European Economic Forecast Autumn 2023*, Institutional Paper 258. Available at: https://economy-finance.ec.europa.eu/publications/european-economic-forecast-autumn-2023_en

[6] Rate of Main Refinancing Operations (fixed rate tenders), providing the bulk of liquidity in the Eurozone banking system.

[7] The Asset Purchase Programme (APP) started in 2014, and the Pandemic Emergency Purchase Programme (PEPP) started in March 2020.

high energy and commodity prices, supply chain disruptions and higher transportation costs resulting from the lifting of the pandemic lockdowns and other restrictions in 2020-2021. Once these extraneous factors had been largely removed, the rate of inflation predictably declined, suggesting clearly that the fear of second round effects was misplaced. In October 2023 the rate of inflation, measured by the Harmonised Index of Consumer Prices, stood at 2.9% in the Eurozone and at 3.6% in the EU, having dropped from 10.6% and 11.5% respectively one year earlier. During this period, the annual rate of energy-price inflation fell from 41.5% in October 2022 to -11.2% in October 2023, accounting for a significant part of the downward inflation trend in the EU. Thus EU inflation cannot be attributed to 'demand pull' factors or to the risk of a wage-price spiral becoming embedded in the EU economy. Nominal wages lagged behind inflation both in 2022 and in 2023, while the ratio of employee compensation (wages & employers' social contributions) to GDP declined by 0.3% over the 20-year period 2002-2022.[8] By contrast, the profit ratio increased by 0.6% over the same period.

The ECB's contractionary monetary policy was accompanied by a corresponding fiscal policy at EU-level, which is projected to continue throughout 2024 and 2025. More specifically, the temporary pandemic-related measures have been phased out, while energy-related measures and fiscal subsidies for private investment are also being gradually phased out. Echoing the ECB's concerns, the Commission's 2024 Report on the Eurozone warns that "… *the euro area faces uncertainty as to whether wages can be adjusted to recoup losses in purchasing power without driving up inflation. The risks of higher-than-expected inflation therefore remain strong. This, in turn, would result in stronger monetary reaction that would adversely impact growth*".[9] Thus, also the Commission raises the prospect of inflation generated by a wage-price spiral, even though the evidence does not support this claim.

The Commission is further concerned with fiscal sustainability and rebuilding 'fiscal space' after the pandemic and energy crisis related measures had increased public expenditure. It calls on member states to '*adopt coordinated and prudent fiscal policies to keep debt at prudent levels or put debt ratios on a plausibly downward path*'.[10] This requirement overlooks the fact that the economies of EU member states are interconnected and that when they all try to save, none will be able, as the paradox of thrift teaches us.

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[8] Eurostat (2023). *Annual national accounts – evolution of the income components of GDP*. Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Annual_national_accounts_-_evolution_of_the_income_components_of_GDP

[9] European Commission (2023b, November 21). *2024 Report on the Euro Area*. Available at: https://economy-finance.ec.europa.eu/publications/2024-euro-area-report_en

[10] Ibid, p. 5

In 2023, six member states recorded a debt level above 100% each (Table 1); their collective share of the total EU GDP amounted to 44%[11]. Another six member states recorded a debt level above 60% each, with a collective share of the EU GDP was equal to 31%. Thus, 12 economies accounting for 75% of total EU GDP are advised to simultaneously follow contractionary fiscal policies!

This is not to say that a high public debt is not a source for concern, mainly due to the dominance of financial markets, which are eager to speculate where they perceive a high yield-high risk investment potential. However, attempting to reduce public debt under conditions of economic stagnation and rising interest rates, as well as against a divided political system, as the far-right gains ground across Europe and the world, is a socially damaging and politically undesirable recipe for EU's economy and society.

1.2. Disparities, Inequality, and Poverty

The European Commission has noted that the 'strength of the labour market was the main force behind the growth outlook' in 2023.[12] This view, however, tends to overlook the disparities in unemployment rates across member states and social groups. While the aggregate EU-level rate of unemployment has declined to 6.6% of the labour force, it is considerably higher in certain countries (Table 1). Also, specific groups of workers – women, the young, disabled – face higher unemployment rates and more difficult working conditions than the average. Further, more jobs do not necessarily mean better jobs. Only 15.6% of EU employment is in the industrial sector, while 73.5% is in the services sector[13]. Even though there are good and bad jobs in all sectors, most temporary, part-time and lower paid jobs are to be found in the services sector. The difficult conditions faced by large sections of the population are further reflected in high levels of inequality and poverty. Thus, the average income of the top quintile (20%) of the population in the EU is nearly 5 times that of the bottom quintile. This ratio is considerably higher in certain countries, notably in Southern Europe and in the CEEs (Table 1). In addition, 22% of the EU population was at risk of poverty or social exclusion in 2022, while 31.5% were unable to face unexpected financial expenses and 28.6% could not afford to pay for one week's holiday away from home[14]. Schematic as these social indicators are, they point to the urgent need for adequate public services and for the effective support of the vulnerable sections of society.

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[11] The latest available GDP statistics are for 2022.

[12] European Commission (2023a). *European Economic Forecast Autumn 2023*, Institutional Paper 258, p. 3

[13] The sectoral employment data refers to 2022

[14] European Commission (2023). *Key figures on Europe*. Available at: https://ec.europa.eu/eurostat/documents/15216629/17706595/KS-EI-23-001-EN-N.pdf/5df7a393-8461-9270-7eaa-91a4b1c2acc6

A misconceived policy of fiscal austerity to fight inflation cannot but exacerbate an already tense social situation in the EU. As argued in Chapter 2, the contractionary macroeconomic policies and the predictable stagnation of the EU economy have led to a general crisis of distribution, social reproduction and social care. Furthermore, the return of fiscal discipline, signified by the reactivation of the SGP as of 2024, severely limits the capacity of member states to implement progressive social policies.

1.3. The revision of the EU fiscal governance framework

The SGP was established by way of a Protocol annexed to the Treaty on the EU in 1997. On December 20, 2023 the Council agreed on a revision of the Pact, following a Review that had been launched already in February 2020. Formally, the review was compulsory under Two Pack and Six Pack legislation, but it was also generally acknowledged that the Pact was not fit for purpose and in need of revision. The Commission itself acknowledged that there was a need to improve the balance between the stability requirements and the need for mobilising capital investments for the digital and green transition. Other needs outlined include the simplification and clarification of rules as well as the enhancement of member state ownership of the SGP process.[15]

The SGP was suspended through the so-called General Escape Clause (GEC) in March 2020, as it would have been impossible to conduct macroeconomic policy in accordance with its rules under Covid-19 conditions. Further, in view of the Ukraine war, the suspension of the SGP was extended up to the end of 2023. The new fiscal rules thus were due to come into effect as of 2024.

In April 2023, the European Commission published its legislative proposals, introducing the following main elements:

- National medium-term fiscal/structural 4-year plans, which may be extended to seven years under certain conditions.
- The starting point for such national plans is the so-called ‘technical trajectory’ or fiscal adjustment path, drawn up by the Commission on the basis of a Debt Sustainability Analysis (DSA).
- Member states with a government deficit above 3% of GDP or public debt above 60% of GDP, must ensure that debt was put on ‘plausibly downward’ paths, or remained at ‘prudent’ levels, and that the deficit was reduced and maintained below 3% of GDP in the medium term.

[15] European Commission (2021). *The EU economy after COVID-19: Implications for economic governance Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, and the Committee of the Regions* COM (2021) 662 final; Friis, J., Torre, R. and Buti, M. (2022). *How to make the EU fiscal framework fit for challenges of this decade*. Vox EU. Available at: https://cepr.org/voxeu/columns/how-make-eu-fiscal-framework-fit-challenges-decade.

- The main operational indicator is net primary expenditure target (expenditure net of interest, cyclical unemployment and welfare spending and one-off revenues), which will serve as the basis for conducting annual fiscal surveillance over the lifetime of the national plans.

Although the above elements constitute some improvement on the existing rules, the core principles of the SGP were not changed in the Commission proposal. In particular, the parameters of 3% and 60% for the deficit/GDP and debt/GDP ratios remained intact, while further numerical targets were added, mostly by way of a concession to Germany:

- The fiscal adjustment must be proportional over the first four years of the plan.
- The debt/GDP ratio must be lower at the end of the period of the plan than at the beginning.
- Where the deficit exceeds 3% of GDP, a minimum fiscal adjustment of 0.5% of GDP per year is required.
- Net expenditure growth must be below that of medium-term potential output growth.

After long negotiations, the European Council reached an agreement on December 21st 2023, to be negotiated with the European Parliament.[16] This contains additional constraints on member states' fiscal policies. In particular, the notion of 'safeguards' is introduced:

- The 'debt sustainability safeguard' amounts to a minimum annual reduction in the debt/GDP ratio of 1% of GDP, where the debt exceeds 90% of GDP, and of 0.5% of GDP where it is between 60% and 90% of GDP.
- The 'deficit resilience safeguard' is set at 1.5% of GDP relative to the reference value of 3% of GDP, while the annual reduction to reach this margin is equal to 0.4% of GDP or 0.25% where the adjustment period is 7 years.

Furthermore, the Excessive Deficit Procedure (EDP) is triggered when the deficit is *not close to balance or in surplus*; while the deficit is considered to be close to balance if it does not exceed 0.5% of GDP. By way of a palliative, over the period 2025-2027 the fiscal adjustment under the EDP will take account of the increase in interest rates, thus postponing the full effect of the new fiscal rules for a few years and the approaching electoral cycle for many EU governments.

Also, government military expenditure is considered a "relevant factor when assessing the existence of an excessive deficit".[17] This is by way of "acknowledging the rising geopolitical tensions and security challenges and the corresponding need

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[16] European Council (2023, December 21). *Economic governance review: Council agrees on reform of fiscal rules,* [Press Release]. Available at: https://www.consilium.europa.eu/en/press/press-releases/2023/12/21/economic-governance-review-council-agrees-on-reform-of-fiscal-rules

[17] European Commission (2023) *Proposal for a COUNCIL REGULATION amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure*, COM (2023) 241 final, p. 7. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023PC0241

for member states to build up their capabilities".[18] In this sense, militarisation appears to be prioritised over tackling climate change and other elements of the polycrisis, which have been weighing on Europe and the world for many years

Overall, the proposal for the reform of the SGP agreed by the European Council signifies in many respects a return to the past. In particular, the revised SGP bears many of the paradoxes associated with its previous version, while it contains additional ones, the most salient of which are as follows:

- The national plans are supposed to promote debt sustainability, as well as socio-ecological sustainability. However, debt sustainability takes clear precedence.
- The Maastricht parameters for the deficit and debt ratios, 3% and 60% of GDP respectively, are maintained in spite of their arbitrariness, while the proliferation of numerical targets reinforces the 'one-size-fits-all' notion of fiscal policy and surveillance.
- The SGP remains pre-Keynesian in its conception, insofar as it emphasizes low and declining fiscal benchmarks, thus ignoring the 'paradox of thrift'.
- In spite of the pronouncements of EU institutions and the emphasis which national plans are expected to place on the green and digital transformation, as well as on climate change, no special fiscal treatment of the necessary investment is provided. Proposals by civil society movements and trade unions to include a Golden Rule, whereby public investments promoting the transition towards a green and digital Europe are exempted from the fiscal rules, were rejected.
- By contrast, special treatment is reserved for government investment in defence, which is symptomatic of not only the increased militarisation of the EU, but also of its order of priorities at a time of a polycrisis plaguing European society.
- The overarching roles of the Commission as well as the absence of the European Parliament and national parliaments in the decision-making process, raise concerns about political legitimacy. Debt Sustainability Analysis is highly dependent on assumptions that are made about growth- and interest-rates, where Commission assumptions are privileged[19]

1.4. Alternative proposals

EU macroeconomic policy has an inbuilt deflationary bias and will continue to be particularly detrimental for the ability of member states in the European periphery to implement technological and socio-ecological transformation (see chapter 3). For this to change, the policy-paradigm needs to shift from one of monetary and fiscal

[18] Ibid

[19] Wyplosz, C. (2022). Reform of the Stability and Growth Pact: The Commission's proposal could be a missed opportunity. *VoxEU*. available at: https://cepr.org/voxeu/columns/reform-stability-and-growth-pact-commissions-proposal-could-be-missed-opportunity.

austerity to one of sustainability on all fronts. Similarly, the focus must shift from policy as an end in itself to policy as a means to an end, where the end should be to support an ecologically sustainable, socially equitable and inclusive growth with full employment and quality jobs.

In particular, the EU must enhance its efforts to deal with the climate change crisis. Phasing out its dependence on fossil fuels will require meticulous planning and the deployment of huge resources. For that reason, we reiterate the alternative public investment programme as outlined in the three most recent Euromemoranda. Certain projects will have to be at EU-level, while others at national level will require EU support, given the different fiscal capacities of the member states. The social dimension of the transition to a cleaner, green environment also needs to be explicitly taken into account and catered for. Impoverishing parts of society in the process is not only ethically unacceptable, but also politically dangerous.

While ecological and social transformation is critically important, the technological advancement of the EU economy is long overdue. Whereas the USA has successfully entered the era of digitization and of AI, Europe is lagging behind the US and China in an increasing number of high-tech sectors. In spite of EU initiatives, such as the Green Deal, the Just Transition Fund, the new Digital Strategy and the RRF, fiscal austerity continues to hold back investment in the EU by comparison to the USA and Japan. For example, in 2023 total investment increased by 1.6% in the USA and 2% in Japan but only by an average of 1.2% in the EU, declining in ten of its member states.

The EU is at a critical juncture marked by a multiplicity of crises. It is imperative that a radical, progressive policy shift is made. Elements of such a shift are as follows:

- A Europe-wide plan, in close co-ordination with corresponding national plans, to promote an ecological and social transformation. Furthermore, accelerating the technological transformation in the EU's industrial sector is essential to support the necessary economic and social adjustment.
- For the above policy priorities to be realised, fiscal policy needs to be supported by monetary policy, rather than the other way round, as is the case at present. Further, fiscal policy must move away from the prevailing deflationary notions and the obsession with inflation.
- As already stressed in our Memorandum 2023, the inflation-problem should be dealt with through fiscal policy, including selective cuts in indirect taxation of essential goods and services, higher taxation for particular sectors and sections of the population, price controls in sectors of strategic importance (energy, rent, essential food items), support for the middle-and-low-income households suffering from the cost-of-living crisis, and for businesses that have problems meeting increased energy bills.
- Similarly, monetary policy must concern itself with economic, socio-ecological sustainability as a more general goal. The ECB's mandate should be

expanded to include full employment in addition to inflation-control, while the return to a 2% inflation target is no longer appropriate for current needs. Instead, a target of 4% would appear to be closer to current policy requirements.

- At the same time, EU-wide funding measures will be necessary, including (i) an investment fund covering the needs of both EU-level transition projects and of complementary national ones; (ii) an enlarged EU budget corresponding to 5% of GNI, financed by new fiscal resources, including taxation of the super-wealthy and of the windfall profits of corporations which had benefited from the crisis, such as energy companies and banks; (iii) a permanent EU central fiscal capacity backed by common borrowing.
- The above approach is contrary to the philosophy of the SGP in its old as well as revised form. The EU's revised fiscal rules are unlikely to succeed where the previous SGP versions failed. An alternative framework is needed where (i) the focus of policy is shifted from observing numerical benchmarks to broader policy targets; (ii) guidelines are set by fiscal standards, rather than rigid rules; (iii) attention is paid to the cost of servicing the public debt relative to GDP, rather than its level; (iv) a 'golden rule' is included, exempting net public investment aimed at the ecological and social transition from budgetary balance rules.
- Last but not least, it is necessary to stress yet again that EU economic governance should be embedded in a democratic participatory framework, where the European Parliament participates in decision-making, oversees its implementation, and holds the European Commission and the ECB accountable.

Table 1 Basic EU economic and social indicators, 2023

Region	Country	Real GDP - % change on preceding year	HICP annual average % change on preceding year	Unemployment - Number of unemployed as % labour force	Real compensation of employees per head - %change over preceding year	Ratio of Top 20% to bottom 20% of income earners (2021)	Net lending (+) or net borrowing (-), general government as % of GDP	Gross debt, general government as % GDP
	Euro area	0.6	5.6	6.6	-0.3	4.79	-3.2	90.4
	EU	0.6	6.5	6.0	-0.4	4.74	-3.2	83.1
Nordic	Finland	0.1	4.4	7.2	0.7	3.75	-2.4	74.3
	Denmark	1.2	3.6	4.6	0.4	4.03	2.6	30.3
	Sweden	-0.5	5.7	7.6	-3.7	4.36	-0.2	30.4
Western Europe	Austria	-0.5	7.7	5.3	1.4	4.27	-2.6	76.3
	Belgium	1.4	2.4	5.6	2.2	3.57	-4.9	106.3
	France	1.0	5.8	7.2	-0.9	4.6	-4.8	109.6
	Germany	-0.3	6.2	3.1	-0.6	4.35	-2.2	64.8
	Ireland	-0.9	5.3	4.2	-0.1	4.07	0.9	43.0
	Luxembourg	-0.6	3.2	5.5	2.1	4.54	-1.9	26.8
	Netherlands	0.6	4.6	3.6	-2.3	3.94	-0.5	47.1
Southern Europe	Cyprus	2.2	4.1	6.4	0.9	4.28	2.3	78.4
	Greece	2.4	4.3	11.4	1.1	5.25	-2.3	160.2
	Italy	0.7	6.1	7.6	-1.4	5.62	-5.3	139.8
	Malta	4.0	5.7	2.7	-1.4	4.75	-5.1	53.3
	Portugal	2.2	5.5	6.5	2.4	5.13	0.8	103.4
	Spain	2.4	3.6	12.1	1.1	5.63	-4.1	107.5
Eastern Europe	Czechia	-0.4	12.2	2.4	-1.6	3.48	-3.8	44.7
	Estonia	-2.6	9.4	7.0	-1.0	5.39	-2.9	19.2
	Latvia	-0.2	9.6	6.8	0.8	6.33	-3.2	41.7
	Lithuania	-0.4	8.8	6.8	1.2	6.39	-1.6	37.3
	Slovakia	1.3	10.8	5.7	-0.4	3.12	-5.7	56.7
	Slovenia	1.3	7.5	3.6	1.6	3.28	-3.7	69.3
	Bulgaria	2.0	8.8	4.2	1.7	7.3	-3.0	23.5
	Croatia	2.6	8.1	6.5	2.6	4.58	-0.1	60.8
	Hungary	-0.7	17.2	4.1	-2.6	3.99	-5.8	69.9
	Poland	0.4	11.1	3.0	0.2	3.91	-5.8	50.9
	Romania	2.2	9.8	5.4	4.8	6.0	-6.3	47.9
Non EU	**UK**	0.6	7.3	4.3	-0.7	6.2	-3.7	97.8
	Japan	1.9	3.3	2.5	0.7	6.2	-6.6	263.0
	USA	2.4	4.2	3.7	0.0	8.6	-8.0	123

Source: European Commission (2023). *European Economic Forecast Autumn 2023*, Institutional Paper 258.

CHAPTER 2: Wages, employment, social policies, and the crises of distribution and social reproduction

As analysed in previous Euromemoranda, the contractionary macroeconomic policies and stagnation of the EU economy, outlined in the previous chapter, come at the end of a long period of labour market deregulation, wage compression and austerity, fuelling further income inequalities and social insecurity. The crisis in health systems and the cost-of-living crisis, analysed in the 2023 Euromemorandum, were the latest in a chain of crises, revealing a general crisis of distribution, social reproduction and care. There has been some progress in the development of EU social policies, mostly in line with the 2017 European Pillar of Social Rights. However, the return of austerity is incompatible with EU social targets. Current EU social policies are too weak to meet current economic, social, democratic and environmental challenges. In the context of the 2024 European Parliament elections, this is a major political problem given the central importance of a progressive inclusionary agenda for countering the rise of far-right parties.

2.1. A crisis of distribution and social reproduction

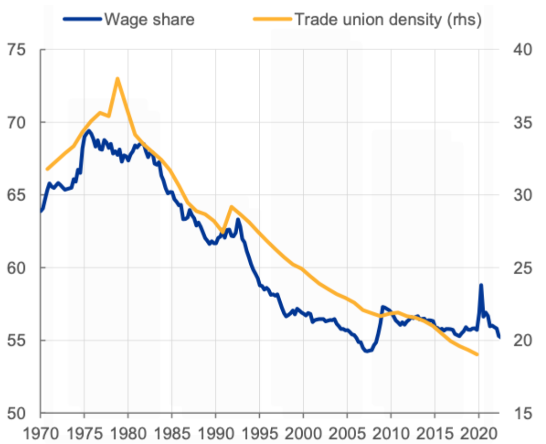
From 1975 to 2005, reflecting the weakness of workers in capital-labour relations, there has been a sharp decline of both trade union density and the wage share, as well as a corresponding increase in the profit-share (Figure 2.1, and with an increase of the profit share, Figure 2.2)[20]. In addition, in-work poverty has increased in many EU countries since 2007.[21]

In 2017, about 10% of all workers were "working poor", indicating that minimum wages and income support are not sufficient to protect working people against poverty or material deprivation. Low-skilled, part-time, and short-term employees as well as microentrepreneurs are particularly exposed. As outlined in chapter 1, about 6% of the active population were unemployed in 2023 and 22% of the EU population were at risk of poverty or social exclusion.

[20] Schnabel, I. (2022, September 30). *Monetary policy in a cost-of-living crisis*. European Central Bank, Remarks at a panel on the 'Fight against inflation' at the IV Edition Foro La Toja. Available at: https://www.ecb.europa.eu/press/key/date/2022/html/ecb.sp220930_annex~b1ca1312f6.en.pdf

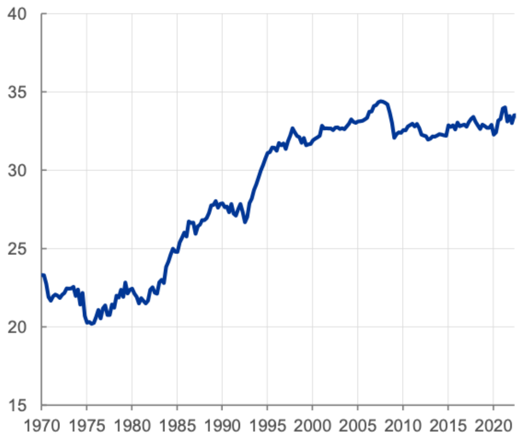
[21] About 10 % of EU workers were classified as 'working poor' in 2017. See Ahrend, D., Sandor, E., Revello, A., Jungblut, J.-M., Anderson, R. (2017). *In-work poverty in the EU, Research report*, Eurofound. Avialable at: https://www.eurofound.europa.eu/en/publications/2017/work-poverty-eu

Figure 2.1 Wage share and trade union density (left-hand side: share of GDP, percentage; right-hand side: share of employment, percentage)



Source: Eurostat, Area-Wide model, OECD, and ECB calculations. Note: The trade union density for the euro area is a GDP-weighted average of data for Austria, Belgium, France, Germany, Italy, the Netherlands, Portugal and Spain. Latest observation: 2022Q2 for wage share; 2019 for trade union density.

Figure 2.2 Profit share (share of GDP, percentage)



Source: Eurostat, Area-Wide model, and ECB calculations. Latest observation: 2022Q2.

The surge in inflation has intensified the distributional conflict between capital and labour. In nearly all EU countries, it provoked a sudden cost-of-living crisis that particularly hit those households at the bottom of the income distribution. It was for some part the result of a long-standing crisis of social distribution. In 2022, EU workers who had already faced years of wage compression experienced a drop in their purchasing power.[22] The magnitude of this drop varied across EU countries (see Chapter 3).

In 2023, the deceleration of inflation did not put an end to the cost-of-living crisis. As indicated in chapter 1, real wages continued to decline by -0.4% in the EU and -0.3% in the Eurozone, but with major differences across countries. Since the beginning of the Covid-19-related public health crisis, the profit share has increased by 4% while '*dividend payments to shareholders [were] rising up to 13 times faster than pay across the EU*'.[23]

Inflation also exacerbated the ongoing crisis of social reproduction and care[24], which has been brought to the fore by the Covid-19 pandemic. The everyday life struggle

[22] Countouris, N., Jagodzinski, R., Bérastégui, P., De Spiegelaere, S., Degryse, C., Franklin, P., ... & Zwysen, W. (2020). Benchmarking Working Europe 2020, p.177.

[23] European Trade Union Confederation (2023, November 15). *Real wages falling despite inflation-busting profits,* [Press release]. Available at: https://etuc.org/en/pressrelease/real-wages-falling-despite-inflation-busting-profits.

[24] Fraser, N. (2016). Contradictions of capital and care, *in New Left Review, 100: 99-117. July/Aug.*

refers not only to difficulties in paying grocery bills, energy, or loans, etc., but also in accessing essential social services, such as healthcare, childcare, long-term care or education. It is a crisis of care in its broader sense, that concerns '*everything we do to maintain, continue and repair our world so that we can live in it as well as possible*'.[25]

The crisis of care affects the wellbeing of the population. Among the expressions of this crisis are the widening disparities in access to care (within and across countries), the development of unmet care needs in times of health and migration crises, the expansion of care gaps in ageing societies, the diminishing ability of people to care, and the erosion of caring norms.[26]

The crisis of care and social reproduction is highly gendered. Women have been in the frontline of the pandemic and the cost-of-living crisis, since they are over-represented in essential and low-paid care occupations and assume most of the unpaid care and everyday struggle for making ends meets.[27]

2.2. Policy developments: EU social advances facing fiscal headwinds

EU welfare state policy developments are ambivalent. On the one hand, important advances are taking place following the adoption of the Action Plan of the European Pillar of Social Rights. These changes relate to wage regulations (Directives on Adequate Minimum Wages and on Pay Transparency), to the regulation of minimum income schemes and to the European Care Strategy. On the other hand, the return of fiscal austerity as outlined in Chapter 1 contradicts the Commission's objective to promote '*sustainable and inclusive growth*' and severely limits the capacity of member states to implement the EU's progressive social policy orientations.

The release in March 2021 of an Action Plan for the implementation of the 2017 European Pillar of Social Rights and the adoption in October 2022 of the Directive on adequate minimum wages are important milestones that can bring crucial changes for low-wage workers and reduce existing gender wage-gaps.[28] However, the Directive has remained too weak to cope with the cost-of-living crisis, notably because it allowed member states a two-year ratification-deadline, and provided no strict indexation mechanisms.

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[25] Tronto, J. C. (2013). *Caring democracy: Markets, equality, and justice.* New York University Press, p. 228.

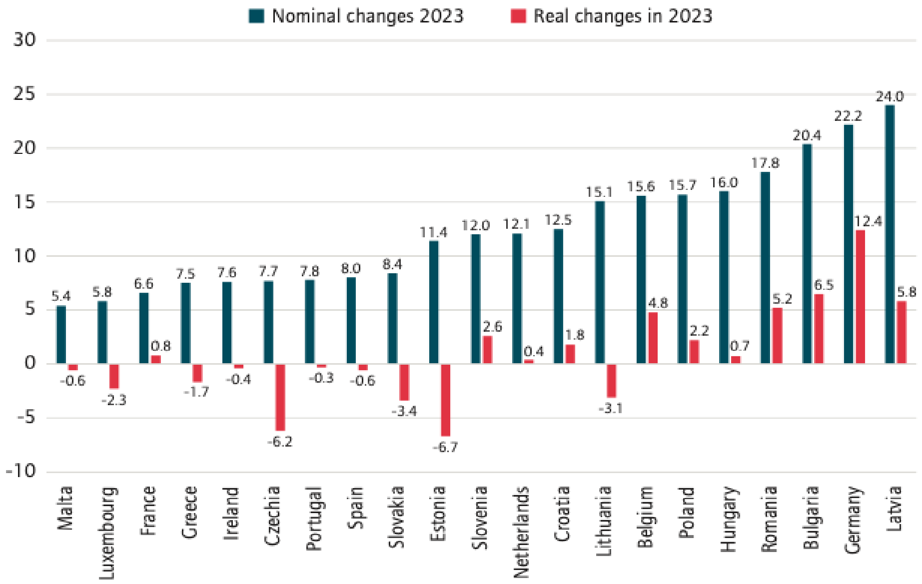
[26] Ilkkaracan, I. (2023). *The crisis of social reproduction in the EU. Emerging policy perspectives from feminist economic debates on care*, Communication to the Euromemo conference, 27-28 September, University of Parthenope, Napoli. Available at: https://euromemo.eu/wp-content/uploads/2023/10/Euromemorandum.Ilkkaracan.FINAL_.pdf

[27] Social Europe Dossier (2021).*Women and the coronavirus crisis*. Friedrich Ebert Stiftung, Hans Böckler Stiftung, Social Europe Publishing, Berlin, p. 50. Available at: https://socialeurope.eu/wp-content/uploads/2021/09/Women-and-the-Coronavirus-Crisis-final.pdf

[28] Grünberger, K., Narazani, E., Filauro, S., & Kiss, Á. (2021). Social and fiscal impacts of statutory minimum wages in EU countries: a microsimulation analysis with EUROMOD. *IZA Journal of Labor Policy, 12(1)*, p. 46.

From January 2022 to January 2023, statutory minimum wages increased in nominal terms, but not so as to ensure the maintenance of the purchasing power of minimum-wage earners in the cost-of-living crisis (Figure 2.3).[29]

Figure 2.3 Development of hourly nominal and real minimum wages (%, 1 January 2022-1 January 2023)[30]



Source: WSI Minimum Wage Database (WSI 2023), in Müller T. (2023)

In nearly half of the member states with a statutory minimum wage, real hourly minimum wages decreased. They fell by more than 6 % In Estonia and Czechia, more than 3% in Slovakia and Lithuania, by more than 1.5% in Luxembourg and Greece, and by less than 1% in Malta, Spain, Ireland, Portugal.

In the Netherlands, Hungary and France, the statutory real hourly minimum wage increased by less than 1% (+0.4%, +0.7% and +0.8% respectively). By contrast, the increase was much more substantial in Germany (+12.4%), following the government's decision in June 2020 to gradually raise the minimum hourly wage rate to €12 by October 2022. The case of Belgium well illustrates the efficacy of strict indexation mechanisms: the nominal hourly minimum wage automatically adjusts to the development of prices as soon as the consumer price index rises by more than 2% since the last increase. As a consequence, there have been six minimum wage increases in 2022, while the real hourly minimum wage increased by +4.8%.

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[29] Müller, T. (2023*).* Minimum Wage Developments in 2022: Fighting the Cost-Of-Living Crisis. *ETUI Research Paper-Policy Brief 02*, European Economic, Employment and Social Policy, available at: https://www.etui.org/sites/default/files/2023-03/Minimum%20wage%20developments%20in%202022-fighting%20the%20cost-of-living%20crisis_2023.pdf

[30] Calculation based on national currencies. The development of real minimum wages refers to the development of nominal minimum wages deflated by the HICP annual average changes. Since real minimum wages represent the purchasing power of minimum wages; i.e. the ratio of nominal minimum wages to prices, real minimum wages have been calculated according to the following formula: Nominal minimum wage index X 100 divided by consumer price index (for more details see WSI Tarifarchiv 2023). Source: WSI Minimum Wage Database (WSI 2023), in Müller T. (2023)

The Directive on Pay Transparency (EU 2023/970) of 10 May 2023 (Box 2.1) aims at enforcing the principle of equal pay between men and women. It does so by helping address structural gender pay inequalities which are multifaceted. These inequalities relate to labour market (occupational and sector) segregation, and to gender stereotypes or discrimination. Women are especially overrepresented in sectors or occupations, such as care, social work or cleaning, where their work is undervalued. Since women and men are generally not employed in the same sectors or occupations, comparing their work is not always possible. The lack of information on the criteria that determine pay levels makes it harder to identify the source of the undervaluation of women's work. Pay transparency is thus crucial to tackle the gender pay gap.[31]

Box 2.1. The Directive on Pay Transparency

The Pay Transparency Directive of 10 May 2023 aims to reinforce the application of the principle of equal pay between men and women. It states that '*Member states shall take the necessary measures to ensure that employers have pay structures ensuring equal pay for equal work or work of equal value*' (Art 4.1). It provides workers with a right to information on pay, and stipulates that employers should inform them about the criteria that are used to determine pay levels and pay progression. In addition, the directive demands that employers report periodically on pay gaps between women and men and cooperate with worker's representatives to conduct a joint pay-assessment, aimed at identifying and filling existing gaps 'which are not justified on the basis of objective, gender-neutral criteria' (Art 10.2). According to the Directive, member states have the responsibility to support employers with less than 250 workers, to promote the role of social partners and to defend the rights of 'all workers who consider themselves wronged by a failure to apply the principle of equal pay' (Art 14). Member states have to implement the Directive by June 2026.

The Pay Transparency Directive promotes a gender-neutral job assessment and makes it possible to establish a 'hypothetical comparator' in situations where women workers cannot compare with male counterparts – which are particularly the case in female-dominated occupations. Relying on the good practice of unions using cross-sectoral comparisons – for instance, a study of the CFDT in France that helped reveal the undervaluation of jobs in health and social care occupations- Jane Pillinger (2023) claims that the Directive '*should enable unions to be proactive in making the case for gender-based pay inequalities to be addressed more effectively in gender-segregated sectors and professions, especially in female-dominated sectors such as care*.'[32]

In line with the European Pillar of Social Rights providing for a right to an adequate minimum income in 2017 (Principle 14), on January 30 2023 the Council adopted a

[31] Arabadjieva, K. (2021). Time to Close the Gender Pay Gap: The Need for an EU Directive on Pay Transparency. *ETUI Research Paper-Policy Brief, 2.* Available at: *https://www.etui.org/sites/default/files/2021-01/Time%20to%20close%20the%20gender%20pay%20gap%20The%20need%20for%20an%20EU%20Directive%20on%20pay%20transparency.pdf*

[32] Pillinger, J. (2023). The Pay Transparency Directive: The role of hypothetical comparators in determining equal pay for work of equal value. *ETUI Research Paper-Policy Brief.*

Recommendation '*on adequate minimum income ensuring active inclusion*'.[33] It aims to promote 'a life in dignity at all stages of life' and to combat poverty and social exclusion. To this end, Minimum Incomes Schemes (MIS) should not only provide adequate income support and effective access to enabling services, but also favour the labour market integration of those who are able to work.

The recommendation encourages member states to *'set the level of income support through a transparent and robust methodology defined in the legislation and involving social partners'.* It also encourages them to implement an adequate level of the minimum income, which should be equivalent to the national at-risk-of-poverty threshold, or to the value of essential goods and services, by the end of the year 2030. The recommendation also suggests that member states should promote a wide coverage (concerning 'all persons lacking sufficient resources') and a full take-up of the minimum income. Interestingly, it advocates that member states *'ensure a possibility to request the income support to be provided to individual members of the households'* in order to promote gender equality and the economic independence of women, young adults and disabled people.

The Regulation of the European Adequate Minimum Income however pertains to soft law – it is a Recommendation and not a Directive, as the European Parliament had called for.[34] Moreover, as underlined by the European Anti-Poverty Network (EAPN), it does not provide for an automatic indexation of income guarantees to the cost-of-living and inflation, nor does it refer to an 'explicit rights-based approach' and to '*a common EU-wide framework and methodology on reference budgets*'.[35] The right to an adequate minimum income thus remains a weak one, especially in times of austerity.

Following the publication of the Commission's European Care Strategy in September 2022, two Council Recommendations were adopted in December 2022, one raising the Barcelona targets on early childhood and care, and the other inviting member States to draft and implement Action Plans so as to improve the access of the elderly and disabled people to affordable and high-quality long-term care.[36] The EU Care Strategy, inspired by feminist proposals, endorses the expansion of care services to cover unmet needs and promote gender equality; it also calls for the improvement

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[33] European Commission (2022). *Council Recommendation on adequate minimum income insuring active inclusion*. Available at: https://ec.europa.eu/social/main.jsp?langId=en&catId=89&furtherNews=yes&newsId=10504

[34] Konle-Seidl, R. A. (2021, March). Strengthening minimum income protection in the EU. *Briefing for the EMPL Committee of the European Parliament.* Available at: https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/662900/IPOL_BRI(2021)662900_EN.pdf

[35] Góis H. S., Rabahi K. (2023). Minimum Income Council Reccomendation: Not Enough to fight poverty?, *EAPN Position Paper*, 02/2023. Available at: https://www.eapn.eu/wp-content/uploads/2023/02/eapn-EAPN-2022_Minimum-Income-Council-Recommendation-5646.pdf

[36] European Council (2022, December 8). *EU ministers adopt recommendations on early childhood and long-term care*, [Press release]. Available at: https://www.consilium.europa.eu/en/press/press-releases/2022/12/08/eu-ministers-adopt-recommendations-on-early-childhood-and-long-term-care/.

of pay and working conditions in the female-dominated care sector, where migrants are also over-represented. However, the recommendation on long-term care does not include targets that would put pressure on member States to expand services. Moreover, the EU care strategy still pertains to soft law; public investments needed to meet the new care targets are incompatible with restrictive fiscal policies.[37]

2.3. Alternative proposals for employment, wage and social policies

The EuroMemo 2024 proposes the following:

- *Pay rises, progressive labour market regulations and social dialogue:* To address the crisis of distribution, social reproduction, and care, it is crucial to ensure the security of low-wage workers and poorer households.

  After decades of wage compression in the name of economic competitiveness, resulting in a declining wage share, rising inequalities, persistent unemployment, job precariousness and poverty, raising wage-levels is essential for sustainable (wage-led) economic growth in the EU.[38]

  The decline in real wages should be tackled by a comprehensive set of measures for a 'fair deal for workers'.[39] Member states should not allow the purchasing power of workers erode further. Immediately needed measures are increases in minimum wages, the general raising of real wages, stricter wage-indexation mechanisms, taxation and redistribution of excess profits and wealth. Specific attention is to be dedicated to female-dominated sectors, especially to the care sector where professional competencies should be better recognized and valued.

  Regarding the post-Covid rise of labour shortages, EU employment policies tend to focus on training, mobility or migration to meet the needs for skills. However, labour shortages are most marked in precarious or low-paid jobs with poor working conditions. Therefore, employment re-regulation, job quality and better working conditions should be on top of the policy agenda. The failure of the December 2023 EU Council to approve the Platform Work Directive, intended to reinforce the protection of self-employed platform workers, was a missed opportunity.[40]

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[37] Karamessini, M. (2023). From work-life balance policy to the European Care Strategy: mainstreaming care and gender in the EU policy agenda, *Document de travail n° 213*, Centre d'Études de l'Emploi et du Travail.

[38] Onaran, Ö., Obst, T. (2016). Wage-led growth in the EU15 member-states: the effects of income distribution on growth, investment, trade balance and inflation, *Cambridge Journal of Economics*, 40; Onaran Ö., Stockhammer E. (2016), Policies for wage-led growth in Europe, Foundation for European Progressives Studies, *FEPS Policy report.*

[39] European Trade Union Confederation (2023). *Delivering a fair deal for workers. Manifesto for the 2024 European Parliament Elections*, European Trade Union Confederation, [Pamphlet].

[40] On 22 December 2023, 12 Member states did not agree on the text based on a trialogue negotiation. See https://www.euractiv.com/section/economy-jobs/news/member-states-deal-heavy-blow-to-platform-work-deal/

There is a need to reverse the declining influence of trade unions and to better support workers' rights to fair pay, adequate minimum wages, social security, decent jobs and sustainable working conditions. Reinforcing collective bargaining is essential to enhance pay rises, to reduce pay inequalities and to fill the gender pay gap. Negotiations are also essential to improve job quality and employment regulations.[41]

The maintained reference to fiscal austerity and to the neoliberal reforms of European labour markets is inadequate and liable to impede the achievement of EU social commitments. The EU has to develop another kind of fiscal discipline favouring workers and the poorest (instead of profit and the richest) in order to adapt to pressing social and environmental needs.

- *Adequate income and employment guarantees:* Minimum income support activation policies, which aim to provide incentives to work and to accept a (low-paid) job have weakened the adequacy of income guarantees - whose generosity was suspected of discouraging work. Income guarantees thus remain below the poverty line. As underlined by the European Anti-Poverty Network, a rights-based approach to adequate minimum income is necessary to avoid '*negative and punitive conditionalities*' restraining access to MIS.[42] Defining the adequacy of income guarantees necessitates consideration of national 'at-risk-of-poverty' thresholds, of household budgets and of data concerning the expenditure patterns of low-income households. Income guarantees must also be strictly indexed to the rise in the cost of living.

  Instead of activation measures focused on employees' 'duties', a rights-based approach would enhance the autonomy of income support recipients and strengthen their right to employment. Investing in a job guarantee would facilitate the combination of a rights-based approach with investment in public services and infrastructure as a vehicle for fostering a socio-ecological transformation.[43]

- *Fostering a care economy:* Access to essential public services and infrastructures should be part of a rights-based approach to ensure that the needs of the population are effectively covered.

  After decades of fiscal austerity in the aftermath of the pandemic, public care services have been severely weakened. Hospitals lack beds, doctors, nurses, carers; schools lack teachers; employment and social services lack resources, etc. The scarcity of care services reinforces the barriers of access to essential care services in the EU: financial barriers due to out-of-pocket expenditure,

[41] Zwysen, W. (2023). Labour shortages–turning away from bad jobs. *ETUI Research Paper-Policy Brief 02.*

[42] European Anti-Poverty Network (2023). Toolkit for the EAPN members on advocacy towards adequate minimum income schemes, *European Anti-Poverty Network*.

[43] Tcherneva, P. R. (2020). *The case for a job guarantee.* John Wiley & Sons.

geographical barriers related to the distance or to the lack of transportation services, time barriers due to waiting lists in saturated health services. Similarly, the access to affordable public infrastructures for the collective provision of essential goods and services such as energy remains too limited.

Fostering a 'care economy' as promoted by feminist economists would allow societies to solve the current care crisis and help to reduce inequalities (Box 2.2).

Box 2.2 – The care economy[44]

Policies promoting a care economy are supportive of care in a comprehensive way. They guarantee a universal right of access to quality care, a universal right to be cared for, and a right to care. They define care in a broad sense, as referring not only to childcare, elderly care or care for disabled people, but to everyone who needs care.

The care economy recognizes the essential character of care: it values the production of care, whether paid or unpaid, and appropriately rewards paid care work, secures care jobs in terms of status and career opportunities. The care economy also supports an adequate representation of care workers. As far as gender equality is concerned, the care economy promotes an equal sharing of paid and unpaid care work; it ensures that care is a real choice rather than subject to compulsion.

Investing in a 'care economy' would thus be part of the solution to the current polycrisis of neoliberal capitalism.[45]

[44] Illkaracan, I. (2018). Promoting women's economic empowerment: Recognizing and investing in the care economy. *Issue Paper, UN Women, New York.*

[45] Karamessini, M. (2023). From work-life balance policy to the European care strategy: Mainstreaming care and gender in the EU policy agenda, *Document de travail du Centre d'études de l'emploi*, n° 213.

CHAPTER 3: Convergence/divergence between EU Member States since 2008

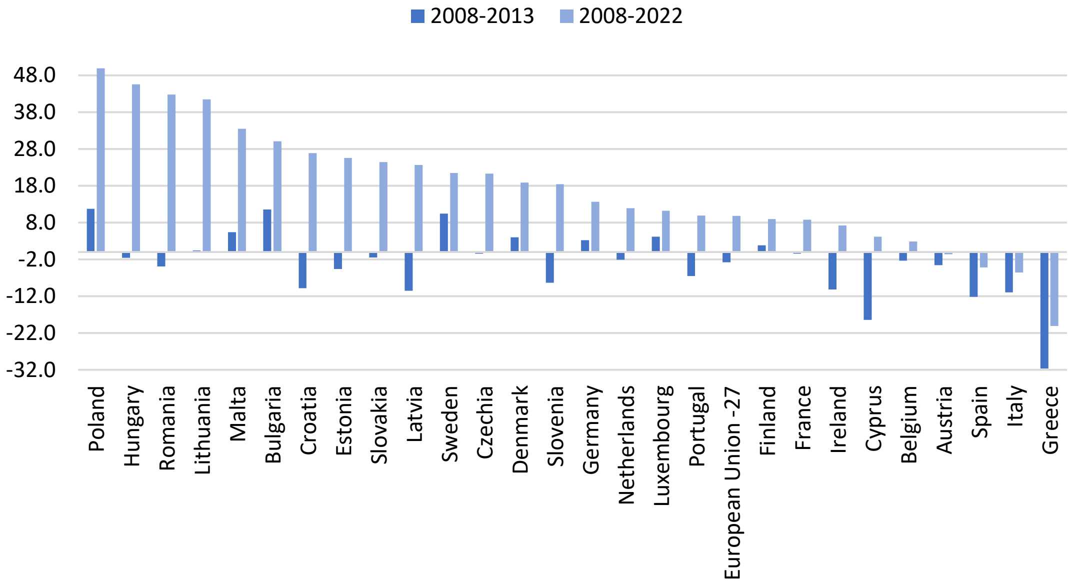
The global financial crisis, the Covid-19 pandemic and the ongoing cost-of-living crisis have significantly impaired the working and living conditions of households across Europe and are still affecting their wellbeing. Moreover, over the past fifteen years, economic and social divergences have increased both within and between EU member states undermining social cohesion and the legitimacy of the project of European integration. Rising inequalities have eroded social cohesion across the EU, including in the countries of its 'core', while economic and social divergences between member states have gone hand in hand, with contrasting trajectories in the old and new 'periphery' of the EU.

3.1. Contrasting trends of the old and new periphery

Between 2008 and 2022, the old southern periphery of the EU diverged from the countries of its core and the EU-average, while the new member states that joined the EU with the 2004, 2007 and 2013 enlargements - the new periphery - converged (Figure 3.1).

Figure 3.1 Real disposable per capita income of households, 2008-2013, 2008-2022

End-base year change (%)

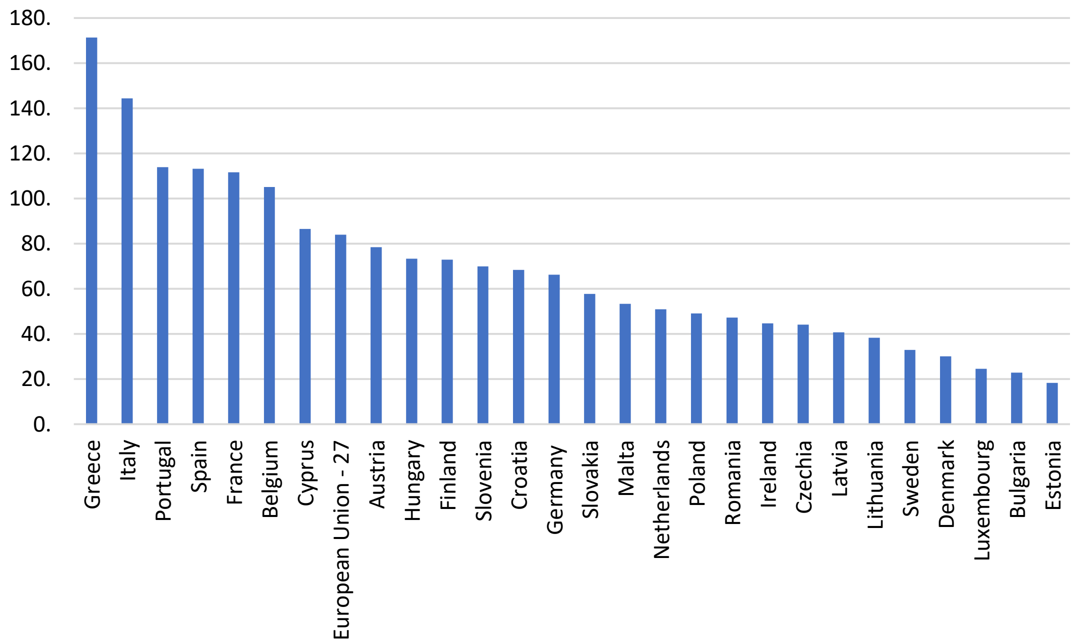


*Bulgaria 2008-2017, Romania 2008-2020

Source: Eurostat database (accessed on 18.11.2023)

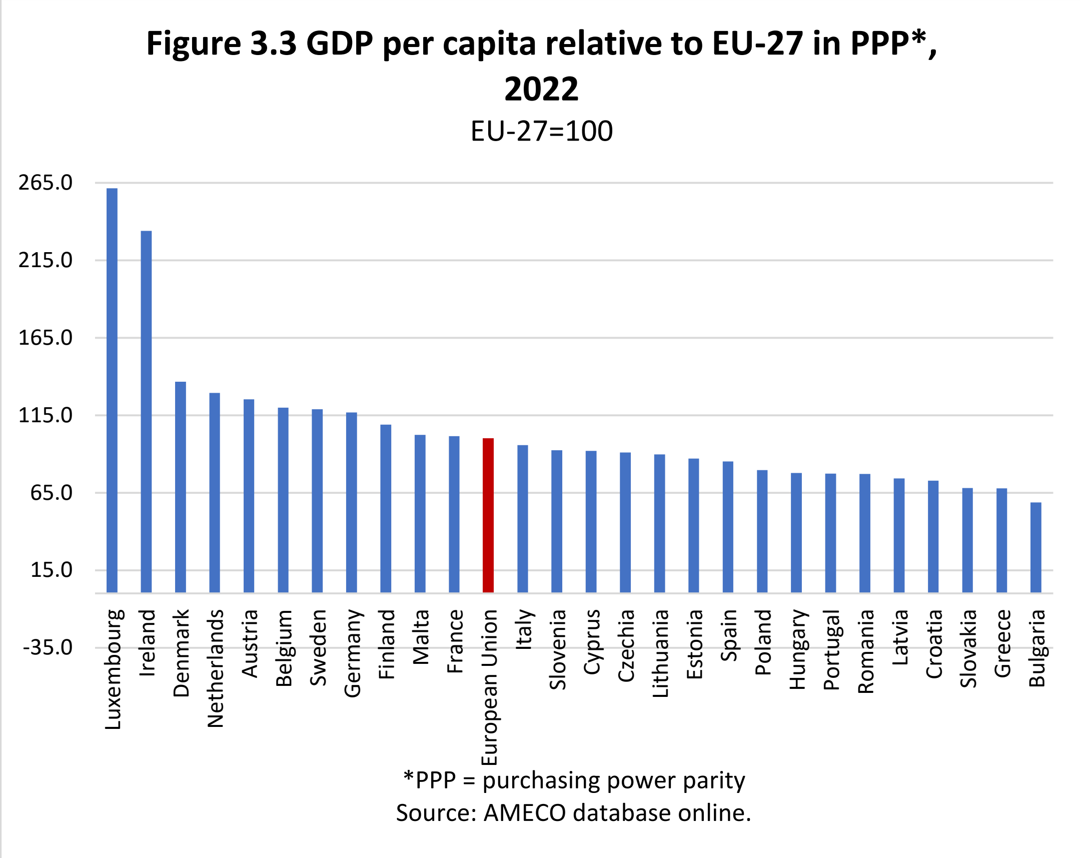
All new member states – except Poland, Bulgaria, Malta and Lithuania – were hit by the Great Recession between 2008 and 2013, some of them quite severely. Nevertheless, they were, on the whole, less affected than those of the southern EU periphery and experienced very strong economic growth between 2013 and 2022, which was only temporarily interrupted by the Covid-19 pandemic shock. By contrast, as a consequence of the sovereign debt crisis, Greece, Cyprus, Portugal, Spain and Italy implemented harsh austerity and internal devaluation programs that impoverished their populations, reduced wages and employee rights, weakened their welfare states and social cohesion, and impaired the productive capacity of their economies. Only Portugal and Cyprus managed to overcome the blow of the economic and sovereign debt crises 2013-2019 before the Covid-19 pandemic, while Greece, Spain and Italy have not yet recovered their pre-2008 productive performance and living standards. Having higher levels of public debt, the southern European member states lack the financial means to upgrade their industrial structures and welfare states or carry out a socio-ecological transformation of their economies (Figure 3.2).

Figure 3.2: Gross domestic debt as % of GDP - 2022



Source: AMECO online database.

As for the new member states, despite economic and social convergence towards the EU average and their low sovereign debt-to-GDP ratio, the gap in GDP per capita between them and the 'core' EU member states is still very large, especially in the cases of Bulgaria, Slovakia, Croatia and Latvia (Figure 3.3).



*PPP = purchasing power parity
Source: AMECO database online.

3.2. The case of Italy

As is evident in Figure 3.1, Italy is an instructive case in this context, as an 'old', in fact founding member state and G7 member.

The stagnation of Italy's per capita income in PPP-terms can primarily be linked to low productivity over three decades. In the period from 1999 to 2022, while labour productivity in the EU-27 countries grew by 21.5% and real wages by 17.6%, Italy experienced a decline in both labour productivity and real wages. This decline was particularly notable during the years 2011-19. The gap in productivity compared to the EU-average has been attributed to factors such as productive specialization in low value-added sectors, labour market precarity, low investment in workforce-training, and a persistent North-South divide[46].

The poor performance of the Italian economy is rooted in a combination of micro and macro factors. On the one hand, the fragmented industrial structure of Italian firms and the disappearance of some large state-owned enterprises, especially from the 1990s onwards, have impoverished the knowledge-base of the Italian productive

[46] Until 1980, Italy's productivity growth remained in line with other European economies. However, between 1980 and 2000, Italy began to lose ground compared to the European productivity frontier. Despite this setback, Italy continued to make improvements in productivity during that period. Since the year 2000, the country has entered a phase of slowing labor productivity growth. See: Cirillo, V., Reljic, J. (2024 forthcoming). The North-South Divide - A Structural Labor Market Perspective in Italy's fragmented Landscape. In U. Glassmann and C. Gräbner-Radkowitsch (Eds.), *The Political Economy of Italy and the Center-Periphery Perspective on Europe*. Metropolis Press.

sector leading to technological dependence, deindustrialization and a weakening of technological capabilities. The concentration of power in the hands of a few actors in key sectors – where competition is absent – together with the persistence of 99.9% of SMEs in the Italian economy, has resulted in Italy being the only European country in which average wages decreased over the 1990-2020 period (-2.9% when measured in USD constant prices, using 2016 as base year, and Purchasing Power Parities for private consumption of the same year). On the other hand, from a macro-perspective, several authors have highlighted the role played by stringent fiscal constraints imposed in the course of the EMU integration process,[47] resulting in austerity, wage moderation, lack of technological competitiveness, and a weakening of the capacity of Italian firms[48]. Industrial policy measures have been eliminated in response to EU competition rules.

The combination of counterproductive reforms, influenced by external constraints, demand compression, and labour market liberalisation, has resulted in a significant reduction in both public and private investment. Additionally, it has contributed to a rise in precarious and temporary employment.

The structural weaknesses of the Italian economy were aggravated by the 2008 financial crisis, the Covid-19 pandemic, and the Russia-Ukraine conflict. The surge in inflation has significantly impacted wages and the purchasing power of incomes, as Italian nominal wages have not kept up with inflation. At the end of June 2023 about thirty-one contracts covering about 6.7 million of employees were awaiting renewal. This can be attributed to the limitations of the Italian collective bargaining system in effectively addressing inflation[49]. But the rise in inflation has not affected all social groups equally; energy price shocks and mark-up shocks disproportionately impact the real income and consumption of low-skilled workers and individuals outside the labour force[50]. As a consequence, it is of utmost importance to tackle structural weaknesses of the Italian labour market which represent the deep causes of the fall in real wages, the significantly expanded pool of working poor and of households that are living below the absolute and relative poverty line. Predictably, inflation has widened inequalities between social classes and within the labour force. Public

[47] Baccaro, L., Blyth, M., & Pontusson, J. (2022). *Diminishing returns: The new politics of growth and stagnation.* Oxford University Press.

[48] Storm, S. (2019). Lost in deflation: Why Italy's woes are a warning to the whole Eurozone. *International Journal of Political Economy*, 48(3), 195-237.

[49] Since 1992, Italy has moved away from wage indexation through the 'escalator' and adopted a regime of 'target inflation rate' for national-sectoral bargaining. Under this framework, wage indexation is replaced by the target inflation rate. From 2009 onwards, there has been a transition to using the *Harmonised Index of Consumer Prices* (HICP) net of imported energy prices as the primary benchmark for national-sectoral bargaining. This shift ensures that prices of imported energy goods are excluded from the calculation of planned inflation.

[50] As highlighted by ISTAT, households at the bottom of the income distribution allocate a significantly greater share of their income to the consumption of food and energy goods and are therefore more affected by inflation, in fact in Q4 of 2022, inflation, as measured by the HICP index, increased by 18.4% for the poorest quintile of households, while it increased by 9.9 % for the richest quintile. Moreover, the increase in the prices of products and services of which women are the biggest consumers, as well as the concentration of women in sectors with low wages and where renegotiation of contracts is slower, had a huge impact on women, widening gender inequality.

mitigation measures (in the form of a monetary bonus and fiscal support), although substantial, have failed to curb the loss of purchasing power of lower and middle incomes and have not reversed the process of social polarisation that has been going on for decades.

Although the inflation rate is likely to decline in the coming months and years, this will probably not be sufficient for a recovery of the material conditions and the purchasing power for most of the working population. This is for several reasons. The most important of these are the weak and complex international macroeconomic framework, strong global geopolitical and economic tensions (see chapter 6); uncertainties over Italy's ability to fully exploit the resources made available through NextGeneration EU, and the return to restrictive monetary and fiscal austerity policies in the Euro area. More substantial actions are needed such as the renewal of collective agreements and the introduction of an inflation-indexed minimum wage. The latter, although not an exhaustive and comprehensive measure, could nonetheless help recover at least some of the purchasing power lost by those approximately three million employees who earn an hourly wage of below € 9 in Italy.

EU rules, especially those relating to wage moderation and flexibility, together with the reduction of the role of the state in industrial policy, have over the last decades supported Italian exports but have limited structural change in the economy. Especially the long-term strategy of wage moderation reduced the incentive for Italian firms to invest in and product innovation. As a result, Italian firms occupy a marginal and subordinate position in global and European value chains. Italian firms are increasingly dependent on parent companies in other EU countries, and are only moderately involved in high-technology and R&D-intensive activities. Hence, their marginality reflects that of the whole country in the current international division of labour: Italian industrial specialisation is weak and so is its future direction. The core-periphery industrial issue between the North and the South, that was an internal problem for Italy since its unification in 1861, has become a national problem. The last decades have seen the whole Italian economy declining from the centre to the periphery of the EU[51].

In political terms the role of Italy is more complex. Italian firms and institutions are relevant enough to represent the EU's Achilles' heel, exposed – as a result of high public debt and industrial crises[52] – to speculative attacks from global finance (as after 2008) and short-term takeovers, with technological assets being appropriated by foreign firms that are unwilling to commit to long-term investment in the country. This is connected also to the declining role of politics in Italy, due to several reasons,

[51] Guarascio, D., Heimberger, P., & Zezza, F. (2023). *The euro area's Achilles heel: Reassessing Italy's long decline in the context of European integration and globalisation* (No. 470). wiiw Research Report.

[52] Just to mention a few of them: ILVA in Taranto, the GKN subsidiary close to Florence and the Whirlpool one in Naples.

including corruption and the de-politicisation of society; but also to the declining role of trade unions, that is in turn linked to Italian de-industrialisation and the weaker shift of Italy's political economy to a knowledge society of technologically advanced services. After decades of an effective absence of an industrial policy, Italy is that much more in need of such policy. Without selectivity in public policy regarding the sectors and value chains where investment is more desirable, Italy will go on being dependent on the strategic decisions of global actors.

3.3. Reflection on policy developments in light of convergence and divergence

The EU has a historical record of promoting social convergence and cohesion between and within member states through its cohesion policy and the European Structural Funds. Income is redistributed through the EU budget between net contributors and net recipients. The Covid-19 pandemic crisis has been a catalyst for institutional innovation. The SURE program allowed member states to protect the jobs and incomes of workers and the self-employed, while EU cohesion policy was strengthened by a) the creation of the Just Transition Fund, to address or prevent social problems created in specific regions from the transition to climate neutrality and b) the NextGenerationEU which allocated resources in favour of the member states most affected by the Covid-19 pandemic crisis.

However, the efficacy of Cohesion Fund financing was diminished when the eastern enlargements were not accompanied by a larger EU budget; furthermore, the measures introduced during the Covid-19 pandemic appear to be temporary and exceptional. As illustrated in section 3.1, EU regional and social policy failed to prevent the deterioration of EU social cohesion between 2008 and 2022, mainly due to the economic and social divergence of southern Europe during the eurozone crisis. It is now clear that the green and digital transitions will exacerbate social inequalities in the absence of public funding not only to invest in up-/re-skilling and new jobs but also to provide income compensation to workers made redundant by the transition. Funding from NextGenerationEU will be available until 2026 while that from the Just Transition Fund is clearly insufficient; thus, member states will shortly have to increase their own resources to prevent the deepening of social inequalities and protect social cohesion.

Also the reformed SGP (see chapter 1) will provide over-indebted member states, with very little additional fiscal room for maneuver, while remaining subject to even stricter EU-level controls of their compliance with the SGP and the European Semester. At the same time, these states will be adversely affected in their capacity to cope with ecological, technological and industrial transformation by the failure to render the NGEU permanent after 2026. The lack of national and European fiscal space is glaring at the current juncture, when member states are compelled to implement a restrictive fiscal policy in an international environment of higher interest rates.

CHAPTER 4: Carbon Capture Utilisation and Storage and the European Green Deal: A danger to socio-ecological transformation

With some delay, on February 6th 2024, the European Commission presented its Communication on the EU's 2040 climate target and the path to climate neutrality by 2050[53]. It suggested a 90% net CO_2 emission reduction compared to 1990 by 2040. In the view of the Commission, to this end, *'all renewable energy, zero and low carbon solutions (including energy efficiency, nuclear, storage, CCS, CCU, industrial carbon removals, and all other current and future net-zero energy technologies) are necessary …'*[54]. This approach, reflected throughout the Communication, implies a significantly watering-down of the aim of a rapid phasing-out of fossil energy. Rather, and invoking 'strong geostrategic interest' and the 'global technology race', the Commission is shifting its focus to Carbon Capture Storage (CCS) and Carbon Capture and Utilisation (CCU) to enable continued fossil energy use with CCS and CCU.[55] Green Deal Commissioner, Maros Šefčovič, announced a forthcoming Communication on carbon storage technologies for the first quarter of 2024.

4.1. The issue of CCS and CCU technologies

The EU established a Carbon Capture, Utilisation and Storage Forum (CCUS Forum) in 2021. Taking place annually, it brings together representatives from the EU institutions, EU member states and third countries, NGOs, business leaders and academics to facilitate the development and deployment of CCUS technologies. At the 2022 Annual Meeting, Energy Commissioner Kadri Simson praised and honoured CCS and CCU technologies for their potential to limit global warming to the Paris 1.5° C target. The scenario-modelling chosen by the Commission indicates a necessity to capture and utilise or store 300 - 640 million tonnes of CO_2 annually by 2050 for the EU to meet its climate goals.[56] Reports from governments and agencies, the European Commission the economists' group of the IPCC (WG III), and the IEA, as well as industry and academics, all based on similar economic models, permanently insist that, without large-scale carbon capture, utilisation and storage (CCUS), the European Union will fall significantly short of its Green Deal objective to be 'climate-neutral' by 2050.

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[53] European Commission (2024, February 6). *Securing our future. Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society*, Strasbourg, 6.2.2024 COM(2024) 63 final.

[54] Ibid., p. 9.

[55] Ibid. Carbon Capture and Storage (CCS) is a process in which a relatively pure stream of carbon dioxide is extracted from industrial sources, and transported to a purportedly safe long-term dump site, reducing the carbon content of industrial emissions by 75-90%. Carbon Capture and Utilisation (CCU) starts with further purifying captured CO2, and transport it to production plants where hydrocarbons are produced from CO2 and hydrogen H2

[56] Simson, K. (2022). *Speech by Commissioner Simson at the Carbon Capture, Use and Storage Forum* [Press release], available at: https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_22_6424

However, scientists, NGOs, environmental movements and the natural and social science groups within the IPCC have disagreed with these economic scenarios and have repeatedly drawn attention to three significant problems:

1. Climate neutrality describes the state where emissions of human-made carbon dioxide gases and the removal of these gases are in balance over a given period. However, since greenhouse gas (GHG) concentrations now exceed 1.5 times the pre-industrial level (the last time such concentrations occurred some 3-5 million years ago, with temperatures 2-3° and the sea level 10-20 metres higher than now), this is clearly not to a state that will solve the climate change problem. Secondly, this target is fraught with disputed assumptions and omissions. Notably, the military is responsible for about 5% of global CO_2 emissions. This is a highly unreliable figure, as states do not have to disclose military emissions under the UN Framework Convention on Climate Change (UNFCCC). Hence, data are *'incomplete, unclear and inconsistent'*[57].
2. CCS and CCU technologies are high risk technologies. High pressure during CO_2 injection has already led to contamination of ground- and drinking water, and explosions and earthquakes have also occurred. There is no guarantee that the gas can be safely stored underground for thousands of years. Even the best explored seabed disposal sites (e.g. the Norwegian sites under the North Sea) have reacted in unexpected ways, with their development still very much unpredictable, and requiring € billions to salvage them.
3. The climate crisis demands immediate action. According to calculations by the Intergovernmental Panel on Climate Change (IPCC) the peak in global emissions must be reached by 2025 at the latest and emissions must fall rapidly thereafter. Even according to optimistic estimates, CCS and CCU technology cannot significantly contribute to such rapid reductions in emissions. Rather CCS and CCU serve the function of deception, intended to prevent the required transition of energy supply and demand, and radical socio-ecological transformation. This legitimates a strategy that instead prioritises the securing of maximum profits for 'carbon major' corporations and financial institutions[58].

Notwithstanding these critiques, the institutions of the European Union have been circulating the results of the lobby group Vision CCUS, which in turn has significantly shaped the February 6th Commission Communication. It prescribes

- the deployment of CCUS at scale to capture and store at least 150 Mt/year of CO_2 of atmospheric or biogenic origin by 2050;

[57] Rajaeifar, M. A., Belcher, O., Parkinson, S., Neimark, B., Weir, D., Ashworth, K., ... & Heidrich, O. (2022). Decarbonize the military—mandate emissions reporting. *Nature*, *611(7934),* 29-32.

[58] Greenpeace (2011). *CO2-Endlager: Risiko statt Lösung*. Available at: https://www.greenpeace.de/publikationen/co2-endlager-loesung-risiko; Bund (2023). Standpunkt 16, *CCS: Falsche Weichenstellung verhindern!*. Available at: https://www.bund.net/fileadmin/user_upload_bund/bilder/klimawandel/falsche-weichenstellung-vermeiden-standpunkt-ccs.pdf; see also Euromemorandum 2023 chapter 3.

- making CCUS a key means of mitigating emissions from currently carbon-dependent processes: cement, steel, chemical production, and waste incineration;
- permitting the continued use of fossil or biomass-fired power plants in regions with significant existing and recently built fossil power capacity, equipped with CCUS to decarbonise the grid;
- following market signals: when natural gas prices fall, CCUS offers a potentially highly competitive option for low-carbon hydrogen supply. As it is improbable that the EU will be able to produce all the 'green hydrogen' (that is GHG emission-free), 'low-carbon' hydrogen from natural gas – today the dominant source of hydrogen – may give fossil gas a significant role in EU's decarbonisation strategy;
- recognising conversion of CO_2 from atmospheric or biogenic waste to products like chemicals and fuels as a form of storage if it becomes permanently chemically bound in the material[59].

EU institutions are deliberately talking about 'decarbonisation' rather than de-fossilisation. By focussing on CCS, CCU and hydrogen, it is possible to hold on to previous industrial structures, using fossil energy, and the associated corporate and power structures, while claiming to be decarbonising until the illusion collapses, confronted by reality.

4.2. Recent developments

In early February 2023, the Commission launched a Communication on the Green Deal Industrial Plan[60] – with the objective of enhancing the competitiveness of the EU's net-zero industry and supporting the fast transition to climate neutrality. Four pillars constitute the plan:

1. a predictable and simplified regulatory environment;
2. faster access to funding;
3. enhancing skills
4. open trade for resilient supply chains[61]

Furthermore, the Commission's proposal for a Net-Zero Industry Act from March 2023[62] intends to simplify the regulatory framework, *'improving the investment environment for the Union's manufacturing capacity of technologies that are key to … ensure that our decarbonised energy system is resilient whilst contributing to*

[59] Carbon Capture, Utilisation and Storage Forum (2023, May 31). *Vision for Carbon Capture, Utilisation and Storage in the EU*, p. 2-3. Available at: https://cdn.catf.us/wp-content/uploads/2023/05/31163741/ccus-europe-vision-report.pdf

[60] European Commission (2023). *A Green Deal Industrial Plan For The Net-Zero Age, Brussels*, COM(2023) 62 final, COM(2023).

[61] Ibid., p. 1.

[62] European Commission (2023). Regulation of the European Parliament and of the Council on establishing a framework of measures for strengthening Europe's net-zero technology products manufacturing ecosystem (Net Zero Industry Act), COM(2023). Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/DOC/?uri=CELEX:52023PC0161

reducing pollution, to the benefit of public health and planetary environmental wellbeing.'[63]

The technology is, however, not primarily aimed at public health and planetary environmental wellbeing. The proposal contains a target to deploy 50 million tonnes of CO_2 storage capacity in the EU by 2030 in what should be an opportunity for EU oil and gas producers 'to create a new market'. The latter appears to be a crucial intention, as 50 million tonnes of captured CO_{2eq} is marginal compared to the 3.6 billion tonnes of GHG emissions generated by the economic activities of EU residents.[64]

At the CCUS Forum 2023, Commissioner Simson also underlined the Commission's efforts to strengthen financial support for research, innovation, and development for CCUS' long-term success, highlighting that the Commission had already funded three CCUS projects from the Innovation Fund. Based on the 2023's record € 3 billion call from the Innovation Fund, it invited an additional 11 large-scale CCUS projects to negotiate grant agreements. To support the development of CCS infrastructure, the Commission has six cross-border CO_2 networks and 14 CO_2 transport and storage projects as part of developing a CO_2 infrastructure network from the North Sea to the Mediterranean to the Baltics, in its list of 'Projects of Common Interest'[65]. Nearly €480 million are being awarded to four CO_2 transport and storage projects[66].

4.3. The case of Germany

The German government's carbon management strategy is due to be published soon. In the federal budget, a significant proportion of the 'Decarbonisation of Industry and Carbon Management' funding programme is earmarked for CCUS projects. A recent joint position paper by the Confederation of German Industry (BDI), the German Confederation of Trade Unions (DGB), the World Wildlife Fund (WWF) and the environmental organization NABU/Birdlife[67] has called for a clear course to be set in favour of CCS and CCU. This 'Alliance' is urging the German

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[63] Ibid., p. 1.

[64] Eurostat (2023). *EU economy emissions in 2022: down 22% since 2008*. Available at: https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20231221-3

[65] Simson, K. (2023). *Keynote speech by Commissioner Simson at the Carbon Capture, utilisation and storage Forum*, [Press release], available at: https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_23_6086

[66] Industry Intelligence inc. (2023). *Northern Lights to receive €131M from European Commission via Connecting Europe Facility; of eight cross-border energy infrastructure projects being awarded €594M of EU funds, nearly €480 million to be awarded to four CO2 transport, storage projects*. Available at: https://www.industryintel.com/government-and-public-policy/news/northern-lights-to-receive-131m-from-european-commission-via-connecting-europe-facility-of-eight-cross-border-energy-infrastructure-projects-being-awarded-594m-of-eu-funds-nearly-480-million-to-be-awarded-to-four-co2-transport-storage-projects-160199792712.

[67] Bundesverband der Deutschen Industrie, Deutsche Gewerkschaftsbund, Naturschutzbund Deutschland & WWF (2024). *Industrietransformation aus einem Guss. Gemeinsames Thesenpapier zur Einordnung von Carbon Management als Teil einer umfassenden Klimastrategie*, available at: https://bdi.eu/artikel/news/industrietransformation-aus-einem-guss-carbon-management.

government to present the requisite 'adequate economic and legal framework conditions'[68]. The central thesis of this Alliance reads*: 'It is right to prioritise the use of CCS and CCU where CO2 emissions cannot be avoided according to the current state of technology.'*[69]

However, if the current state of technology is made the benchmark for unavoidable 'residual emissions', the transformation pressure to innovate is significantly reduced for industrial and other enterprises and ceases thereby to decisively influence the direction that technological innovation processes will take. Under competitive conditions, profit-orientated companies focus all their efforts and creative energy on the search for solutions to problems – even far beyond technology. This brings new visions and business models into focus (building without – conventional – cement; creating living space without building; zero-waste vision without 'residual waste incineration', etc.). Where established companies are unable to make progress, there are opportunities for creative newcomers and start-ups, especially if the state provides the right 'support' in this area.

CCS and CCU depend on public subsidies, not on mobilising private capital through regulatory law, particularly for the construction of a pipeline infrastructure and distribution hubs. These are planned to be oversized in order to prevent user charges from rising excessively when pipeline capacities are scarce. However, once public authorities have financed an oversized infrastructure, the financial risk of under-utilisation lies with the public sector, which has to pay for the long-term deficits while it should be politically committed to minimising CO_2 generation.

Worldwide, fossil fuel states and the oil/gas companies are working hard to 'rehabilitate' fossil fuels – and their 'climate neutralisation' through capture and storage plays a central role in this, as could also be observed at COP28 in Dubai. This is where the interests of the fossil fuel industry coincide with those of some (naïve) environmentalists who see 'negative emission technologies' as having the potential to save the planet – provided that the use of fossil fuels is further reduced. Global CO_2 landfills are being built up. German industry is joining in – for energy policy reasons, but also because manufacturers (and trade unions) see a huge business emerging (with a correspondingly large number of jobs). It is therefore clear that CO2 landfills would be created worldwide – despite full awareness of the risks.

4.4. Policy Alternatives

CCUS and watered-down climate change targets are currently taking the EU down a dangerous path towards climate catastrophe. Instead, we argue that:

[68] Ibid.

[69] Ibid, p. 1.

- The hierarchy of prevention, recycling and disposal mandatorily laid down in EU Directives and the laws of member states must cover all areas of waste management, including CO_2.
- A 'target architecture' is required, both for the EU and for member states: if emissions reduction is to remain the priority, and CCS or CCU instruments are restricted to treating technically unavoidable 'residual emissions', quantified targets (for 2030, 2040, 2050) must be set for permitted emissions and required technical sequestration.
- A democratic debate on the carbon management strategies of the EU and its member states is required. It must clearly separate emissions reduction and capture, set ambitious targets for residual quantities, largely avoid CCS and its offshoots and promote ecological climate protection strategies.
- The EU must comply with its obligations under the Kunming-Montreal Global Biodiversity Framework of December 2023. This includes 'strengthening of natural sinks' as a central measure, on the condition of drastically reduced emissions while opposing burning (cultivated) wood or other biomass with CCS. Large-scale monocultures, economically profitable but accelerating the loss of biodiversity, and justified with fake environmental arguments, must become history.
- Responsible policies for ecological climate protection must include reforestation of what is now agricultural land, and the rewetting of fens – processes that are not only costly, but above all conflict-ridden, because the current owners and users have to be convinced of the need to change land use. But these conflicts must be dealt with, with the aim of revitalising ecosystems –thus overcoming the trends that are already leading to a steadily increasing loss of species[70] and undermining the resilience of natural systems, food and feed production.

[70] Ibid.

CHAPTER 5: The political economy of human mobility: crisis or opportunity?

Human mobility in general, and labour mobility in particular has been one of the principal objectives of the European integration project since its inception in 1958. The Single Market project has further facilitated mobility for the *nationals* of member states and has included policies such as social protection and access to social security in host countries for migrating workers. Whilst the EU enhanced its policies and rights for internal movement for its member state nationals, this is not the case for EU residents from outside the EU and even more so for non-EU migrants. Moreover, not all member states have agreed with EU level Regulations and Directives on cross border-welfare that has facilitated labour mobility. Given different levels of GDP per capita, standard of living and welfare provisions across member states, some in the richer EU states argue that 'freedom of movement' could lead to 'welfare migration' and 'benefit tourism', especially after the accession of poorer east European countries. In their letter of April 2013 the interior ministers of Austria, Britain, Germany and the Netherlands noted the risk of fraud in claiming social benefits and argued against unconditional free movement of people and access to social benefits.[71]

The involvement of interior ministers, as the executive powers in charge of law and order, in this debate and their language of 'welfare migration' and 'benefit tourism' in relation to the free movement of EU nationals have set the tone for much of the public discourse on migration across EU, especially with regard to undocumented migration of people from outside the EU, refugees and those seeking asylum.

The discourse on immigration in Europe is laden with xenophobia, racism and untruths. Anti-immigrant politicians use metaphors in their narratives on migration to whip up public support for their inhumane migration policies. In her speech to the British Conservative party conference in 2023, the then British interior minister, Suella Braverman (who is of Indian descent), spoke of the current 'hurricane' of immigration and compared it with the gusty winds of change that took her parents across the globe in the 20th century.[72] Her metaphors are comparable to those of other mainly right-wing politicians across the EU who have talked about 'invasion', 'great replacement' of 'European' populations and cultures, etc. Such hyperboles, however, are not limited to the Right, as the German politician Sahra Wagenknecht has demonstrated with her talk of the irresponsibility of allowing 'massive

[71] Martinsen, D. S. (2020). Social Policy: Between legal integration and politicization. In H. Wallace, M. A. Pollack, A. R. Young, & C. Roederer-Rynning (Eds.), *Policy-making in the European Union* (8 ed., pp. 254-274). Oxford University Press.

[72] Political Speech Archive. Suella-Braverman-2023 Speech to Conservative Party Conference, October 3, 2023. Available at: https://www.ukpol.co.uk/suella-braverman-2023-speech-to-conservative-party-conference/

immigration' in the face of shortage of housing, teachers and day-care places.[73] Such sentiments are widespread across the EU.

Yet, the facts of international migration tell a different and much less dramatic story. As far as the stock of migrants is concerned, according to the latest available figures in 2020 there were 281 million international migrants, defined as someone who lived in a country other than their country of birth. They comprised only 3.6% of the world population 74. As for the EU, in 2022 there were 23.8 million migrants from non-EU countries living in the EU, comprising 5.3% of the EU population of 447 million people. These numbers are hardly overwhelming, especially when we consider how the EU has managed the sudden influx of Ukrainian refugees following the Russia-Ukraine war. Currently there are about 4.1 million displaced Ukrainians living in the EU. The displaced Ukrainians have enjoyed a privileged position in being admitted to and living in the EU, compared with the EU acceptance of displaced people from non-European countries; the great majority of whom, contrary to public perceptions in the EU do not migrate to EU in the face of wars, social and ethnic conflict, natural disasters, etc. They move to the nearby safe places either within their own country or in neighbouring countries. According to the UN High Commission for Refugees, just under three quarters (75%) of refugees worldwide were hosted in their neighbouring countries with the least developing countries (Bangladesh, Chad, the Democratic Republic of the Congo, Ethiopia, Rwanda, South Sudan, the Sudan, the United Republic of Tanzania, Uganda and Yemen) hosting 27% (6.7 million) of all global refugees.[75]

5.1. The EU management and regulation of migration

In the discourse on migration there is a tension between migration as a labour market issue and the migration of people. Labour is not like other goods, it is embodied in human beings with all its physical, gendered and cultural characteristics that are shaped by history, giving labour migration its political and cultural dimensions. *It is people who move in search of work or safety and offer their labour in different locations and contribute to a globalized labour market.* Yet this simple fact is often ignored in the debate on migration and reveals itself in: 'we asked for labour but then people came' or the use of the term 'Gastarbeiter' or 'Guest worker' in Germany that drew attention to their specific function as 'workers' and their temporary status as 'guests' to distinguish them from 'migrants' which implied not

[73] Chazan, G (2023, October 23) New leftist anti-immigration party to challenge Germany's far right, *Financial Times* Available at: https://www.ft.com/content/b18d8fee-b622-4e09-8865-4b200a62436c.

[74] International Organisation of Migration (2021). *World Migration Report 2022*. Available at: https://publications.iom.int/books/world-migration-report-2022.

[75] Ibid.

only long term commitment by migrants to the destination country, but also migrants rights, and responsibilities of the destination country for them. Moreover, immigration in the era of the nation-state has always raised the question of who is or can be a member of a nation. Small wonder that the labour market issues of the demand for labour (an economic matter) would be mixed with legal issues of border control and residence (a security and justicial affairs) with the latter being an issue of sovereignty.

These tensions have been reflected in the EU's approach to the coordination of a common policy for managing and regulating migration from outside the EU under the 'Common European Asylum System' (CEAS).[76] For example, the EU level–approach to policymaking gave way to trans-governmental or inter-governmental cooperation or coordination under the regulatory agencies of 'Europol' (for police cooperation), Frontex (for external border controls) or the European Asylum Support (for asylum). In short 'security' and 'sovereignty' have trumped 'freedom' and 'justice' in the EU's objective of establishing 'an area of freedom, security, and justice.' 'Member states have found it easier to agree on securitising the common external borders than on admitting migrants and refugees.'[77] Agreement on the security of external borders resulted in the Frontex budget ballooning from €85 million in 2006, to €845 million in 2023.[78] With regard to asylum seekers, the Dublin Convention on Asylum followed the Schengen Implementation Convention according to which the first country of entry of an asylum seeker has the responsibility to deal with the asylum claim. Such an approach paid no attention to the complexity and difficulty of *legal entry* into the Schengen countries for work, joining family, fleeing persecution and wars, etc. The wishes and voices of potential migrants have been absent in EU decisions. With the legal routes practically closed for thousands of people, a 'market' for the illegal routes of entry to the EU opened up, that in the aftermath of the US-led invasion of Iraq, the civil war in Syria, US-led attack on Libya and other foreign interventions and domestic repression in the MENA region and Afghanistan led to a sudden increase in the number of people trying to enter the EU via 'front line' countries like Greece, Italy and Spain.

It is remarkable that neither the Dublin Convention nor any EU institutions considered the capacity of the 'front-line' countries to deal with the sudden arrival of refugees and asylum seekers, despite the instabilities and presence of UN-managed refugee camps in the Mediterranean neighbourhood countries. Nor did the EU put the issue of the solidarity of EU member states and the need to support each other

[76] European Commission (2023). Migration and Home Affairs. *Common European Asylum System* [CEAS]. Available at: https://home-affairs.ec.europa.eu/policies/migration-and-asylum/common-european-asylum-system_en

[77] Lavenex, S. (2020). Justice and home affairs. In H. Wallace, M. A. Pollack, A. R. Young, & C. Roederer-Rynning (eds.), *Policy-making in the European Union* (8 ed., p. 344). Oxford University Press.

[78] Eurostat (2023). *Migration and migrant population statistics.* Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Migration_and_migrant_population_statistics

on the agenda. The recent reform of CEAS by the European Council introduces more restrictions on asylum seekers, encroaching on their rights. 'Its purpose is to shift asylum procedures to the external borders. [Under] a fast-track procedure …people who come from countries with low acceptance-rates or who enter via 'safe third countries' may be summarily turned away. A large proportion of refugees will be affected by the extension of the third-country rules. Furthermore, an emergency decree will expand the scope of these rules, extend detention periods, and facilitate direct deportations.' [79]

Thousands of migrants have paid with their lives for EU policies on migration and asylum, whilst some EU Schengen countries temporarily suspended the Schengen area border free travel arrangements during the peak periods of Syrian migrants arriving on Greek islands in the 2015-16 migration crisis. The very foundation of EU integration as a political entity was shaken, contributing further to Euro-scepticism within right-wing parties and their anti-immigration rhetoric and propaganda. It also made 'immigration' a major issue for the Brexit referendum in the UK.

5.2. The voice of migrants: the case of Senegal

The voice of non-EU migrants has been absent from migration studies and migration policy. Their voice could mostly be 'heard' in their music, dance, visual arts, literature, culinary tradition and in general in cultural forms which have enriched the European culture. The Opportunity research project (opportunities - for a fair narrative on migration www.opportunitiesproject.eu) was envisaged to fill this gap in valuing and understanding migrants view as expressed by them and their advocates (vicarious story telling). This section draws on one of the case studies of migrants' views (using 'cross-talk' methodology) and the place of migration in Senegalese culture.

Migration plays an important part in the socialisation of Senegalese people, as proverbs and songs are used to build the individual. Migration is a social fact and a social act. The desire to migrate has increased with the widespread use of social and mass media, television channels, etc. Through the magic of images, these television channels cultivate an attraction, an image of elsewhere that nurtures a culture of migration. In local discourse, returning migrants evoke an idyllic image of migration against a backdrop of pride. This construction of identity, fed and maintained by returning migrants is at the root of a new 'way of life' characterised by new physical and linguistic expressions and new behaviours.

[79] Rosa Luxemburg Foundation (2023). *Is the CEAS Reform a Tipping Point?* Interview with C. Bünger, B, Kasparek and H. Schurian, H. Oct 23rd. Available at: https://www.rosalux.eu/en/article/2316.is-the-ceas-reform-a-tipping-point.html

For would-be emigrants, the image of success abroad is in contrast to the reality at home which is suffering from chronic unemployment, job insecurity, idleness, lack of training, etc. This is particularly true of the fishing industry, whose income-generating potential has declined in recent years. People cite better living conditions as one of their main reasons for migration. Despite these adverse economic conditions Senegal does not feature in the top 20 emigration African countries. Its net migration, half of whom were women, was 1.6% of a total population of 16.7 million in 2020. [80]

Some migrants take the legal route thanks to the help of their relatives living in Europe who send them the necessary documents and money to obtain visa to travel by air to Europe. Others take the precarious and dangerous route to the Canary Islands in *pirogues* (a flat bottom large canoe) trying to land 'illegally' on Spanish shores, under the slogan 'Barça ou Barsaax' (Go to Barcelona or die). These journeys are either self-financed or financed by families, especially mothers in the case of young migrants, who sell their gold jewelry, other family assets, mortgage land, or borrow from saving association. These journeys are viewed as an investment in the future of family if migrants reach mainland Europe and start earning money and send back remittances, which according to IOM accounted for just over 10% of Senegal's GDP in 2020.[81]

Not all migrants are successful but end in tragedy of dying in the perilous journey on the high seas or are repatriated to Senegal. The repatriated suffer a life of shame for their 'failure' and wasting of resources that finance them. However, for some families, repatriation is viewed as 'bad luck' and a motivation to 'try again.'

For the majority of Senegalese, the journey is not simply synonymous with acquiring a stable job, but symbolises the path to be taken to make one's fortune and acquire social prestige among one's peers. People say: 'migrating is not just about moving, it's about trying to exist in the eyes of your community.'

5.3. Towards a democratic migration policy and the settlement of migrants

The EU and its member states are in need of urgent reform of their migration policy if future tragedies of deaths in the Mediterranean Sea are to be avoided. They should also facilitate the integration and settlement of their migrant population on humanitarian grounds, for better inter-communal relationships and in order to benefit more from their skills and their cultural capital. The reforms are also needed

[80] International Organisation of Migration (2021). *World Migration Report 2022*. Available at: https://publications.iom.int/books/world-migration-report-2022.

[81] Ibid.

for the sake of democratic political culture in the EU. A fact/evidence-based migration policy would provide a positive view of migrants and their contribution to the public sphere that could counter the negative propaganda and fear-mongering of the emergent and resurgent right-wing parties.

The large-scale immigration of Syrians in 2015 and Ukrainians in 2022 demonstrated that with some coordination, most European countries can rapidly and humanely manage their refugee 'crises.' The relatively rapid reception and absorption of these migrants is an opportunity to initiate policies that would benefit future flows of migrants. This needs a strategic approach that acknowledges the long-term flow of migrants and moving away from the current management of 'emergencies.' Note that the current stock of migration has a built-in momentum that leads to migration for family re-union; we should note that 'for the past 20 years, family reunification has been one of the main reasons for immigration into the EU.' [82]

At a more strategic level, the history of international migration informs us that migration is not going to stop as countries develop. More development means more integration of the world economy and more interconnectedness and an intensified flow of information on opportunities around the world; leading to more migration. In general, flows of migration follow a hump-shaped pattern as per capita increases, it will increase rapidly with per capita income, reaches a peak and then the flow slows down.[83]

In a strategic approach, the security and labour market issues of migration must be separated; placing migration for economic reasons on a more rational foundation, based on information and data on the labour needs of Europe, given the rapid ageing of its population and the demands for labour in all sectors.

The EU as a community of nations should invoke its solidarity principle (in line with its support for deprived regions of the EU) in the distribution of refugees and migrants seeking asylum across the EU if it were to survive as a political and legal entity. There is already a precedent with regard to EU-coordinated solidarity with the Ukrainian war refugees. As part of this solidaristic approach humanitarian corridors, including search and rescue at sea, should be established to ease the pressure on the 'front-line' countries; furthermore the Dublin Convention should be renegotiated so that refugees would not need to apply for asylum in their first country of entry.

The settlement and integration of migrants should also be part of this solidaristic approach. Again, there are precedents in EU-level regulations for migrating EU nationals that should be extended to all migrants as a matter of equality and non-

[82] European Commission (2023). *Migration and home affairs. Policies: family reunion.* Available at: https://home-affairs.ec.europa.eu/policies/migration-and-asylum/legal-migration-and-integration/family-reunification_en

[83] International Organisation of Migration (2021). *World Migration Report 2022*. Available at: https://publications.iom.int/books/world-migration-report-2022.

discrimination. EU citizenship based on long-term residence (domicile) either in addition to member state nationality or independently has been a policy proposal since the early 1990s. Third country nationals are contributors to the economic and social life of the EU and therefore should not be excluded from its benefits on the basis of their nationality in the European Union, which condemns discrimination on the ground of nationality. Other grounds in favour of such a legal reform include promoting the smooth incorporation of non-nationals and more cooperation in diverse communities; ending the projection of the nationalist logic onto European Union citizenship; that could partially address and acknowledge Europe's colonial past and its ambiguous relationship with racial otherness.

Integrating immigrants in the economic and social life of a member state is an integral part of any settlement policy. In this regard, integration policies should go beyond the essentials of language skills and respect for the laws and customs of the host country. Facilitating access to the labour market for all migrants, including asylum seekers, would speed up their integration and help them to contribute to the economy and reduce the cost of the host country's supporting them.

The EU should go beyond the control and management of the current migration crisis which is more like a permanent crisis for the migrants than a temporary and local crisis for the EU. Migrants risk their lives on very dangerous illegal journeys to Europe because of the inadequacy of legal routes of entry. They arrive on European shores in a state of crisis which continues with the lengthy process of their legitimation. Europe needs its migrants, as it has throughout history, especially in view of its ageing population and the demand for labour in care, health and other service sectors. Let us hope that people in the EU could mobilise support to demand humane migration and settlement policies from their politicians. The refugee crisis is an opportunity for the EU to change its migration policy.

CHAPTER 6: The changing world order and its effects on the EU

In Euromemorandum 2023, we outlined the negative dynamics of the global political economy that culminated in a full-scale war at the heart of Europe. The war in Ukraine has dragged on for two years and continues to shape the dynamics of the world political economy. In the Granada Declaration of October 2023, the EU pledged 'to support Ukraine and its people for as long as it takes'. Following its membership application in February 2022, the EU decided to open accession negotiations with Ukraine in December 2023.

From the point of view of US-centric geopolitics, these developments in Europe are only a part of a much bigger picture, which revolves around the US-China trade war, contestations over the future of Taiwan, conflicts in the Middle East, and other issues. While the US is trying to strengthen the hegemonic structure of the world, what in the West is understood as the new Cold War, is for many others a continuation of the century-long struggles for global equality. The division of the world into two blocs and the conflicting stories about what this division means, is threatening to derail the world into a new military disaster.

6.1. The continuation and gradual escalation of the war in Ukraine

The war in Ukraine could have ended quickly in February–March 2022 after Ukraine halted the Russian advance. Russia seems to have been agreeable to a ceasefire and to withdraw from most of Ukraine, if Ukraine had agreed not to join NATO and if international security guarantees for Ukraine would not extend to Crimea, Sevastopol, or certain areas in the Donbas. Regarding these areas, the parties accepted the existence of different interpretations and the need for future negotiations.

The then-Israeli Prime Minister Naftali Bennett served as the mediator and later disclosed many details about the negotiations about which the West was sceptical or outright hostile.[84] On March 24, 2022, NATO decided not to support these peace negotiations; the stance of key Western allies only hardened further in the next few days.[85] Revelation of the war crimes in Bucha on April 1 appears to have been an

[84] The full nearly five-hour long interview is available at: Naftali, Benett (2023, February 4). Benett speaks out, [Video]. YouTube. https://www.youtube.com/watch?v=qK9tLDeWBzs (recorded 4 February; last watched 22 November 2023).

[85] On March 28, Putin, as a sign of goodwill and in support of the peace negotiations, had declared readiness to withdraw troops from the Kharkov area and the Kiev area. It is unclear whether the actual Russian withdrawal occurred because of the successful counterattack of the Ukrainian army or because Putin attempted to facilitate negotiations, or as a result of a combination of the two, but it led to the revelation of the war crimes in Bucha. However, the stance of the Western allies hardened further already on March 29 during a phone conversation with Scholz, Biden, Draghi, Macron, and Johnson. See Hajo Funke and Harald Kujat, How the Chance Was Lost for a Peace Settlement of the Ukraine War. A detailed reconstruction of events in March 2022, *Brave New Europe* November 10, 2023, https://braveneweurope.com/michael-von-der-schulenburg-hajo-funke-harald-kujat-peace-for-ukraine.

additional factor that tipped President Zelensky's balance against the continuation of the negotiations on the 2nd or 3rd April (by that time also popular opinion in Ukraine was hostile to such an agreement).[86] Nevertheless, ethically and politically, blocking the negotiations was a choice on the part of the West, which Bennet considered to be a mistake.

After the almost completed negotiations suddenly failed in early April 2022, the war in Ukraine has continued to escalate, involving ever more mobilisation of people and resources. In two years, hundreds of thousands of people have died or been seriously injured (including mentally), and the costs of the war are rising every day. The expansion of NATO to Finland, and likely to Sweden, has contributed to that escalation. A further step in the escalation process occurred when Russia decided to annex four regions of Ukraine, illegally from the point of view of international law. Ukraine's negotiating position has deteriorated and in early 2024, a negotiated ceasefire and agreement seem further away than in March 2022. Importantly, as long as the war continues, Ukraine's membership and the EU's mutual defence clause (article 42(7) of the TEU) would seem to imply a war between the EU and Russia.

The political-economic effects of the war in Ukraine have surprised most economists and pundits. It is true that the war is weakening Russia and making it dependent on China, while Europe has once again become more dependent on the US, even if only ambiguously. However, although the Russian economy has suffered, it seems to have been more resilient than anticipated, while in the EU, the sanctions have worsened the economic situation, including through the cost-of-living crisis analysed in Chapter 2. A further surprise to many has been that inflation in the EU has not been self-accelerating but is already slowing down (see Chapter 1).

6.2. The current conflicts among great powers are closely interwoven

As explained in the Euromemorandum 2023, the processes leading to the war in Ukraine have involved the dynamics of insecurity created within the global political economy in the 2000s and 2010s involving mutual securitisation. The new era of sanctions against Russia started already in 2012, deepened in 2014, and exploded in 2022. Despite gradually deteriorating relations with Russia, in the US, China has come to be seen as the main adversary and primary threat. While the George W. Bush administration had already started to perceive China as a threat, this perception has gained further strength since the global financial crisis of 2007-9.

[86] This accords not only with Bennett's account but also with that of Oleksi Arestovich, former Advisor to the Office of the President of Ukraine, who participated in the Ukraine negotiations: '…mid-agreement in Istanbul, we went back to Kiev, and after Bucha, we heard from the president that we had stopped the negotiations. The next meeting would have been on the 9th of April, and on the 2nd or 3rd April it was declined.' The interview video is posted on X and available at https://twitter.com/MyLordBebo/status/1746620883660148946.

In 2011, the Obama administration declared a 'pivot to Asia' and the 21st century as 'America's Pacific Century'. These were linked to military 'forward positioning' and US-led free trade efforts in the Pacific region. The Trump administration's economic and security policies mostly just made existing US foreign policy more unilateral and unpredictable, although there were also some qualitative shifts; for example in US trade policy, the United States' self-regard started to exhibit increasingly protectionist tendencies. The Trump foreign trade doctrine was known officially as the 'America First Trade Policy'. It included exploiting the leverage of interdependence to force market opening or improved market access for American goods and services. Biden's government has by and large continued similar policies under the rubric of 'invest, align, and compete', focussing on outcompeting China and preserving or developing a free and open Indo-Pacific region that excludes China.

A popular though misleading way of understanding the consequences of this geo-economic and -political struggle, is the concept of the 'Thucydides Trap', indicating a strong tendency towards a war between China and the US. Paraphrasing Thucydides, the basic storyline is that 'because the Chinese have grown in power and alarmed the Americans, this is making a war between them nearly inevitable'. Even Graham T. Allison, who coined the phrase, admits that the 'trap' is not a theoretical concept but rather a mere metaphor. One of the ironies of the metaphor is that the Chinese take the role of proto-democratic Athens and the Americans the role of authoritarian Sparta. A particularly worrying aspect of the 'Thucydides Trap's' conceptualization of the conflict is that these kinds of anticipations tend to be self-fulfilling.

Although it is uncertain whether unambiguous Chinese opposition to the Ukraine war would have restrained Russia, we know that since the invasion started, Russian exports to EU countries have nearly ceased, while exports to Asia have risen.[87] Although Russian trade has in comparative terms increased more with India and Turkey, Russia and China have deepened economic ties amid a major surge in trade.[88] The standard argument in China is that it needs Russia to counter the US. From the perspective of prevailing Chinese thinking, unequivocal condemnation of Russia's invasion of Ukraine does not seem to be a reasonable option, given the strained and inflamed relations with the US, involving the real potential for a major war. Current conflicts among great powers are closely interwoven.

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[87] The Bank of Finland Institute for Emerging Economies, BOFIT, (2023). *Russian exports down, imports up in first quarter*. Available at: https://www.bofit.fi/en/monitoring/weekly/2023/vw202315_1/.

[88] Murray B. (2023, October 25). *China's closer bond with Russia reshapes trade flowsAtlantic Council.* Bloomberg. Available at: https://www.bloomberg.com/news/newsletters/2023-10-25/supply-chain-latest-russia-and-china-trade-relationship; Lipsky J. & Graham N. (2023, May 30). China is trading more with Russia – but so are many US allies and partners, *New Atlanticist.* Available at: https://www.atlanticcouncil.org/blogs/new-atlanticist/china-is-trading-more-with-russia-but-so-are-many-us-allies-and-partners/ .

6.3. The consequences of US-centric geopolitics are counterproductive, also for the EU

The US tech-oriented geopolitics includes sanctions against China and attempts to tackle commodity- and value chains by decoupling and friend-shoring, amounting to the weaponisation of interdependence.[89] Similarly, China is trying to secure access to critical inputs and minimise exposure to the weaponisation of trade, and it has responded to many moves by the US either by precautionary measures (e.g. reducing trade through the Straits of Malacca) or by imposing similar restrictions and major attempts at friend-shoring (in particular the Belt and Road Initiative). The long-term US demands for higher arms spending by other NATO members have become part of the US 'pivot to Asia' through the transatlantic division of labour in which the US, with its dwindling power resources, could focus on its main enemy, China, and delegate responsibility for tackling problems and conflicts on Europe's external borders - from Ukraine to Syria, Libya to Mali - more to European NATO countries. Because of the war in Ukraine, the US has finally gotten its way in this matter, for example through Germany's *Zeitenwende*. Perhaps somewhat paradoxically, the rearmament of the European NATO members has been – at least so far – a military Keynesian economic stimulus programme for the US (and to a lesser extent for France), while they tend, together with high energy prices and such effects, to further diminish the growth potential of the EU economy.

The EU is entangled in these negative dynamics in various ways. The European Green Deal is a case in point. As a result of the weaponisation of energy supplies in the course of the war in Ukraine, the EU has enabled a large number of fossil fuel infrastructure projects and expansions and mobilised considerable sums for energy-intensive industries and for the electricity sector. The weaponisation of interdependence undermines the aims of the green transition.

Moreover, the production of all sorts of modules for renewable energy production and battery storage (necessary for electric vehicles) is dominated by Chinese companies with market shares between 75% and 90%. In some of the materials used in batteries and some niche products, China's market share is even close to 100%. Furthermore, many of the metals needed to produce modules, wafers and cells are extracted or produced by Chinese firms in and outside of China.[90] The same goes for solar panels and similar products. As the EU and its member states adopt the US perspective on China as a threat and security risk, this creates a tendency to try to avoid the cheap offers made in China and insist on a strategy of doing it at home,

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[89] Farrell H. & Newman A. (2019). Weaponized Interdependence: How Global Economic Networks Shape State Coercion, *International Security*, 44 (1), pp. 42–79. In their 2023 book, they report how the Trump administration quickly adopted the ideas of the 2019 article as a 'good playbook to implement'. Farrell H. & Newman A. (2023). *Underground Empire. How America Weaponized the World Economy*, London: Allen Lane, pp.101-102.

[90] See International Energy Association (2023). *Energy Technology Perspectives 2023*, Paris. Available at: https://www.iea.org/reports/energy-technology-perspectives-2023.

today labelled as 're-shoring' or 'de-risking'. As an illustrative result of this acceptance of US geopolitical interests, the Europeans are forced to return to the highly anti-environmental practices of mining because the green transition requires a huge volume of inputs, the production of which is currently dominated by China.

6.4. Generating a global tragedy? Competing narratives and real-world developments

The emerging division of the world into competing blocs involves contestations over narratives about what is going on. Actors try to make sense of real-world developments in terms of ideas and stories. The relevant real-world political-economy developments, especially from the US perspective, include trends such as:

- declining US share of world GDP (from 40% in 1960 to 23-24% in the early 2020s in nominal US dollars, and to 15-16% in PPP terms; by 2028, the IMF forecasts[91] a Chinese share of 19.7%, a US share of 14.5%, and an EU share of 13.65% in PPP terms)
- declining US share of world trade (14% of exports in 1970 to 8% in 2022)
- doubling of the US trade deficits in 2000-2022 and growing net interest costs of the US public debt (US debt reached 135% of GDP in 2022, the year when the US government spent some $475 billion on net interest costs, which is equivalent to half of US military expenditure)
- declining US dollar share of foreign reserves (the US dollar continues to dominate forex markets – 90% of transactions involve the US dollar – but the US dollar share of foreign reserves has declined from 72% in 2000 to less than 60% in 2022)

The theory of hegemonic stability emerged in the 1970s when the partial collapse of the Bretton Woods system was widely conceived as a sign of crisis in US global leadership. This perception was further reinforced by the catastrophe of the Vietnam War and the rise of the New Left movement. Basically, the theory claims that the stability of the world economy is dependent on the benevolent leadership of the hegemonic state – since WWII the US. In its standard version, the theory assumes that maximum global welfare and Pareto optimality are achieved under free trade and that a hegemonic distribution of potential economic power is likely to result in an open trading structure and, more generally, in an open world economy.[92] More generally, the US-style liberal international order was bluntly defined as a (global) public good. The global public good was supposed to include the definition and enforcement of property rights, resolution of disputes, stability, and security. The

[91] IMF (2023). GDP based on PPP, share of world, International Monetary Fund Database, April 2023. Available at: https://www.imf.org/external/datamapper/PPPSH@WEO/EU/CHN/USA.

[92] E.g. Krasner, S. D. (1976). State Power and the Structure of International Trade. *World Politics,* 28 (3), pp. 317-47; Gilpin, R. (1981). *War and Change in World Politics*. Cambridge: Cambridge University Press.

problem lies in free-riding by the lesser states in Europe, Asia, and the global south; the poor exploit the rich.

The practical conclusion of the theory is to try to strengthen the hegemonic structure, make the free riders pay their share, and focus on taking care of one's own position and interests more. The first round of discussions around this theory faded into the background when the Cold War ended and US hegemony seemed restored for a while (in International Relations literature, this has often been referred to as 'the US unipolar moment'). The second round started in the 2000s. It is the basic themes of the mythic narrative of hegemonic stability – coupled with the assumption of the benevolence of the hegemon and related apologetic narratives – that explain the developments of US foreign policy since 2001, from the neoconservative turn of Bush to Obama's 'pivot to Asia', Trump's 'making America great again', to the 'invest, align, and compete' doctrine of the Biden administration.[93]

In other words, the theory functions performatively towards the world or tends to construct the world in its own image, even when it involves unintended and negative consequences, rather than seeking (or even pretending to seek) to provide accurate descriptions of it. It generates self-fulfilling prophecies, for example, the erosion of free trade and deglobalization have to a significant degree been caused by US actions, including its double standards, protectionism, and weaponisation of interdependence. Finally, its performative side resembles the insistence of Pericles that Athens should keep the empire and make no concessions, although its actions had by that time given rise to widespread grievances – which, according to Thucydides, was the true cause of the war. What seems worrying is that, from the US perspective, there is a narrow time window for winning the war against China over Taiwan, as the power of China continues to grow. This resembles the logic according to which the Germans were willing to risk a world war in the summer of 1914 in terms of the so-called Schlieffen Plan.

Of course, the theory of hegemonic stability is not the only sense-making storyline in the West. In global contestations, the narrative of 'democracy vs. authoritarianism' on the side of the US and its allies is juxtaposed with the 'post-colonial developmental states against the neo-colonialists' by China and the BRICS and several other countries of the global South. What in the West is understood as the new Cold War, is for many others a continuation of the century-long struggles for global equality. The formal process of decolonisation left asymmetric practices and mechanisms in place in the global political economy.

[93] See e.g. Strange, S. (1987). The Persistent Myth of Lost Hegemony, *International Organization*, 41 (4), pp. 551-574; Grunberg, I. (1990). Exploring the 'Myth' of Hegemonic Stability, *International Organization*, 44 (4), pp. 431-477.

Box 6.1.: The Israel–Hamas 2023-24 war and the growing turmoil in the world

Since 2000 and following recurring episodes of violence, including the Gaza wars of 2008–2009 and 2014, the living conditions in the Gaza Strip and, to a lesser extent, other areas inhabited by Palestinians have deteriorated. Israel's economic embargoes and related attempts have impoverished the economy, whereas aid from the EU and others has partly countered this and at times even induced growth. The Covid-19 pandemic added to the misery. In 2022, despite a growth of 3.9% in Palestinian GDP, per capita real GDP was still well below its pre-pandemic level and close to its lowest level since 1994. Between 2006 and 2022, Gaza's real GDP per capita shrank by 37%.

During the last few years, a combination of factors has kept the Palestinian and especially Gazan economy down: the pandemic, inflation, a decline in foreign aid, reliance on the Israeli shekel (leaving little room for policy responses to shocks and crises), fiscal deductions by Israel, further loss of land and natural resources to illegal Israeli settlements, and the build-up of debt. As much as 80% of the population in Gaza is dependent on foreign aid. Unemployment has been high at 45% and still higher among young adults. UNCTAD summarises the situation of ordinary people: 'Living in Gaza in 2022 meant confinement in one of the most densely populated spaces in the world, without electricity half the time, and without adequate access to clean water or a proper sewage system'.[94]

It was in this socio-economic context that the military wing of Hamas – the main political force in the area since the mid-2000s – started to prepare a large-scale attack on Israel in response to some specific political grievances, including settler violence. On 7 October 2023, Hamas attacked Israeli military bases and civilian areas, brutally killing at least 1,300 people and taking more than 200 hostages. The next day Israel formally declared a state of war, launching a counteroffensive named 'Operation Swords of Iron'. By February 2024, this counteroffensive had killed up to 30,000 people, mostly civilians including 6,000-9,000 children, and induced a total blockade of Gaza. The result is a massive humanitarian catastrophe.

On December 29 2023, South Africa filed an application to the International Court of Justice to initiate genocide proceedings against Israel. The case is being widely supported by thousands of popular movements, trade unions, and political parties, as well as by dozens of states. The point of South Africa's legal case against Israel is that it wants the ICJ to order Israel to "immediately suspend its military operations in and against Gaza". On January 26 2024, the ICJ fell short of ordering a ceasefire, but ruled South Africa's case of genocide to be 'plausible' and ordered Israel to take 'all measures within its power to prevent and punish the direct and public incitement to commit genocide'.

Josep Borrell, High Representative of the European Union for Foreign Affairs and Security Policy, has argued that *'all EU Member States back immediate pauses in hostilities. Humanitarian pauses, cease-fire, truces… the name does not really matter, what matters is to limit the suffering of the Palestinian civilian populations and Israeli hostages'.*[95] Obviously, the US plays the most decisive role in this regard.

The Euromemo group supports all attempts to stop the violence. In addition to the immense suffering caused by the massive scale of destruction in Gaza (and increased settler violence in the West Bank), the risk of further escalation of the conflict poses a global problem. At the time of writing, the USA and UK have conducted airstrikes on targets in Yemen in response to attacks on western vessels by the Houthis in the Red Sea justified in support of Palestinians in Gaza. After attacks on US military personnel in Jordan, a direct confrontation between Iran and the United States is a possibility.

However, the 'post-colonial developmental states against the neo-colonialists or neo-imperialists' storyline is also not free from its own ambiguities or contradictions. All theories adopted in policymaking have performative effects, which can justify inequalities, repression, or violence and have unintended negative consequences. Moreover, authoritarian state practices are not fully compatible with the ideas of emancipation and equal development of all. It is thus clear that from a global perspective, the overall story is far more complex than any of these simple juxtapositions suggest. What matters is that the ingredients for a massive global tragedy have now been assembled – at the same time as climate change and the

[94] The quotation is from UNCTAD (2023). Prior to current crisis, decades-long blockade hollowed Gaza's economy, leaving 80% of population dependent on international aid, [Press Release] UNCTAD/PRESS/PR/2023/025, October 27, 2023. Available at: https://unctad.org/press-material/prior-current-crisis-decades-long-blockade-hollowed-gazas-economy-leaving-80. The full report is available at https://unctad.org/system/files/official-document/tdbex74d2_en.pdf.

[95] Borrell, J. (2023, November 17) *What the EU stands for on Gaza and the Israeli-Palestinian conflict* https://www.eeas.europa.eu/delegations/uzbekistan/what-eu-stands-gaza-and-israeli-palestinian-conflict_en?s=233

extinction crisis are progressing in the background at an ever-increasing pace. Our darkened world needs enlightenment.

6.5. Alternative policies and the need for institutional transformations

All the points we made in Euromemorandum 2023 remain relevant. As the world is once again increasingly divided and a much larger global military catastrophe looms in the air, it is urgent to restrain the dangerous global security dynamics in terms of confidence-building and arms control measures. A peace agreement between Russia and Ukraine and relevant parties to end the violence would be a major step in the right direction. Also, the violence in Gaza needs to stop; while in East Asia security and confidence-building measures could ease tensions. The world needs time to get to the heart of the matter, i.e. the fundamental reorganisation of the world political economy.

To enable better paths for world history, the West and the US in particular must give up the idea of an empire and theories that mystify and legitimise such one-sided asymmetries. We do not have to repeat the tragic fate of past empires or the tragedy of WWI, nor should the memories of those determine our common future. Even if the US remains committed to the idea of being a 'benevolent hegemon', at least the EU should distance itself from this counterproductive and potentially dangerous idea; it is good to bear in mind the already existing grievances, where EU officials have criticised the US over sky-high energy prices, weapons sales, and US subsidies affecting trade. The EU could for instance disaggregate the China challenge by cooperating on the environment, on tax evasion and maintaining trade, without giving up the advocation of human rights (liberal human rights remain a constitutive principle of the EU) or opposing possible territorial expansion; China also stresses this principle, even though the problem lies in the definition of what constitutes 'inside' and what is expansion).

The EU itself should refrain from any further territorial expansion. EU expansion implies influence on their neighbours, including in the area of the former Community of Independent States (CIS), and this influence is not always innocent or benevolent in some universal moral sense. Moreover, the EU accession process is highly complicated, especially in the case of Ukraine. First, as long as the war continues, the EU cannot admit Ukraine without in effect declaring war against Russia (TEU article 42(7)). Secondly, Ukraine is nowhere near to fulfilling EU membership criteria, and the war has made it even less eligible for membership (e.g. martial law, many political parties prohibited, elections postponed, media censored, etc.). Thirdly, it would be much more important to commit major resources for reconstruction in Ukraine after the war. Promises of EU-membership cannot be a substitute for genuine assistance in reconstruction. Finally, further enlargement without a common fiscal policy, and without the establishment of other EU institutions, is a recipe for compounding the current gridlock and strengthening disintegrative tendencies in the EU.

Modern Europeans must know how to look beyond the small peninsula of the old continent known as Europe. The fundamental reorganisation of the world political economy would involve (1) the transformation of some of the existing institutions to enable free and equal development of all (for example, creating a trade regime that allows for pluralist and developmentalist policies, or through supporting sustainable developments in places such as Palestine or Yemen); and (2) the building of new common institutions ranging from a clearing union to global tax organizations and a world parliament. Some of these we have outlined and discussed in previous Euromemoranda. Here we would like to highlight three persistent matters.

Firstly, any process – including the war in Ukraine and accelerating climate change – which lead to rapid food price inflation in the global South is likely to lead to hunger revolts and distributional conflicts, which may in turn lead to the collapsing of states and to civil wars, possibly followed by *ad hoc* foreign military interventions and mass refugee movements. Military interventions may involve powers from the competing camps and thereby risk escalation. Mass movements of people to the global north tend to feed into the process of strengthening the right-wing authoritarian-nationalist forces, which in turn can reinforce the currently prevailing deglobalising tendencies in the global political economy. Things are interconnected and these connections generate a vicious circle. What we thus need are global institutions and counter-mechanisms that can ensure people's ability to access and afford food that is nutritious and of sufficient quantity. Such mechanisms and institutions can contribute to the emergence of a virtuous circle, although to ensure this, it would also be necessary to tackle the underlying problems of war and global warming and their causes.

Secondly, now is the time to reopen the issue of the military-industrial complex and the growth of its relational power in different countries. While we can seek guidance from the previous rounds of discussions,[96] a critical political economy analysis must take into account also the role of new technologies and the power of digital platforms. The tendency of such organizational complexes to develop a life, purpose, and truth of their own may be strengthened by the new opaque but powerful technologies, and the secretive nature of security practices. Even if the military-industrial complex is not the root cause or even among the most essential cause of conflict and the expansion of armaments-production, over time its growing power

[96] Perhaps most noteworthily Galbraith, J. K. (1969). *How to Control the Military*, New York: Signet Books, freely readable at https://archive.org/details/howtocontrolmili0000galb_h1m2/page/n7/mode/2up. Some of the formulations of this paragraph owes to Galbrath.

and its tendency to justify its own existence and importance can become a significant part of the dynamics of the whole.

This is not only an American or Russian problem, but one which is also shaping developments in Europe (of the EU members, perhaps most importantly in France which possesses nuclear weapons and is the third largest arms exporter in the world). Moreover, any nation or alliance that is alarmed by the power of the other, understood as a threat or enemy tends not to be tolerant of critics who question the only seemingly practical line. Furthermore, the combination of the power of the military-industrial complex and the disciplinary effects of securitisation can constitute a vicious circle. Breaking it may be very difficult – depending on the specific geohistorical context – but seems necessary for long-term human survival.

The third and final matter concerns sanctions. To the extent that sanctions are in general or in the specific case of Russia in 2022-24 reasonable, they should first and foremost be targeted at the decision-makers and their surroundings. Thomas Piketty has proposed sanctions based on a new transparency register for real estate and other capital assets in the West.[97] These sanctions would have been sensible since they would have hit specifically the power elite around Putin, rather than ordinary middle-class wage earners in Russia. However, these sanctions have failed to materialise because a new transparency register is no more in the interest of the billionaires of the West than they are in the interests of Russian oligarchs. This is an arresting indication of the dangers of the concentration of wealth and power in a few hands.

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[97] The idea is to impose high taxes by Western states on the real estate and financial assets owned by the Russian well-off and this requires detailed knowledge about these assets. Piketty, T. (2022, March 16). The Western elite is preventing us from going after the assets of Russia's hyper-rich, *The Guardian*. Available at: https://www.theguardian.com/commentisfree/2022/mar/16/russia-rich-wealthy-western-elites-thomas-piketty.