EuroMemorandum Group

A Democratic Economic Policy Alternative to the Neo-liberal Transformation of Europe

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Summary

Current economic and social developments in the EU are marked by a growing precariousness and uncertainty. The year 2006 saw moderate growth, and the overall rise of the number of people without work has halted at least temporarily . But the level of unemployment remains unacceptably high. At the same time precarious work conditions and poverty, of the unemployed, but also of 14 millions employed persons, has increased – while on the other hand corporate profits have exploded and the number of European millionaires has risen again. The above average poverty rates of children (20%) and of elderly people (18%) is a scandal for one of the richest regions in the world. In the new member states the dynamic growth of production and productivity has not been accompanied by corresponding improvements in the social situation. Very substantial current account deficits in these countries indicate considerable imbalances and threaten the economic cohesion of the Union.

The outlook for further development in the EU promises no improvements. Worldwide economic growth will no longer be pushed forward by the extraordinary expansion of the USA. The resulting slow-down of world economic development will affect the EU all the more, because the Union has in the past years spent most economic policy efforts in attempts to improve its position in the world – often at the expense of domestic incomes and demand. When the external markets are now becoming less dynamic, the domestic demand of the EU is too weak to replace them in the immediate future. A new rise in unemployment and further increase in poverty are to be expected. Additional uncertainty comes from financial markets. The volume of share trading has just surpassed that of the late 1990s, the number and assets of hedge funds have doubled since 2000, and the turnover of derivatives in 2005 was more than three times higher than in 2000. Even institutions like the IMF and the BIS are concerned by the possible threats of instability which have again accumulated in the global financial system.

In this uncertain and precarious environment, economic policy is challenged to provide a reliable framework for stable economic and social development, ecological sustainability and global solidarity. But this challenge has not been taken up by the EU nor by most member states. Instead:

- *macroeconomic policy* locks itself into a framework of monetary and fiscal restriction on the national and on the EU level;

- the European Commission and Council push through a basically *unchanged services directive* based on almost unconditional market radicalism, in spite of strong criticism and opposition in the European public;

- as a response to the uncertain perspective of long-term provision for fossil energy sources, instead of promoting with all possible forces the development of new energy sources and energy saving, the EU considers *enhanced use of nuclear energy* and even the *use of military power to ensure access* to oil fields;

- in the area of *poverty and precariousness* the European response has so far been limited to the collection and dispersion of data, but no decisive measures have been taken and no relevant money spent to fight poverty;

- for the first time in history the EU had started an *attack on one of the rare existing European rules for work protection*: It envisaged to extend flexibility and to contradict the judgements of the European Court of Justice that time spent 'on-call' is working time;

- in its policy on *financial markets* the EU is exclusively concerned with theopening up of markets, and this goes at the cost of consumers, as is the case in the new initiative on housing finance;
- finally, in the WTO negotiations and after their – at least temporary – failure also in bilateral negotiations, the EU is now embarking on an increasingly *aggressive neo-mercantilist trade policy*, which is very harmful for the partners and not useful for the EU itself.

There are alternatives to this increasingly obvious transformation of the EU and Europe into a neo-liberal zone of corporate freedom and social subordination. Such alternatives include both immediate measures and further reaching institutional reforms. Their basis and core are the enhancement of democratic transparency, public discussion and participation in economic decision making on all levels of society.

As such alternatives we propose:

- an ***overall economic policy orientation*** which enables and obliges member states and the EU to pursue full employment, social welfare and equity, ecological sustainability and peaceful international economic relations as overarching objectives;

- a ***macroeconomic framework*** which is not constrained by arbitrary deficit restrictions or biased priorities but leaves room for expansionary monetary and fiscal policies and provides the instruments and resources for such policies. These include large public investment programs, the ending of tax competition, a higher EU budget and a more democratic and efficient method of its financing;

- a turnaround towards a ***progressive reform of the working time directive***: shorter working weeks, more opportunities and social protection for part-time work, and no opt-out opportunities;

- the development of general and specific ***social minimum standards***, for overall social expenditures, education, healthcare etc., which should lead to a movement of upward convergence;

- strong emphasis on ***renewable energy sources***, more ***energy efficiency*** and a stronger promotion of ***energy saving*** in industry and households as top priorities in the European energy policy, which would considerably contribute to environmental sustainability;

- a ***thorough re-orientation of financial market policies***: away from exclusive emphasis on lower costs, higher velocity, and shareholder protection towards systemic financial stability through restrictions of financial speculation and towards social inclusion through consumer protection and particular opportunities for small enterprises and weaker social groups;

- a ***reform of trade and development policy***, aiming at the establishment of peaceful, fair, and equitable trade relations, which insist on compliance with internationally recognized labour and ecological standards and extend preferential and development-friendly treatment for less developed countries.

Introduction. The neo-liberal transformation of Europe continues

In a few weeks time the EU will, under the new German presidency, begin the preparations for the 50th anniversary of the Treaty of Rome which was signed in March 1957 and established the European Economic Community (EEC). Officials will point out that, on the one hand, the Community which had started with six western European countries in an environment of cold war has, after the collapse of eastern European socialism, become a powerful Union of 27 members from western and eastern Europe with the potential to become the "most competitive region of the world". On the other hand it will be emphasized that the economic and political position of the Union in the world is threatened by the lasting superiority of the US and the emergence of new powers like China and India and the environment of sharper global competition. It will probably even be conceded that the EU is presently in a position of economic weakness and political crisis and that enhanced endeavours and internal reforms are necessary to meet these challenges and strengthen the competitiveness of the EU. For this purpose more internal liberalization and flexibility are recommended to save and strengthen the "European Social Model" in the EU, and more economic and military power to deploy this model in the world.

This view is not new and it is – from an economic, a social, and from a political perspective – not acceptable. It ignores and denies the deep and destructive changes of the EU since the mid-1980s, transforming the Community into an increasingly neo-liberal area of competition, social inequality and political aggressiveness. This transformation has taken place and is still taking place, within the EU and with regard to its position in the world:

From the internal perspective the EEC started as a Community of mixed economies which had learned the lessons of the deep crisis of the early 1930s: that progressive economic and social development needs macroeconomic and structural intervention, that competition in a common market needs common rules and economic policies and that social progress needs a strong public sector in each society. These lessons, implemented in different ways in different countries, were common – though not uncontested – ground for the EEC and they were the basis of an unprecedented economic dynamism in the 1950s and 1960s. But from the mid 1970s onwards they were first gradually and then increasingly rapidly pushed aside and undermined by the rise of competition as the overarching rule for the whole economic – and subsequently also for large parts of social – life. Macroeconomic policy was shrunk to the rules of strict price stability and balanced budgets, the harmonization of rules for competition was largely replaced by the competition of rules including those for social security, work protection and environmental sustainability. This roll-back strategy was successful in the sense that it enhanced the economic profitability and political power of capital. But at the same time it was very destructive: macroeconomic fundamentalism and redistribution from the bottom to the top became a brake on economic growth, generated mass unemployment and undermined social cohesion in most member countries.

A similar transformation is going on with regard to the external position of the EU. It was at the beginning defined as closer cooperation within a global cooperative – though hegemonic – context of the Bretton Woods arrangements and institutions of fixed exchange rates and accepted capital controls. This was the global umbrella for the “golden years” of the post-war era. But in the 1970s this cooperative context was, upon initiative of the US and with active support of Germany, destroyed and replaced by unfettered international competition via flexible exchange rates and gradual liberalization of capital movements. The WTO, envisaged as an instrument to enforce global free trade, failed because of the biased position of the industrial towards the underdeveloped countries. Now it seems that the persistently neo-mercantilist position of Germany – which was temporarily interrupted through the unification turbulence – will be transposed into the position of the EU, with bilateral trade arrangements and formation of zones of influence. It is also alarming that the economic bloc-building is complemented by enhanced military ambitions. European integration after the war had been firstly and mainly driven by the overwhelming desire of the people to prevent forever new military adventures of European countries. Now the EU has begun new military adventures and is enhancing its military forces to continue this road.

Under such circumstances of self-destruction and polarization it comes as no surprise that the latest enlargements of the EU, a historical event of great importance, are met by almost all concerned parties with scepticism. The integration of poor countries into a richer bloc may appear as an opportunity and progress. But under the concrete circumstances it means at the same time additional pressure from the stronger upon the weaker side without adequate political and economic support. The foreseeable result is that in spite of a catch-up in terms of average income the polarization within the new countries increases.

In this situation, where the transformation of the EU into a neo-liberal area has already considerably advanced and its formation into a European neo-mercantilist bloc has gained momentum. Germany takes on the presidency for the first half year of 2007. The programme has been set by the German government and was welcomed by the EC. It consists mainly of two parts:

- to continue and complete the process of comprehensive opening up of markets, and
- to put the project of the European Constitution anew on the agenda of the EU and prepare its adoption under the French presidency in 2008.

This agenda is a reflection of considerable arrogance and contempt of public critique and resistance. Further market liberalization – particularly in the area of services – has been subject to substantial objections and social movements against the demolition of social standards and a race to the bottom through unregulated competition. Nonetheless the German presidency and the Commission seem determined to continue on this line. The same attitude is prevalent with regard to the Constitution. It was rejected in France and the Netherlands because its adoption would have elevated the neo-liberal economic program into the status of constitutional imperative. As a result of the subsequent “period of reflection” the Commission and the presidencies have obviously not analyzed these causes and elaborated a better constitutional basis for a social Europe. Instead they seem to be determined to present basically the same text again, hoping that this time it will be adopted by all members.

In this memorandum we present a short description and assessment of the basic macroeconomic and social situation and recent developments in the EU (chapter 1), followed by an analysis and critique of the main lines of economic and political policies which bears much responsibility for the unfavourable developments (chapter 2). There are alternatives to these destructive policies which would lead to a stronger economic development, tighter regional and social cohesion throughout the EU, more welfare for more people within each country of the Union and more co-operative relations with the developing world (chapter 3). The implementation of such alternatives is difficult for two reasons: Firstly they are of a complex nature and need thorough elaboration and co-operative efforts. Secondly they will be met by strong resistance by powerful forces of financial capital and other corporations who benefit from the present neo-liberal counter-reform and have done much to bring it on its present course. Therefore the elaboration of recommendations for economic policy alternatives should not only be regarded as an academic exercise but should also be seen as a contribution to social mobilization for a better Europe.

1. Towards a more precarious Union - Recent economic and social developments

The macroeconomic performance of the EU has been unsatisfactory throughout the current decade and it has not contributed to the resolution of the persistently sharp and even increasing social problems. Unemployment is still unacceptably high, poverty is on the rise, environmental destruction continues and severe imbalances threaten economic and social cohesion. In a global context, in which the US economy is loosing its leading role for growth, and financial speculation exceeds the level of the late 1990s, the obvious weakness of the European Union adds to instability and precariousness.

1.1. Sluggish growth, persistent unemployment and large imbalances – Macroeconomic development

Economic growth in the EU was poor during the first five years of the decade, averaging a mere 1.7% p.a. (and even worse in the Euro area with 1.4% p.a., see table 1 below). The increase in 2006 at 2.8% in the EU25 (2.6% in the Euro area) seems to be a transitory phenomenon, since a fall-back in 2007 is already forecasted by major institutions.[1] At the same time productivity growth was generally low, around 1.2% p.a. (0.9% p.a. in the Euro area) in the period 2001-5 and 1.3 (1,2)% in 2006. (In the US, in the former period, it was 2.2% p.a.). Only the Middle and Eastern European New Member States (NMS) experienced substantial productivity growth rates. Overall, the path of European macroeconomic development at the beginning of the new millennium can be described as mediocre: characterized by moderate GDP growth and consequently little increase of employment, certainly insufficient to lower unemployment and with a poor productivity growth. In some countries such as Italy and Spain employment increases occurred at the expense of productivity growth. This may be due to increased part time work or to negative effects of labour market flexibility on productivity.

Substantial differences between member states can be observed. The key large countries in the Euro area, Germany, France and Italy, show growth performances below average and are characterized by similar levels and changes of employment rates. The Scandinavian countries on the other hand have growth rates above average and reduced their unemployment rates substantially recently. Their generous welfare systems seem compatible with low unemployment, which has also been recognized explicitly in this year’s OECD Employment Outlook.

[1] Data for 2006 are forecasts by the European Commission (EC) from November 2006.

The southern European countries (and Ireland) are growing reasonably fast, but unemployment rates are still high. The Eastern NMS are the fastest growing region, but unemployment remains very high, with Slovakia (14.3%) and Poland (13,9%) exhibiting Europe's highest unemployment rates. In these countries a high unemployment rate has particularly dramatic effects on living conditions since welfare state expenditures are lower than in the EU-15 (27.6% of GDP and 18.5% of GDP respectively)[2].

Table 1: Macroeconomic performance of the EU, 2001 - 2006

	GDP per capita in PPP (EU25 =100)	GDP growth in %		Growth of labor productivity in %		Unemployment rate in %		Current account (% of GDP)	
	2001-05	2001-05	2006	2001-05	2006	2001-05	2006	2001-05	2006
EU (25)	100	1.7	2.8	1.2	1.3	8.8	8.0	0.0	-0.5
Euro area	107	1.4	2.6	0.9	1.2	8.5	8.0	0.3	-0. 1
Belgium	118	1.4	2.7	0.9	1.8	7.8	8.6	3.5	2.4
Czech Rep.	69	3.7	6.0	2.4	5.1	7.9	7.4	-5.1	-3.1
Denmark	123	1.4	3.0	1.3	1.8	5.0	3.8	2.9	1.9
Germany	109	0.6	2.4	1.5	2.0	8.7	8.9	2.4	4.5
Estonia	49	8.3	10.9	6.5	7.5	10.1	5.4	-11.4.	-11.5
Greece	79	4.4	3.8	3.3	2.3	10.2	9.3	-7.5	-8.5
Spain	96	3.2	3.8	0.4	0.5	10.5	8.1	-4.7	-8.6
France	111	1.5	2.2	1.0	1.4	9.2	9.3	0.1	-2.1
Ireland	134	5.2	5.3	2.2	0.9	4.4	4.3	-0.9	-3.2
Italy	108	0.6	1.7	-0.0	0.4	8.4	7.1	-0.9	-1.4
Cyprus	82	3.2	3.8	1.7	2.3	4.3	5.4	-4.4.	-6.0
Latvia	41	8.1	11.0	6.4	8.2	11.0	7.4	-11.2	-16.1
Lithuania	45	7.6	7.8	6.6	5.8	12.4	5.9	-2.1.	-8.9.
Luxembourg	230	3.0	5.5	0.3	1.7	3.7	4.6	9.2	11.4
Hungary	59	4.2	4.0	3.8	3.8	6.1	7.3	-7.5	-7.3
Malta	72	0.3	2.3	-0.5	1.3	7.5	7.0	-2.6	-10.9
Netherlands	125	1.2	3.0	1.3	1.3	3.6	3.9	5.1	7.6
Austria	122	1.4	3.1	1.3	2.4	4.4	5.2	-0.1	3.0
Poland	48	3.0	5.2	3.6	1.8	18.9	13.9	-2.6	-2.3
Portugal	75	0.7	1.2	0.2	0.6	5.9	7.6	-7.4	-9.0
Slovenia	77	3.5	4.8	2.8	4.0	6.4	6.1	-1.3	-1.9
Slovakia	51	4.6	6.7	4.1	4.0	18.0	14.3	-6.0	-7.8
Finland	112	2.5	4.9	1.4	3.4	8.9	7.7	5.3	5.5
Sweden	116	2.2	4.0	1.9	2.4	5.9	7.3	5.6	6.3
U.K.	116	2.5	2. 7	1.4	1.8	4.9	5.3	-2.0	-2. 5

Sources: Eurostat AMECO database; figures for 2006 are from European Commission, Autumn 2006 Economic Forecasts; .

The different economic performances are also reflected in rising divergences in the current account balances. Whereas some countries show substantial current account surpluses, such as the Netherlands (7,6% of GDP), Sweden (6,3% of GDP) and Germany (4,5% of GDP), others

[2] Source: Eurostat 2005.

have high deficits. Latvia and Estonia have two digit percentages of GDP current account deficits, in Portugal the deficit amounts to 9,0% of GDP and in Slovakia, Greece, Spain and Hungary deficits are in excess of 7% of GDP. While these current account positions are in some cases the by-products of the superior growth performance, they do amount to dangerous imbalances, which threaten the economic and political cohesion of the Union. For countries that have not yet introduced the euro, they could lead to pressures for devaluation, which may give rise to instability on foreign exchange markets.

Notwithstanding the different external performances of different member countries the economic position of the EU in the world is strong. The Union is the world's largest and most important trading bloc. Against the spectacular emergence of Asian countries, in particular China and India, on the global scene, the EU was able to increase its market share in merchandise trade and it has maintained its leading role in services trade. This position has evolved since the 1990s, when extra-EU trade has expanded considerably both in merchandise and services trade. From 1991 to 2004 the share of external merchandise trade (export plus imports) to EU-15 GDP rose from 14.92 to 21.86%. For services, the share of external trade to EU-15 GDP rose from 5.51 to 7.12 % from 1990 to 2004. Measured against world exports, the EU was able to expand its market share in merchandise trade from 16% in 1991 to 20% in 2004. This holds also true for services: Though the EU's share of world exports in services decreased from a high of 24.52% in 1990 to 20.71% in 1992, it was able to maintain this level over the period to 2004, when it reached 20.81%. On the other hand, over roughly the same period the share of US exports in world merchandise exports experienced a decline of 3 percentage points to less than 15%, and of 1.7 percentage points to 15.3% for services. Thus, compared to its main rival in international trade, the EU's performance turns out to be quite favourable.

In spite of this strong external position of the EU the present growth trajectory and the policy setting in place are insufficient to tackle two of the major problems: the disparities of living standards and mass unemployment. The progress towards a convergence of living standards is much too slow. Per capita GDP still varies enormously among the EU member states (see Table 1)[3]. Sustained mass unemployment constitutes a major loss of social welfare and is probably the single most important economic challenge to Europe. There are now around 18.7

[3] GDP is not a perfect measure of welfare. The United Nations Development Programme (UNDP) publishes estimates of the Human Development Index (HDI), a broader measure of welfare. It is worth noting that countries with high social expenditures typically fare better in terms of welfare than other countries. For example Sweden tops the HDI list despite having only the seventh highest GDP per capita (in 2003).

million people counted as unemployed in Europe. The modest decreases in unemployment experienced in 2006 are miniscule compared to the scale of the problem. The evidence suggests that the present policy framework focusing on labour market liberalization is ineffective in decreasing unemployment.

1.2. More precariousness and poverty – and more wealth: Rising inequality in the EU

Persistent unemployment, low wages and deregulation of labour markets have enhanced social insecurity and precariousness and contributed as main causes to more inequality and poverty in the EU. The share of temporary contracts, self-employed and part-time employment as a percentage of all employees has increased, and although not every part-time contract is precarious, the share of employees involuntarily working part-time has grown from 15.6% in 2002 to 20.3% in 2005, i.e. every fifth part-time employee was willing but unable to find full-time employment (see table 2). With an increase of almost three percentage points, this development was particularly drastic in 2005.

In addition to insecure employment, poverty[4] has become a major threat for a growing part of the population. The slightly positive developments that began in the mid-1990s have now been reverted and the poverty rate, which had declined from 17% to 15% has returned to the level of 17% in 2005. About 72 million people in the EU25 live with an income below the national poverty thresholds. With the accession of Bulgaria and Romania, this figure will rise to about 80 million. Because the poverty thresholds in purchasing power are much higher in the EU15 than in the EU10 countries – 15.966 € for a household of two adults and two children in the former and 6.742 € in the latter – the differences of living conditions throughout the EU25 are tremendous.

Table 2: Insecure Employment

	EU-25	EU-15	Maximum Value 2005	Minimum Value 2005
Temporary contracts in % of employees (15-64 years)	2000: 12.5 2005: 14.2	2000: 13.7 2005: 14.0	Spain 33.3 Poland 25.4	Ireland 2.5 Estonia 3.3
Self-employed* in % of all employees	2004: 15.9	2004: 14.9	Greece 40.2	Sweden 4.9
Part-time employment in % of employees (15-64 years)	1995: *n.a.* 2000: 15.9 2005: 18.0	1995: 15.6 2000: 17.5 2005: 19.8	The Netherlands 45.8 Great Britain 24.8 Sweden 24.3	Slovakia 2.3 Hungary 4.1 Czech Republic 4.3
Involuntary part-time employment in % of part-time employees	2002: 15.6 2003: 16.7 2004: 17.7 2005: 20.3	2002: 14.6 2003: 15.7 2004: 16.9 2005: 19.7	Greece 50.9 Lithuania 48.8 Italy 40.2 Latvia 38.5	Netherlands 4.1 Slovenia 8.2 Great Britain 8.3 Austria 11.1

Source: Eurostat database; * = European Commission, Employment in Europe 2005; n.a. = no data available.

[4] Defined as individual income below 60% of the national equivalised median income.

Some groups of the population are particularly threatened by poverty (see table 3): every fifth child in the EU25 is poor and elderly people are more exposed to poverty than adults aged 15-64. Households with children and especially households of single parents are much more threatened by poverty than households without children. The poverty rate for the unemployed (40%) is five times higher than for employees (8%). However, the absolute number of people being employed and poor – about 14 million so-called “working poor” – is twice as high as the number of unemployed poor (about 7 million). This is mainly the result of changes on the labour markets, such as the expansion of low paid jobs and the increase of precarious, involuntary part-time and short-time employment.

These statistical data still give a too favourable picture about poverty and social exclusion in the EU. They do not include those groups that are particularly vulnerable and exposed to poverty – e.g. the homeless, victims of people trafficking, (illegal) immigrants, people in care institutions – who are often not even counted.

Table 3: Poverty Rates in the EU in %, survey year 2004

	EU25	EU15	EU10	Maximum Value	Minimum Value
All age groups	16	17	16	Portugal, Slovakia, Ireland (21)	Czech Republic (8) Slovenia (10)
Children (< 16 years)	20	20	22	Slovakia (30) Italy (26)	Slovenia, Denmark (9)
Adults (16-64 years)	15	15	15	Slovakia (20) Portugal, Greece, Italy (18)	Denmark, Cyprus, Finland, Sweden (10)
Women (> 16 years)	17	17	14	Ireland (23) Greece (22) Portugal, Spain (21)	Czech Republic (8) Luxembourg (10)
Men (> 16 years)	14	14	15	Slovakia (21) Portugal (20)	Czech Republic (6) Hungary, Sweden, Lux. (10)
Elderly people (> 65 years)	18	19	9	Cyprus (52) Ireland (40) Spain (30)	Czech Republic (4) Luxembourg, Poland (6)
Employees (> 16 years) incl. self-employed	8	8	10 (2003)	Slovakia (15) Portugal, Greece (13)	Czech Republic (3) Slovenia, Finland (4)
Unemployed (> 16 years)	40	40	38 (2003)	UK (54) Latvia (51) Slovakia (50)	Cyprus (22) Sweden (26)
Households without dependent children	15	15	10 (2003)	Cyprus (28) Ireland (24) Portugal (21)	Czech Republic (4) Luxembourg (8)
Households with dependent children	18	18	13 (2003)	Slovakia (25) Italy (24) Spain (23)	Denmark (7) Slovenia, Finland (8)
Single Parent with dependent children	34	34	24 (2003)	Malta (59) Ireland (56) Slovakia (41)	Denmark, Hungary, Finland (16) Sweden (19)

Source: Eurostat database as of October 2006.

The indisputable fact of increasing poverty at the bottom stands in glaring and scandalous contrast to that of growing wealth at the top of European societies - for which, however, official data are much less available. The latest figures on income distribution cover the year 2001 and reveal that the bottom income decile had a 3 % share of national equivalised income, almost one eighth of that of the top income decile which receives almost a quarter of national income (23 %). According to the World Wealth Report 2006 of Merrill Lynch and Capgemini the number of dollar-millionaires in Europe has steadily increased in the last years (by 2.4% in 2003, 4.1% in 2004 and by 4.5% in 2005) and reached 2.5 million in Europe; the financial assets of this 0.6% of the European population amounted to $ 9.4 trillions or 60% of all European financial assets managed by institutional investors ($ 15.6 trillions)[5].

1.3. "New Members Disease": Macroeconomic catch-up without social improvements

The accession has at last positively influenced the macro-economic development of the new member countries. GDP growth has during the last years been much higher than that of the old EU15 members. However, this growth differential with western European economies, though necessary in the catching-up process, is one of the causes of another most serious problem of the CEECs: huge and persistent negative balances in current accounts in most countries. A sober contemplation leads to the conclusion that, if current tendencies continue, the negative current account and the indebtedness of most NMS will increase until they will become insolvent and have to renegotiate their debts. A Latin-American type development is looming and there seems to be no power or movement willing and able to change this tendency. The IMF type stabilization packages, trying to solve the imbalances by cutting the expenses on health care or education, or the general government reforms, a euphemism for privatization of government services, can hardly improve the competitiveness of the manufacturing industries in the CEECs , nor indeed improve the current account (even if they 'improve' the budget deficit position).

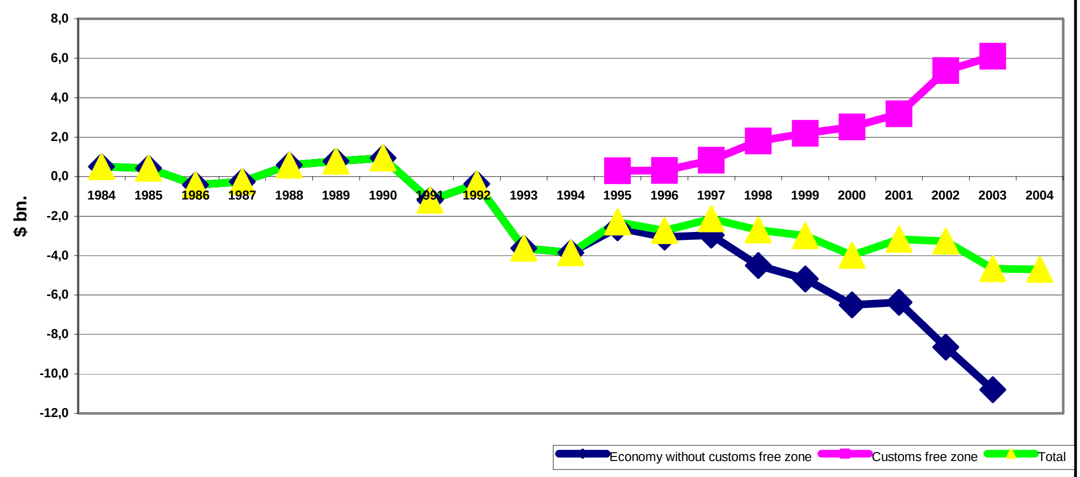
The neo-liberal concept, that liberalization and deregulation would increase the performance of the country because the resources would be allocated efficiently and everybody would produce what is most suitable and profitable, in practice resulted in serious imbalances both in foreign trade and current account due to significant efficiency differentials to western competitors. The succeeding waves of privatization to a large extent were tantamount to selling off the national companies of the CEECs to foreign capital with the consequence of the emergence of a dual economy. In this dual structure the foreign owned companies produce the growth, but they transfer their income abroad (repatriation of profits), while the national companies are stagnating and – because of huge losses in market shares since the systemic change – have very serious imbalances. This dual character explains why the budget and current ac-

[5] International Financial Services, (www.ifsl.org.uk) Financial Markets Trends, Europe vs. USA, October 2006, p.5.

count of these countries are deteriorating while they experience relatively high economic and export growth. The import of foreign capital to these countries in the form of FDI enabled the establishment of internationally competitive plants and of much needed jobs, however there is not necessarily a positive correlation between FDI and economic growth.

A good example for these problems is the case of Hungary. The massive inflow of FDI and portfolio investments supplied only a temporary solution for the woes of the Hungarian economy. When the performance of the foreign companies of the customs free zone is separated from the rest of the economy, the imbalances of the Hungarian economy can be clearly seen. Figure 1 shows that when leaving out the foreign trade surplus of the customs free zone, the foreign trade balance of the Hungarian economy has been deteriorating since the systemic change with a pause caused by the stabilisation package of 1995. With some approximation the negative trade balance of the Hungarian (non customs free zone) economy can be taken as the market losses Hungary suffered as a consequence of liberalisation, privatisation, deregulation and usually the economic policy that has been followed since the systemic change. The yearly loss amounted to $11 billion in 2003 and, as can be seen from figure 1, it is increasing at a fast rate.

Figure 1: The Hungarian trade balance



Problems in Poland. But even when the external position has not deteriorated as much, economic growth has usually had almost no meaningful positive effect on the social development of the NMS. This can be demonstrated well by the case of Poland, the biggest of these countries and the one with the best and improving external position of all NMS. During the last two years Poland experienced a considerable acceleration of GDP growth, from 1.2% annually in 2001 and 2002 to 4.1% in 2003-2005 and to at least 5% in 2006. The 14% fall in gross capital formation in 2001-2002 was followed by an annual 6.5% increase during the last two years and 11.4% in the first half of 2006. After five years of permanent increase in unemployment, which resulted in an unemployment rate of about 20% in 2003, the tendency has now reversed. The rate in the second quarter of 2006 has declined to about 15.5%, and this fall was mainly caused by an increase in internal demand for labour. Along with more employment a considerable increase in labour productivity has been registered. Also, with the exception of the relatively short period (about one year) following the accession, inflation has remained so low that Poland has since 2003 been amongst the three EU countries with the most stable prices[6].

The external position of Poland is favourable, too. Since 2004 revenues from exports denominated in Euro have been growing by nearly 20% annually owing to huge improvement in international price competitiveness. A positive gap between export and import dynamics resulted in a considerable reduction of the deficit in external trade on goods (from 7.7 billion € in 2002 to 2.2 billion € in 2005) and contributed to a sharp decrease in the current account deficit ratio (from 4.3% of GDP in 2004 to 1.5% in 2005).

In spite of this outstanding economic development, acute social problems persist. The rate of unemployment remains the highest among the EU member countries. What is worse, the rate of long term unemployment (defined as unemployment for more than 12 months) remains at a stable level of above 10% and the rate of very long term unemployment (more than two years) has increased from 5.0% in 2004 to 5.3% in 2005. These data suggest further freezing of the composition of long-term unemployed. This is accompanied by very low public expenditures on labour market policy (below 1% of GDP) and an extremely restrictive unemployment benefits policy (only one eighth to one seventh of all unemployed persons are entitled to receive the benefit).

Along with increasing employment, work conditions are deteriorating. That is reflected in more insecurity of employment (the number of temporarily employed has doubled since 2002), increasing proportion of employees on very low wages, a decreasing ratio of the minimum wage to the average one, and numerous cases of infringement of labor laws by employers.

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[6] The case of Poland confirms that in favorable circumstances (underutilized production potential and high unemployment) reasonable expansionary monetary policy does not result in increasing inflation, but quite the opposite: an inflation stimulus arising from demand side is compensated with a surplus by a deflation stimulus arising from decreasing unit costs of production.

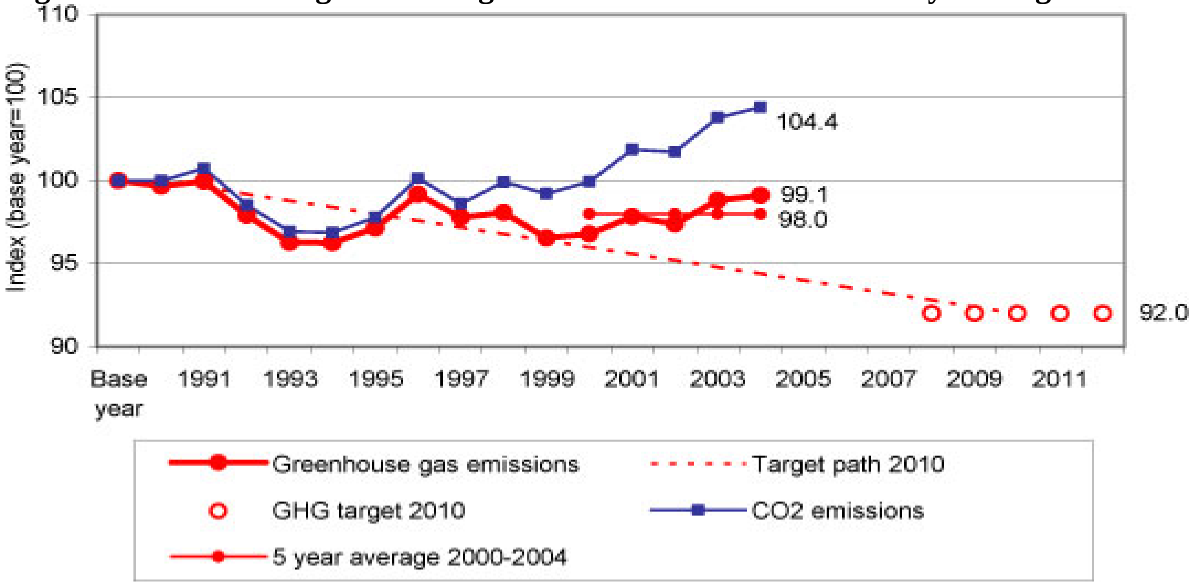
Income distribution remains very unequal. The ratio of income received by the top quintile to that received by the bottom quintile was 6.6 in 2005. Almost three fifths of the population do not reach the decent standard of living, the so called social minimum. About one third (or 18% of the total population) spend on their consumption less than half of the average households' expenditures and about one fifth (or 12% of the total population) is living in extreme poverty, which means their consumption expenditures are not sufficient for ensuring their biological existence as human beings and their psychological development. This share was 4.3% in 1996 and has risen since to the present three times higher value! In spite of these glaring pathologies the economic and social policies of the government remain overwhelmingly passive.

1.4. Far from fulfilling commitments: Insufficient environmental protection

In the main areas of environmental threats the situation remains critical or is even worsening, at a global level and within the EU itself and deeply unsustainable tendencies continue unchecked. This is true for climatic change through human activity, the loss of biodiversity, the scarcity of resources, and the deterioration of the human habitat.

Greenhouse gas emissions provide a telling example of this general trend: In spite of clear international commitments and a rising awareness of the problem by European citizens, the EU is not even approaching an active compliance with its Kyoto targets (see figure 2).

Figure 2: Total EU-15 greenhouse gas emissions in relation to the Kyoto target



Source: European Environment Agency, 2006.

The hopeful optimism advertised by the EU commission in this field is not based on visible real developments. The European Commission's claim (in its *Green Book on Energy Efficiency, 2005)* that 20% of the EU's current energy use could be saved by 2020 at no cost and would cover half of Europe's commitments under the Kyoto Protocol, is more a statement on the high potential of alternative strategies than on the effective orientation of current developments.

1. 5. Growing financial strains – Problems in European finance

The unsatisfactory economic and social development of the EU is "embedded" in an environment of growing financial tensions, on the global and the European level. It is remarkable that major financial institutions like the IMF and the BIS have recently acknowledged this fact and are alarmed about the threats of financial imbalances and instability, which could result in major "disorderly adjustments", and even in financial crises. There are different factors contributing to this constellation and although the outcome is hard to predict precautionary and preventive measures are necessary.

Dollar crisis? The main source of financial uncertainty remains the US current account deficit, the weakness of the dollar and its vulnerability to a sudden and large depreciation. In such a case the consequence might well be a flight from dollar-denominated to euro-denominated assets which would drive up the Euro to an unsustainable level, with two adverse effects: firstly, some sectors and some countries in the Euro-zone would have to deal with a drastic loss of competitiveness; secondly, the relationship between the Euro and other EU currencies would probably be distorted by Euro appreciation, which would mean an inflationary shock in Britain, the Scandinavian and the new member states at the same time as the Euro-zone was trying to cope with a tendency to contraction.

House prices. Within the EU there are also some worrying tendencies – in particular the rapid escalation and historic high levels of house prices in Britain and Spain. The IMF itself has recently recognized that a move towards a more market-oriented financial system, as has taken place in these countries, makes the economy more exposed to fluctuations in asset prices[7]. It is usually impossible to assign general monetary policy to the control of such imbalances[8]. Instead, specific interventions into the housing sector are needed to preserve stabil-

[7] IMF *Economic Outlook*, September 2006.

[8] Although asset prices are certainly one relevant factor in the determination of monetary policy, some of the current discussion of the use of monetary policy to deal with asset price inflation suggests a return to the disastrous monetarist experiments of the 1980s.

ity and to limit the adverse distributional effects of house price inflation. But these are not taken.

Bank Profiteering. A further worrying phenomenon in the financial sphere are the huge profits being made by certain financial groups. In particular, the large British banks (the "big five") have just declared enormous profits over the last financial year. The total of £33.5 billion amounts to 2.7% of UK GDP. Obviously not all this money was made in Britain (it would represent some £460 from each of Britain's 25 million households[9]), but, even allowing for the global reach of some of the big five, these sums cannot conceivably be explained in terms of efficiency – they are due to market power and the fact that the banks happen to be well established in some growth sectors[10]. These unjustified profits are also the root cause of a continuing inflation of the rewards of corporate leaderships, particularly in the financial sector, which is socially divisive and economically wasteful. Since Europeans are known for their inertia in changing their banks it is futile to look to competition to rein in this exploitation. What is needed is in the short-run an excess profits tax on the banks (the Thatcher administration of the early 1980s was a pioneer in this regard) and in the longer term more intense regulation of commercial bank services.

Hedge Funds. Continued expansion in the activities of hedge funds, although this expansion has slowed recently, is another cause for concern. These institutions are deliberately opaque in order not to alert other investors to their strategies, and this raises problems of both stability and market functioning. It is known that hedge funds take particularly speculative positions, including short positions in certain assets which can lead to unlimited losses and highly geared positions which involve a heightened risk of default if they go wrong. Further, they invest in a wide range of assets going well beyond organized security markets. In some of these “peripheral” markets liquidity is limited and can disappear altogether after a shock, leaving investors with unsaleable assets. These funds should therefore be required to provide full and frequent statements of their position to the authorities[11]. Hedge funds have recently also – in response to falling returns of speculation – embarked on a new and not less harmful strategic line: alone or in alliance with other hedge funds they buy themselves into large corporations and develop intense “shareholder activism” with the intention to boost share prices and to enforce disbursements of high dividends. This behaviour has a disastrous contagion

[9] Motley Fool website.
[10] The market power of the big five banks in Britain was amply confirmed by the Cruikshank Report (HM Treasury, *Review of Banking Services in the UK*, 2000).
[11] For a full survey, "Hedge Funds: developments and policy implications", *ECB Monthly Bulletin*, January 2006.

effect on traditional institutional investors who are increasingly engaging in similar short-term pressures upon the management of the companies in which they have invested the many billions of contributions to pension funds and insurance companies. This has consequences not only for the safety of income for pensioners in the future but also immediate and most harmful effects upon the workers and employees in the corporations which are put under such enhanced pressure.

2. Unimpressed by poor results and growing critique – Economic and social policies

2.1. Higher interest rates and lower public budgets – The spirit of macroeconomic restriction

In the area of macro-economic policies nothing really new has happened during the last year – while the challenge would have been to support and strengthen the ongoing modest recovery of the European economy and bring it on a path of sustainable and sustained development. This has not happened. Instead, the signals were set in the opposite direction which makes the economy more vulnerable in the coming context of global slow-down of production and rising financial instability.

Monetary policy has continued and even reinforced its counterproductive course of monetary restriction. Although the ECB sees no imminent danger of inflation and wage developments have - even in the assessment of the monetary authorities - been very moderate the key interest rate was raised in two subsequent moves to prevent all potential inflation expectations. This was certainly not helpful to sustain economic growth in the larger and weaker economies of Germany and France, on which much of the general direction of economic development depends. It has also put an end to the recovery of the construction industry in such countries like Germany, where it had been in sharp crisis for many years. On the other hand the interest rate hike will enhance financial tensions in countries like Spain and the UK which have experienced a speculative housing boom. It provides shocks to highly leveraged financial activities and thus contributes to global financial tensions which could lead to a bursting of the speculative bubble with wide and harmful contagion effects. Although it is certainly appropriate to contain excessive financial speculation a mere raising of interest rates without preventive measures against financial crisis is dangerous and potentially counterproductive.

In fiscal policies, too, no change of course has occurred, and the prevailing orientation has been reinforced. This can well be observed in the amended version of the Stability and

Growth Pact (SGP). In previous years this instrument of fiscal fundamentalism had been pushed into the background, it played a minor role in official policy statements, and the former president of the Commission even called it a “stupid” pact. This partial disregard coincided with the period in which Germany violated for the third and fourth time the public deficit provisions of the SGP and prevented a legal procedure which the Commission should have initiated against Germany from being carried out. Now that Germany is back on track the status of the SGP is enhanced and balanced public budgets are re-emphasized as the main guidelines for sound fiscal policies. On the revenue side, tax competition is continuing and will lead to disastrous effects on public budgets as soon as the present period of exploding corporate profits comes to an end. On the EU level the council decisions on a leaner EU budget for the period 2007-2013 are being implemented, and this will further impede the room for manoeuvre for the EU to tackle urgent social and environmental problems.

2.2. 'Bolkestein' in a new outfit – The spirit of deregulation in the new services directive

One of the most controversial issues of European economic policies during the last two years was the draft directive on “services in the internal market”. The core of the conflict was the “country of origin”- principle, which provides that every firm registered as service supplier in one country of the EU may supply services in all member countries of the EU under the rules of his or her home country. In February 2006, about 100 000 people mobilized by trade unions and social movements across Europe participated in big demonstrations against the devastating implications of this orientation for the social institutions, arrangements and achievements of most member countries. This massive pressure from a European protest movement resulted in some changes to the initial text. Some service sectors were excluded from the scope of the directive - e.g. audiovisual services, port and transport services, security services, services of temporary work agencies, health services and some social services such as social housing, childcare and services for families and persons in need. The articles of the draft directive on health services, EU-wide mobility of patients and on special stipulations concerning the application of the posting of workers directive were withdrawn. Thus there are some achievements compared to the initial draft of the earlier Commissioner Frits Bolkestein.

In November 2006, the European Parliament approved the Council Common Position on the Services Directive without further amendment. Thus the Directive can enter into force. The EU institutions claim that now a 'balanced compromise' has been reached which, while on the one hand opening markets for services throughout the EU, at the same time safeguards and strengthens the European Social Model. In our view this is not the case. 'Bolkestein' has not been defused, most of the strategic core of the initial draft prevailed. There are various reasons for this assessment.

Country of origin principle. It is true that the term 'country of origin principle' has been deleted from the text of the directive. Instead, Article 16 of the directive now states that 'the member state in which the service is provided shall ensure free access to and free exercise of a service activity within its territory.' In the subsequent provisions it becomes clear that the change of words does not include a change of content and that the spirit of liberalization and deregulation is still at the heart of the Services Directive. It obliges member states to remove immediately 31 and to submit to critical examination another 60 specific requirements which member states demand from service providers from other member states to fulfil – and to submit regular compliance reports. For instance, according to Article 14 of the Services Directive, member states would in future no longer be able to specify the form of establishment. They may no longer require that a service provider operate for a minimum period of time on their territory nor even that they be registered. Moreover, it will no longer be possible to stop the frequently purely formal multiple registrations. With these bans, the Directive creates an incentive for service providers to take advantage of the different regulatory standards within the European Union through relocation. This not only facilitates tax evasion but also the circumvention of higher environmental, employment and health standards as well as qualification requirements and collective agreements in their former country of origin.

Exclusion from the scope of the directive. As a result of critical discussion and social protest the European Parliament had demanded at first reading of the draft directive that a number of areas should be excluded from the scope of the directive. Quite a number of substantial demands have not been followed by the Council Common Position, others were severely watered down ..

- The Parliament wanted to exclude all *'services pursuing a social welfare objective'* - amongst them education, cultural and social services. Now only 'social housing, childcare and services for families and persons permanently or temporarily in need' are excluded - provided that they are performed 'by the State, by providers mandated by the State or by charities recognised as such by the State'.
- The Parliament demanded that *services of general interest* be excluded from the scope of the directive. Now only *non-economic* services of general interest are excluded. The directive underlines the remuneration principle as the basis for a definition of what constitutes a service.

Consequently all educational, cultural or social services provided for remuneration - also those paid for by transfers and fees and not 'essentially paid for by public funds' - might fall within the scope of the directive, if they have not been explicitly excluded from it.[12]

- The exclusion of labour law from the scope of the directive has also been watered down.
- Whereas the articles of the original 'Bolkestein' draft on the posting of workers and on healthcare have been deleted from the directive, the Commission has simply shifted these battles to other fields. It has issued a communication on '*Guidance on the posting of workers in the framework of the provision of services*', in which it demands from member states to abolish certain requirements on companies posting workers to other member states. For health care, the Commission has announced to draft a special directive going even beyond the issues addressed by the initial 'Bolkestein' draft.

Narrow room for exemptions. Member states are in principle entitled to exempt certain services from the directive for reasons of *public policy* or *public security* or the *protection of public health and the environment.* But the room for such exemptions is very narrow, since they must follow the principles of *non-discrimination*, *necessity and proportionality.* The meaning of these requirements remain largely open.

Broad room for the European Court of Justice (ECJ). It is to be expected that, as the cross-border provision of services increases, there will be numerous cases brought to the ECJ to decide whether the requirements of a member state vis-à-vis a service providers from other member states meet the legal criteria. The Court will increasingly have to decide whether a provision is really 'necessary' in order to achieve the stated aims. Since the ECJ is well known for its pro-liberalization judgments it is therefore to be feared that ECJ judgments will result in significantly greater pressure on the member states to deregulate. The 'spirit of Bolkestein' is still the guiding line of the Services Directive.

[12] In its communication on Social Services of General Interest, the European Commission takes the view that almost all social services are of an “economic nature”, as they are mostly provided for remuneration. After the liberalisation of a broad range of *services of general economic interest* (e.g. telecommunications, postal services, railways, electricity and gas etc.), the Service Directive now paves the way for liberalising much of the remaining services of general interest.

2.3. Useful stocktaking but toothless policies – The spirit of hesitation in the fight against poverty

Although poverty and exclusion have been increasingly uncovered, publicized and recognized as main problems for an growing number of people in the EU, practical and efficient political actions have been rare and almost absent. Social policy at the EU-level remains subordinated to economic policies and these rather generate instead of lowering unemployment and aggravate instead of smooth the social situation in Europe. The focusing on economic and fiscal "necessities" in order to increase competitiveness contributes to the dismantling of European welfare systems and to a downward convergence of social standards within the EU. The fact that at the European level no financial resources are made available to encourage improvements of social safety nets in low income countries is a further obstacle for an effective fight against poverty in the member states.

The introduction of the "Open Method of Coordination" (OMC) in several policy areas such as employment, social protection and social inclusion by the European Council of Lisbon in 2000 can be appreciated, since it enables both the member states, as well as the Commission, to formulate political positions and to develop proposals for policy areas even without formal European Competencies, and political and public discourse can be fostered by this means, too. However, the OMC was introduced only as a soft-policy instrument which aims at a process of learning among member states. In contrast to the provisions of the Stability and Growth Pact, the policy objectives commonly agreed upon in the course of the OMC are not binding and there is no mechanism of sanctions if the common objectives are not met at the national level. Therefore it is not surprising that the National Action Plans of the EU member states show clear evidence of an "implementation gap between what member states commit to in common objectives and the policy effort to implement them."[13]

Although the EU made a decisive step by putting the issue of social inclusion on its political agenda, in practice the common achievements only relate to the improvement of statistical data on the extent of poverty – which focus on income poverty only and do not include much information on other aspects of deprivation – and the introduction of the process of learning from each other among the member states in the framework of the OMC. An improvement in the social situation of the European population has not been achieved. On the contrary, four years after social inclusion was introduced as one of the new strategic aims of the EU in 2000, poverty levels have increased.

[13] European Commission, Joint Report on Social Protection and Social Inclusion 2006, p. 10.

2.4. Attack on minimum standards – The spirit of counter-reform in the planned revision of the working time directive

In September 2004, the European Commission had, for the first time in the history of the European Union, started an attempt to dismantle an existing minimum standard for work protection. It. presented a proposal for a revision of the working time directive of 1993. This directive limits the maximum weekly working time to 48 hours *on average*, including overtime (this norm was already agreed 87 years ago at the international level by the ILO Agreement C1 dating back to 1919!) This limit has in practice not been reached in the EU. The number of actual weekly working hours is much lower. In 2005 it was around 38 hours in the EU25, 33 hours for women and 42 hours for men. This is still rather far below the 48 hours maximum allowed for by the working time directive.

The proposal of the Commission which echoes the strong lobbies from the side of corporations and governments does not directly attack the 48 hour limit but takes an indirect approach which however produces the same effect. It calls on the one hand for more flexibility and on the other hand for a new definition of time spent “on call”.

Flexibility. There is already much flexibility in the existing directive, but employers, governments and the Commission want more. The directive stipulates that as a norm the *average* weekly working time is calculated over a reference period of 4 months. Thus, actual working time within *a single week* can already now be extended to 78 hours, and under certain conditions even up to 89 hours. The reference period can also be extended to 12 months by way of collective agreements. The Commission, the Council and the European Parliament wanted to allow this 12 months period also through national legislation or regulations from governments. This would create much greater scope for longer and more irregular working hours in the interest of companies. Employers might cancel existing collective agreements on annualized working hours and then use the (probably worse) conditions enabled by new laws and regulations.

Time spent on call. The EU institutions also want to get rid of the clear case law established by the European Court of Justice (ECJ) since 2000 that time spent on-call at the workplace must be fully counted as working time, and that compensatory rest must follow immediately after a combined period of working time and on-call time. The Council already had found agreement that a distinction of 'active' and 'inactive' parts of on-call time should bed introduced into the directive.. The latter should not be regarded as working time, and may be calculated not at all or only partly as working time. This not only contradicts ECJ case law, but also existing EU legislation such as directive 2002/15/EC on working time arrangements for drivers in the transport sector. It is an attack on millions of employees in the health sector or in emergency services who had hoped that the ECJ judgments would provide a basis for limiting overlong combined periods of working time and on-call time. The Council, the Commission and the majority of the European Parliament seem to value ECJ case law only if it is supportive of liberalization policies, as they demonstrate with their approach on the service directive.

Opt-out. While on issues of flexibilization and of time spent on call there is a large consensus between the Council, the Commission and a broad majority of the European Parliament (Conservatives, Liberals, Social Democrats and Greens), disagreement has persisted on another prominent issue: the possibility of opt-out from the maximum weekly working time hours. The present directive allows e.g. an individual opt-out by way of a “voluntary” written declaration. Employees can agree to renounce the minimal protection of the directive which limits the maximum average weekly working time to 48 hours and accept the longer working week proposed by the employer. Based on a number of empirical studies, even the European Commission accuses especially the United Kingdom of abusing the opt-out in order to allow employers to stipulate weekly working time of more than 60 hours. The European Parliament had therefore requested that the opt-out clause be phased out after a period of 36 months from the date the revised working time directive enters into force. However, a majority of member states - e.g. Austria, Germany, the UK, and the eastern European member states - favour a continuation of the opt-out, most of them without any restrictions. The European Commission, the Finish EU-presidency and other member states proposed some restrictions, but also to maintain the opt-out as a general tool for derogating from the norms of the directive. France, Italy, Spain, Cyprus and Greece demanded to terminate the opt-out.

None of these proposals reached a qualified majority at the recent meeting of the Social Affairs Council. Since the incoming German presidency has no intention to take the issue up, the originally planned downward revision of the working time directive has failed at least for some time. This gives some breathing space for trade unions and social movements to launch a counter-offensive for a progressive reform of the directive.

2.5. Security via the military and back to nuclear energy - The spirit of power and environmental irresponsibility in energy policy

Focus on oil. The European political debates on energy politics have remained focused on cheap oil supply from abroad – which is clearly unsustainable in the face of the 'peak oil' debate – and broadly limited to the question of (Russian) gas as an alternative energy source. It is no surprise that this orientation has led to a renewed emphasis on military power projection and control of the most important oil producing countries. Likewise, the attempts of the nuclear industry to recommend its own come-back as a way out of reinforcing human induced climate change by CO_2-emissions, have not been clearly rejected by European politics which continue to subsidize its development.

Sustainable energy strategy. The attempts made by the EU commission to define a sustainable European energy strategy have remained inconsequential and, even, partly counterproductive. The priority areas listed in its "Green Paper on Secure, Competitive and Sustainable Energy for Europe" (May 2006) - developing a coherent EU external energy policy, further market integration in order to secure long-term energy supply, triggering technology development, creating jobs and growth, tackling climate change – exhibit an excessive trust in market instruments and technological efficiency. At the same time the EU does not clearly distance itself from the potential use and usefulness of military instruments in external policy. It reduces the issue of long-term co-operation with energy suppliers to the question of pipelines and trade agreements, while leaving the commitment of the EU to become less dependent on foreign imports unaddressed. It is still paying much too little attention to the two key areas of an alternative approach to energy policy, i.e. cutting energy waste and tapping into the full potential of renewable energy sources. It fails to target the transport sector, although this sector is currently consuming between 70% and 80% of all oil imported by the EU.
The Green Paper does not seriously face the risks of nuclear power which continues to be the most dangerous form of energy production, with the radioactive pollution and proliferation issues inseparable from it, and which – if considered over its entire life cycle – is far from being emission free or economically viable. This is even more remarkable as a clear majority of European citizens are deeply critical of this option.

Energy efficiency. It is to be welcomed that the Green Paper underlines the economic and environmental advantages of increasing energy efficiency and suggests making Europe the most energy-efficient economy in the world. This is, however, not implemented by current EU policies, for which no binding framework has been defined for a common orientation towards increases in energy efficiency. The few real policies in this field are not clearly targeted. The directive on energy end-use efficiency that originally proposed mandatory targets for reducing energy waste has finally been so watered down that it now facilitates a business-as-usual practice. The directive on the efficiency of buildings addresses only about a tenth of the total potential to save energy in the household sector, which alone accounts for a staggering 40% of European energy use. Another EU directive on the promotion of simultaneous generation of electricity and heat, neither sets targets nor standards and limits itself to requiring EU member states to do little more than to study the issue.

Sustainability strategy. Since mid 2004 the European Union has proceeded to a review of the so-called Gothenburg Strategy adopted in 2001. The "renewed Strategy", which was adopted by the European Council in June 2006, sets out strategic objectives until 2010. The document mainly restates commitments made elsewhere but for the first time incorporates the international commitments into one single framework. This is a limited step forward, but it fails to address the strategic question of defining an interface between the long term Sustainable Development Strategy (SDS) and the revised Lisbon strategy followed in the short and middle term.

Under the main objectives the revised sustainability strategy (EU SDSII) explicitly addresses its "international responsibilities" - including the Millennium Development Goals set by the United Nations in 2000 - and identifies global poverty and sustainable development challenges as one out of seven priority actions.[14] The overall objective is "to actively promote sustainable development worldwide and ensure that the European Union's internal and external policies are consistent with global sustainable development and its international commitments." At the same time, and in open contradiction to this, the EU is developing a military dimension for its foreign policy, redefining its development co-operation in terms of short-term export support for European industries, and is deploying a trade policy by bilateral agreements which does not even refer to the aims and objectives of the EU SDS.

2.6. Misguided ambitions at the cost of consumers – The spirit of uniformity in the Commission's plans for housing finance

In finance as in most policy fields, EU leaderships remain wedded to a strategy which gives complete priority to market-led integration in isolation from any social project and to the ne-

[14] Climate change and clean energy, Sustainable transport, Sustainable consumption and production**,** Conservation and management of natural resources, Public health, Social inclusion, demography and migration,Global poverty and sustainable development challenges.

glect of the adverse consequences of these policies themselves. In some wholesale markets, especially inter-bank money markets, markets for government debt and so on, a high degree of integration has been achieved, and this is desirable as long as it makes the European financial system more efficient. However, in other markets, in particular equities, the drive for integration has been weakened by stock market volatility and scandals surrounding large corporations both in Europe and in the US. In still other areas market-led integration would lead to big damages for consumers. Housing finance is a telling example.

The European Commission, having virtually completed its programme of legislation for the big, wholesale, financial markets, is paying increasing attention to the retail markets, where it has ambitions for a major integration drive in the field of housing finance[15]. The results of such an initiative would almost certainly be adverse. Member state systems of housing finance have developed in relation to very different approaches to housing, very different patterns of tenure and different priorities in social housing. As the financial services users' organization, FIN-USE points out, households have no desire to move from well understood national regulatory systems to a uniform structure and would be strongly hostile to the use of country of origin regulations to govern foreign mortgage providers in the consumers' home market. FIN-USE also criticizes as "over-optimistic", the claims made by the Commission for the benefits of full-scale integration.[16]

It may be in consumer interests to liberalize the provision of mortgage services from other member states where the market power of existing domestic providers is strong, but there is little evidence that this is the case. The so-called "barriers" identified by the Commission are largely simple differences in regulation, designed to protect vulnerable households from excessive rates of interest. Such measures are a response to specific national experience in the field of housing policy and there is no justification for abolishing them. The commission's views on product diversity in housing finance are also suspect: in practice much of the variation in the specification of financial products is linked to spurious differentiation and excessive marketing costs; hence it is very logical to impose a certain standardization.

Like in so many other fields the Commissions view on housing finance is a purely economistic one and it is completely divorced from any social project: the investigation of housing

[15] European Commission, *Green Paper: Mortgage Credit in the EU*, COM 327, 2005.
[16] FIN-USE, *Opinion on the European Commission's Green Paper, "Mortgage Credit in the EU"* , November 2005. The increasing abandonment of objective research by the European Commission and the substitution of tame consultants, with an obvious interest in supporting the prior views of their patron, is a real scandal in the EU and an affront to the democratic process.

need and the development of solidaristic measures in response to the most urgent housing problems could well represent a genuine European contribution to popular well-being. The construction of a spurious case for the integration of mortgage finance and its use to push through a very probably damaging deregulation of national mortgage systems is simply another sacrifice of social welfare to the dogmatic, and increasingly decadent, pursuit of market-led integration.

2.7. Towards Neo-Mercantilism? – The spirit of aggressiveness in European trade policy

Trade policy has always been an important – although not much publicized – element of European policies, and it has been upgraded along with the greater weight of external trade. This is well reflected in the institutional structure of EU governance. The post of Trade Commissioner and the Directorate-General for External Trade are among the most influential bodies in EU politics. Thus, the initiative, agenda-setting and execution of EU Trade Policy resides predominantly with the European Commission. Member states dispose over important decision-making powers via the Council, with the so-called 133-Committee serving as the central institutional forum for day-to-day policy-making.[17] The influence of national parliaments is continually eroding, while the European Parliament has slightly gained in importance. It has, however, not acquired any significant decision powers in trade matters so far.

Despite its growing importance, trade policy has only recently gained in public awareness. As a consequence of the widespread protests against the neo-liberal globalization project in Seattle (1999), Genoa (2001) and other major events at international level, the major political players in EU trade politics were put on the defensive . The EU-Commission reacted by opening up a limited space for discussion with civil society. Though as such that should be considered as an achievement, its impact upon the strategic direction of European trade politics must be so far considered as limited. Of much greater importance, then, were grassroots campaigns and Europe-wide political mobilizations against particular trade issues, such as against the EU-Commission’s conduct of the GATS negotiations in the year 2003. These campaigns were able to at least partially prevent further liberalization in certain areas, for instance in essential public services (water, education, health, audiovisual services) in the GATS 2000 negotiations. Nonetheless, it must be concluded that neither discursive politics nor practical activism

[17]The 133 Committee takes its name from Article 133 of the Treaty of Amsterdam, that provides for the establishment of a special committee appointed by the Council to assist the European Commission.

has achieved a principal change in direction away from prevailing pro-liberalization EU trade politics.

The EU has been amongst the most aggressive trading blocs in the WTO's Doha-Round. Moreover, parallel to the multilateral negotiations it has used bilateral trade talks to push an agenda of new issues. Among these are investment liberalization, the opening-up of government procurement for EU companies and the enforcement of intellectual property rights beyond the obligations stipulated in the WTO's TRIPS agreement. After the suspension of the WTO Doha Round talks in July 2006, the EU has quickly started to re-direct trade policy towards an aggressive bilateral trade strategy. Under the heading **"**Global Europe: competing in the world" the Commission's only aim is to improve European competitiveness through the increasing liberalization of markets, services, public procurement and investments abroad. Thus, trade policy, which according to earlier Commission documents, has to serve multiple ends, in particular development, social cohesion, environmental sustainability, becomes subjugated to the over-arching, yet deeply flawed goal of making Europe the most competitive economy of the World, as stated in the Lisbon-agenda. In addition, the EU is increasingly using trade policy as a means to advance geo-strategic and security interests, in particular via its bilateral trade agenda. The latter is potentially undermining international cooperation and peace.

However, when judged against the central macroeconomic indicators, the increasing evolution of the EU into an export led growth-regime, with internationalization substituting for higher domestic demand, has apparently not paid off. GDP growth has been disappointing, with persistently high levels of unemployment and a major re-distribution of income and wealth, largely to the detriment of wage earners and lower strata of the population.

Currently the EU benefits immensely from the debt and import-driven economic growth of the USA and the economic boom in China. If current growth trends in these countries, in particular in the US, eventually prove unsustainable, the global economy and thus international trade would be hit hard. Radicalizing the prevailing strategy of active extraversion, as the EU is currently planning, would thus exacerbate the EU's exposure to the vagaries of the globalizing world economy.

3. A democratic economic policy framework for a sustainable social Europe – Proposals for an alternatives to neo-liberal transformation

3.1. Macroeconomic policies for sustainable growth and full employment.

Monetary policy. Although it is not denied that *monetary policy* does have an impact on growth and employment, the present arrangements for European monetary policy are unable to promote cooperation, co-ordination and where necessary compromise between the goals of growth, full employment and price stability. Instead they should regard the latter as the overarching goal to which all other objectives must be subordinated. Support for the general economic policy of the Union is made conditional on the maintenance of price stability. Price stability is a desirable goal for economic policy, but even more so are stability of employment (at high levels), sustainable development and the achievement of social welfare. If all objectives cannot be fully attained at the same time, economic policy must make compromises and determine priorities to follow. This requires cooperation and democratic discussion and decision-making procedures. The rules for monetary policy prevent such coordination in assigning a constitutional priority to price stability. This asymmetry is underpinned by the provision that the ECB acts in complete independence and no European institution (including the European Parliament) or member state government should try to exert any influence upon its policy. This is counterproductive and undemocratic. Thus new, more democratic arrangements for the determination of monetary policy are required, as well as changes in the objectives set to include high levels of economic activity and the instruments used. The further increases in interest rates which appear to be envisaged for the immediate future are counterproductive. In view of the slowing in world-wide growth that is widely anticipated, we recommend on the contrary moderate reductions in interest rates.

Fiscal policy. The Stability and Growth Pact (SGP) prescribed that member states must avoid excessive public deficits, which are defined in the corresponding protocol as deficits beyond 3% of GDP. This rule, which goes back to the Treaty of Maastricht of 1992 and was reaffirmed and made even more severe at the Amsterdam summit in 1997, which added a requirement for budgets to be balanced over the business cycle, has had harmful effects on the development of the European economy in the past decade. In recent years several countries have broken and continue to break the 3% maximum budget deficit. In the face of recessionary forces, budget deficits rise, but the SGP has constrained national governments from actively responding to rising unemployment.

The changes to the SGP formally adopted by the EU Finance ministers (ECOFIN), subsequently endorsed by the European Council in March 2005 introduced some flexibility but did not address the underlying issue, namely the imposition of arbitrary arithmetic limits on budget deficits with the pursuit of balanced budgets over the business cycle. Such formal limits are dysfunctional and counter-productive and should be abandoned. Fiscal policy should be oriented to the promotion of high levels of economic activity and the reduction of unemployment.

Public investment. Many of the EU countries suffer from not only a lack of effective demand but also a lack of sufficient productive capacity to provide a high level of employment. Therefore the EU should promote enhanced public investment in infrastructure and research and development as well as in ecological restructuring by the member states and on the EU level. We recommend that the size of such additional public investments should be 1% of GDP. One half of this amount should be spent on common European infrastructure and the other half on projects of specific national priority. Such measures could be financed through relaxing constraints on budget deficits on national and EU levels, through an enlarged EU budget, and through particularly cheap loans from the EIB which can be refinanced on the capital markets and subsidized from the EU budget.

Tax competition. There are several forces which are serving to undermine national tax systems and their ability to generate revenue in an equitable manner to fund public services. Vigorous measures are required at the EU level to overcome these forces. Tax competition and the use of low tax rates and subsidies to attract investment are prevalent. One measure for corporate income tax here would be the introduction of a harmonized tax base, the setting of a minimum rate of 40 % (with a rebate for poor member countries), and the application of the world income principle in the form that worldwide profits are taxed in the country where the main operating basis (as possibly different from the legal headquarters) is located, with taxes paid in other countries being deductible from the domestic payments. The extension of the agreement with regard to interest income to *dividends, rents, and capital gains* would aid the reduction of fraud. The VAT system has become prone to fraud and we would propose to shift the present complicated system of calculation for intra EU transfers to a system based on national accounts.

European budget. A further counterproductive element with regard to public finance is the provision that the *European budget* must not incur any deficit at all (not only avoid “excessive” deficits, as for member states). This rule, too, excludes financial flexibility of the EU which is however necessary to create the power and credibility of the Union to act as the representative of the European people. There will be no sustainable solution without the creation of a federal budget which provides on the one hand the tools for stabilization or recovery on a European level in case of common shocks and on the other hand the tools for interregional redistribution in order to cope with asymmetries. In view of the existing strong reluctance only a moderate increase up to a level of 5% of European GDP can be presently envisaged - and even this would only be legitimate on the basis of a thorough democratization of structures and procedures of European institutions. It would mark a break-through with regard to the present blockade. A larger EU Budget could be financed through a reform of own resources and through the introduction of new taxes on a European level. This would also be a good response to other urgent problems:

- against tax competition a tax on incomes on savings and on corporate profits would help,
- financial instability could be mitigated with a Tobin tax, and
- a tax on CO_2 emission would help to protect the environment.

With these additional resources new expenditure could be financed, like a European fund for employment stabilization (in the order of 1% of European GDP, which should be transferred to countries affected by a more than average increase of unemployment), or the extension of the European structural funds and financial measures envisaged for the eastern enlargement and the co-operation with Mediterranean countries, a strengthening of research and innovation policies etc.

3.2. Shorter working time, better protection - A progressive reform of the working time directive

The EU should resist the pressure of employers and some governments to undermine the existing working time directive. A reform should go in the opposite direction: towards a clear limitation of the maximum working week at a limit closer to the present average of 40 hours and of the reference period for flexibility; a further movement to reduce actual working time; the complete abolishment of individual opt-out clauses which put employees under pressure; and the establishment of norms for socially protected part-time work for those who wish to work shorter hours.

Recent empirical surveys have shown a clear convergence of working time preferences of employees within the EU-15. The big majority of employees want a shorter working week: on average 34.5 hours. Experience with working time reduction in Germany and France clearly demonstrated that this creates more employment and enhances productivity. Calculations by the Federal Employment Service and the German Institute for Economic Research (DIW) for the period 1985 to 1998 found that 700,000 to 1 million additional jobs were created by working time reduction. The overall effect of shorter working weeks in Germany, from 1960 until the end of the 1990s, amounts to about 8 million jobs.

The argument for longer working weeks often refers to future demographic change: the population in the countries of the EU, until 2050, will get on average older and at the same time will shrink. But demographic change provides a strong argument for shorter working hours. To ensure and sustain good economic performance and viability in the future, it is required that young and older people can remain active in good health until they reach retirement age. Productivity must be increased - including much higher efficiencies in the use of energy and material inputs - in order to create sufficient value added to sustain the economically inactive parts of the population.

Against this background, EU policies must encourage a process of further collective working time reduction and redistribution of work in the member states as part of a strategy for social sustainability. A revised working time directive should therefore be based on ***five pillars***:

1. a clear limitation of the maximum working week without derogations, bringing the maximum working time closer to the average actual working time per week (e.g. 42 or 40 hours) in a first step, and allowing for further reductions – towards a regular 35 hours week for a full time employee, as the EuroMemorandum Group has proposed in previous memoranda - in the years to come;
2. the promotion of substantiated and socially protected part-time work (15 - 25 hours weekly) for all persons who wish to work part-time;
3. the abolition of all incentives for precarious forms of employment (e.g. regarding taxation, supplementary wage costs, in-work-benefits etc.);
4. equal treatment of full-time and part-time employment with regard to hourly wages, entitlements to education and life-long learning, career opportunities and social protection, and
5. a better framework for a balanced work-life cycle through the provision of full and high standard social protection for career breaks and transition periods (from employment to training, re-training, lifelong learning, education, care for dependants, sabbaticals etc.).

3.3. Binding programmes and more resources - Anti-poverty initiatives

The EuroMemorandum Group has repeatedly called for the promotion of a comprehensive European Social Model, that should be built upon intensive political discussion.[18] Within this model, social security is considered to be an unconditional right for all residents at a level of

[18] For a detailed outline of the basic pillars of this European Social Model see Euromemorandum Group, EuroMemorandum 2004.

material resources which enables them to lead a dignified life and to obtain access to all basic social and cultural institutions, and a broad range of further public goods. A reorientation of the political agenda of the Community along these lines could strengthen the social dimension of the integration process, which has mostly been neglected and subordinated to economic “necessities” so far. Given the political will, the existing competencies at the Community level do already offer perspectives within which such a social model could be realized.

The fight against poverty and all sorts of deprivation and social exclusion in Europe should become a top priority of political action on the European agenda – beyond rhetorical discourse. In addition to the already existing programs, the activities of the Community should be developed from its present level and be extended beyond the exchange of information and research on poverty. To this purpose, all member states should prepare, implement and evaluate national anti-poverty strategies. Most of the competencies and tools in social policy could remain in the hands of the member states, but the Community should promote the development of binding differentiated minimum standards in this area. These minimum standards should be geared towards those which prevail in the most advanced systems while the already existing standards of social provision must not be lowered. E.g. the Open Method of Coordination (OMC) could be used to develop and discuss new long-term objectives and concepts at the European level to fight old-age poverty. However, in order to actually achieve improvements beyond the exchange of information, the non-binding character of the OMC has to be abolished. Based on binding minimum standards for the design of old-age security systems, the Community should be able to counter the trend towards the privatization of the public pay-as-you-go systems and help to stabilize and wherever restore the public pension systems.

In addition, member states with lower living conditions and less developed social security systems should be supported technically as well as financially in gradually increasing their standards as well as in developing and implementing strategies for the improvement of social conditions. With a substantial increase of resources on the European level for the fight against poverty, the EU could contribute to the improvement of the living conditions of the poor by paying a lump-sum to each poor person in the EU. Such a transfer could eventually be 50€ per month, starting with 20 € in 2007 and rising by 10 € every year until 2010. Given the current poverty rate of 16% and the absolute figure of 72 million people living in poverty in EU25, € 17,3 bn. would be needed in 2007 to cause a substantial improvement of living conditions for poor people in the low income countries and also a partial reduction of social exclusion in high income countries, too. The costs would rise to € 43,2 bn. in 2010 and require additional resources for the EU, as we have recommended.

3.4. Social minimum standards, minimum wages and solidaristic wage coordination

In previous memoranda we have proposed that the EU – though it has no formal competence for most areas of social policies – should use the OMC to elaborate and propagate social minimum standards. These could relate to the general level of social expenditure - e.g. as a minimum share in GDP – or to more specific indicators like the number of doctors per 10 000 people, teachers per 1000 children from 5-14 years, the level of pensions as a percentage of average income of the active population etc. On the basis of such minimum standards a process of upwards convergence should be supported by the EU. At the same time it should be made clear that, wherever higher minimum standards exist they should not be lowered under the pretext of approaching the European average.

Minimum standards should also relate to wages. In 18 out of the 25 member states such minimum wages are already in place. In the remaining seven countries they should be introduced as quickly as possible. At the same time it is important, firstly, to enforce implementation of such norms, and, secondly, to promote a rapid raise in countries where minimum wages are particularly low, often as a result of low productivity. Of course the transition to a sustainable level of higher incomes requires more than wage policy, namely industrial and macroeconomic policies which must be implemented at national level and supported by the EU. But wage policies should play a role, too.

The current wage race to the bottom is hurting significant parts of the workforce in both the West and the East, with workers in higher-wage countries seeing their incomes decrease, while workers in lower-wage countries seeing the prospects to improve their wages vanish, and there is clearly scope for international cooperation. The most vital policy tool for this is the coordination of collective bargaining activities in order to avoid the beggar-thy-neighbour-policies as well as to resist the relocation threats of the employers to suppress union demands. This coordination could include collective agreements on productivity-led wage increases, and a European framework for minimum wages, working hours and conditions.

However in order to form a solidaristic macro basis for wage coordination, there is need for international macroeconomic policy coordination as well. The cohesion funds were much more limited during the Eastern enlargement than those during the Southern enlargement. Additionally disarmed of any industrial policy tools, new member states perceive the process as if they were left with the sole alternative of attracting private FDI. These are the objective conditions under which the NMS are engaging in wage as well as tax competition as a policy of international competitiveness.

These negative effects of openness or regional integration are not an unavoidable destiny, rather an outcome of the current domestic and international policies. Openness and regional integration can also be managed in a way to benefit both the richer and poorer partners, if trade and investment flows are designed as part of an egalitarian and growth-oriented international economic policy. In the European context, labour in the old and new member states as well as the accession countries have more common ground than they can currently exploit. This common ground must combine the ruling out of destructive wage (and tax) competition with a coherent and coordinated EU-wide policy for social and economic convergence. Although the proposal for a coordinated wage policy must be primarily addressed to trade unions and their members, they should also be supported by national governments and by the EU which should provide a co-ordination-friendly framework, e.g. through adoption of Europe-wide social minimum standards.

3.5. Efficiency and sufficiency: Policies for energy safety and sustainability

An alternative energy policy of the EU would follow a two pronged line. Instead of focusing its energy strategy on securing supply or even control of external oil and gas reserves, and considering an increase of the use of nuclear power (or only a delay of its phasing out, where it has begun) the EU should aim at:
- securing first mover advantages for its economies in the fields of renewable energy sources, and
- energy saving without any reduction of well-being.

There is no reasonable doubt that in the mid-term future humankind will need an energy system that is not dependent on fossil energy sources or on nuclear power. Economies managing the transition to sustainable energy systems will reap important first mover benefits, even in a perspective of a more co-operative framework of the global economy. This could include transitional paths of an emission reduced use of fossil energy resources existing in Europe itself. European and member states' research funding and energy production subsidies should be reoriented to renewable energies and to transitory energy supplies.

The commendable orientation of the declared EU policy on energy towards energy efficiency

should be implemented by giving a binding common framework to the multiplicity of material policies required to increase the efficiency of the end use of supplied energy and by giving them a clear time horizon in terms of mutually supportive short-, medium-, and long-term objectives. Furthermore, energy saving potential inherent in the relations between energy supply and economic output and between energy end use and well-being should be addressed and fully exploited. Taken to its full consequences, this would require a broadening of the political debate beyond energy efficiency to energy sufficiency. This debate could begin by a simple broadening of the cost horizon under consideration, e.g. by including the external costs of conventional energy, such as increased healthcare costs as a result of air pollution.
Such a process could be started on the basis of existing technologies. For instance, in the new member states the indicator of energy supply in relation to economic output is still up to three times higher than in the EU-15. Substantial savings can be achieved across all sectors on this basis: Germany has shown that 50% of the energy consumption of buildings can be saved through better insulation - with the initially higher construction costs turning, over time, into net savings for house-owners.

The cheapest, fastest and most effective way to secure energy supply begins by reducing the present high levels of the demand for energy, with the immediate consequences of also reducing energy costs for households and industry, as well as of curbing greenhouse gas pollution. A strategy of energy saving on this basis should, however, include not only a technological debate on the relation between energy supply and effective energy use, but extend to a political debate on the relation between energy use and effective well-being. In order to dynamise both debates, Europe should set an overall binding target to cut total energy consumption, as a minimum by 20% by 2020.

As first steps to a deepening and an effective implementation of the EU Sustainable Development Strategy (SDS) the reporting on the revised Lisbon strategy as a short term orientation should be regularly evaluated under the criteria of the EU SDS in order to propose answers to the key question of the long term development strategy of the EU SDS: Are we getting closer? At the same time, the reporting on the EU SDS should clearly address the global and neighbourhood roles of the EU, as well as refer to all the existing dimensions of unsustainability and their dynamics. Such a revised reporting procedure should be synchronized with the European political process, e.g. by formulation of a comprehensive action programme on European strategies and by providing an overarching report of the state and perspectives of the Union at the end of each legislature.

3.6. Financial stability and social progress – A re-orientation of financial market policies

Stability. The existing mechanisms to deal with financial instability in the EU involve the sharing of information among member state authorities and informal procedures for coordinated intervention in the case of an emergency. They ought to be strengthened in three ways: Firstly, the preservation of stability should cease to be a merely implicit concern of the ECB and be made an explicit responsibility which would even justify, in the case of a grave emergency, a change in general monetary policy. To correspond to this enhanced responsibility, there should be new powers to regulate banks and financial corporations with a view to avoiding the build-up of dangerous exposures. These powers should include the power to require a financial institution to unwind a position that menaces its own stability or that of others.

Secondly, the ECB should accept a certain responsibility for the stability of the global financial system. The ECB should be explicitly put in charge of macro-prudential regulation to tackle systemic risks, while banking supervisors and the Basle Committee are in charge of micro-prudential regulation dealing with individual risks. Increasingly, the context of the global finance will be a multi-polar international economic system. This may add to problems of coordination but at the same time opens the prospect of a wider representation of economic interests and a higher priority for the needs of developing countries. EU leaderships should be working for an institutional reform to improve the governance of international finance and to reduce the risks to stability.

Thirdly, there is a need for effective international capital taxation. Prudential supervision instruments, such as the Basle Guidelines, are not sufficient because they concern only banking institutions and do not deal with tax havens which are a major loophole in the regulation of the international financial system.

New Member States. The way financial integration has been carried out in many of the new member states brings the integration process into disrepute. On the one hand, countries which emerged from the soviet bloc did not have effective commercial banking structures; this permitted a rapid and almost total penetration of their financial sectors by western banks. One consequence is the transfer of bank profits out of these countries; another may be a loss of efficiency in the allocation of credit because local knowledge, and especially local views of public priorities, do not have enough influence on the credit decisions. These countries should be not only permitted but actively encouraged to develop public sector and cooperative banks, perhaps modelled to some extent on those in Germany, to correct the functioning of their financial systems.

At the same time, the ECB is imposing severe conditions on these countries before they introduce the Euro. There is no clear rationale for this approach, which perpetuates the undemocratic tutelage to which these countries were subjected before their accession to the EU. There is absolutely no danger of the Euro-zone as a whole being destabilized by the inclusion of these low income countries. Therefore their introduction of the Euro ought to be a free choice for them, to be carried out when it is most advantageous for their economic development.

Meanwhile, as was pointed out above, the currencies of these countries may be subjected to very heavy pressure in the context of a declining dollar. The most effective way of dealing with such an emergency would be through support from the ECB. In its absence, the use of temporary capital controls would be a logical step for these countries and it should be sanctioned in advance by EU leaderships.

Corporate Governance. As regards the nature of the financial system, the priority needs to be shifted from a simple drive towards integrated markets towards social priorities. The promotion of big, liquid markets for bonds and company shares in Europe is not in itself an erroneous policy: failure to do so would drive investors and issuers around the world or into the North American markets. But financial integration has become associated with a fundamentalist attempt by the Commission to reinforce shareholder interests which cannot lead to a satisfactory or legitimate code of enterprise behaviour.

Recent discussions of "corporate social responsibility" (CSR) permit of two, quite different, interpretations. On the one hand, the whole discourse of CSR might be seen as a step towards the further privatization of law and of corporate regulation, as a move to hand these legislative tasks over to the corporations themselves. A more optimistic view would see in CSR a recognition that neo-liberal policies, with the associated growth in corporate power, remain completely illegitimate and that it is therefore necessary to re-embed the corporation in an objective structure of obligations and to reinforce its social accountability[19].

Regrettably, it seems that the European Commission prefers the former view, and seems to believe that most questions of corporate governance can be dealt with by reinforcing the position of shareholders. It is important to recognize, in this sphere, that there is no possibility that

[19] Dominique Plihon, "Financing Social Protection and Social Equity in Europe", University Paris 13, mimeo.

shareholders or institutional investors could become effective stewards of modern corporations[20]. On the one hand, all stakeholders have to have effective influence on corporate behaviour if corporations are to behave in a socially responsible way. On the other hand binding international standards on ethical, social and environmental goals are needed to take CSR beyond voluntarism. In this respect, there is a need for a European legal framework which enforces supervision and accountability for the overall impact of corporate behaviour.

Social inclusion and access to credit and to financial services. Although greater competition may increase financial options for savers and borrowers, it is not likely to improve the access of small firms and disadvantaged social groups to credit and financial services[21]. Therefore, financial integration needs to be combined with measures to satisfy the financial needs of small enterprises and the poor[22]. This is all the more so in view of the galloping privatization of public banks across all EU member states. Public sector and cooperative banks can provide credit to those threatened with exclusion and also support the finance of other public goods. Their role in European finance therefore needs to be strengthened and supported. Such banks should not be required to compete on the same terms as banks with purely private objectives.

Consumer Protection. The objective of consumer protection has been given some attention in the EU' s program for financial integration, although hardly sufficient by comparison to the extent of market deregulation that has been introduced[23]. Generally, consumers of retail financial services are suspicious of enterprises in this sector. This suspicion is justified by the boom and bust pattern of financial developments in the late 1990s and early 2000s both in the EU and globally. Therefore, if the EU objective of an integrated financial sector is to be achieved, consumer confidence needs to be strengthened. Steps in this direction include strong minimum standards, requiring that providers of financial services to carefully investigate the interests of their customers. Also with view to the present more obscuring than informative strategies of corporate marketing some European standardization for basic financial products is recommended.

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[20] See for example the discussion in M. Aglietta and A. Rébérioux, *Corporate Governance Adrift: a critique of shareholder value*, 2005.

[21] There is, however, a balance to be struck between providing access to credit for low income households and small businesses without collateral on the one hand, and avoiding the build-up of debt by the same groups. Public intervention is useful in reconciling these objectives, for example by avoiding exceptional interest rates for these borrowers.

[22] P. Arestis and A. Caner, "Financial Liberalisation and Poverty: in P. Arestis and M. Sawyer (eds.), *Financial Liberalisation: Beyond Orthodox Concerns*, Palgarve Macmillan 2005.

[23] The weight of corporate lobbies in EU decision-making is notorious; in the case of financial integration, only financial corporations and regulators were consulted until very late in the day. By the time user groups (small businesses and consumers) were consulted most of the integration strategy had already been implemented.

3.7. A more equitable and development friendly trade policy

The external trade policies of the European Union should be directed primarily towards promoting economic relations, which are peaceful, fair and based on equal rights. A trade strategy that puts priority on externalizing the internal problems of the EU through reckless competition on global markets is incompatible with the responsibility of the EU - the largest economic bloc of the world - for a global economic system based on cooperation. Therefore we propose that the EU trade-policy should aim at the following objectives:

- ***Increasing transparency and democratic participation*** of all relevant stakeholders in the discussion of trade policy both within the EU and in international institutions like the WTO.
- ***Support for fair and equitable international trade relations***, in particular through the integration of social and environmental standards into the global trade regime. Thus we call for a complete elimination of tariffs for products that are produced and traded fairly. Improving products that are produced in this way offers on the one hand an incentive to adhere to and extend social and ecological criteria in the developing countries. On the other hand, this would provide an incentive to consumers to switch to fair-trade products.
- ***Protecting labour in the globalization process***: we welcome the Commission proposal to set-up a fund for supporting those workers that are affected by processes of outsourcing and off-shoring (European Globalization Adjustment Fund). However, we consider the funding designated so far - € 500 million for the period 2007-2013 - as being by far too low and the conditions which have to be met to receive those funds as being too restrictive. We therefore urge the Commission to raise funding and reconsider conditionalities.
- ***Using trade defence instruments against unfair competition***: products and services from countries that are produced by deliberately circumventing internationally recognized labour and environmental standards should in the last instance be subject to the application of EU trade policy instruments.
- ***Preferential treatment for Less-Developed-Countries*** (LDC) both within the WTO and in bilateral negotiations. All detrimental forms of export-subsidies, domestic support as well as all forms of tariff-escalation by the EU should be abolished. Privileged access to European markets should be more widely granted and market access requests for LDCs in non-agricultural market access negotiations should be avoided, particularly in the current negotiations with the ACP countries. The European Partnership Agreements are a great challenge for responsible reform and the EU should be urged to deliver on its Africa Strategy and commitments relating to the Millennium Development Goals. It is also important to recognize the

right of LDCs to regulate their own affairs; this requires that the EU should desist from its attempts to use trade negotiations to impose conditions on developing countries regarding foreign investment, intellectual property rights and the opening up government procurement.

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European Economists for an Alternative Economic Policy in Europe (EuroMemorandum Group)

Declaration of support

I support the general direction, main arguments and proposals in the EuroMemorandum 2006:

"A Democratic Economic Policy Alternative to the Neo-liberal Transformation of Europe"

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