

Full Employment, Social Cohesion and Equity - For an Alternative Economic Policy in Europe

We are worried about the economic and social situation in Europe. As economists working in most of the member countries of the European Union (EU) we observe with increasing concern that unemployment in the EU remains at unprecedentedly and intolerably high levels. 18 million people or 11% of the active population of the EU are officially unemployed, half of them have been so for more than one year. More than one fifth of all young people in the EU have no work. As a consequence we see a rise in poverty, more social polarisation and exclusion, and an erosion of life perspectives for an increasing number of people in our societies.

In this situation we regard it as alarming and unacceptable that economic policy in Europe is failing to respond adequately to the new pressures and challenges of recent years but remains primarily centred on restrictive monetary and fiscal policies and social cuts in order to fulfil the convergence criteria laid down in the Treaty of Maastricht (TM). We reject the assertions made to the public that this policy is scientifically well founded and politically the only possible way to promote European integration and unity among the peoples of Europe. Both claims are incorrect:

The theoretical basis for the main policy direction in the EU is very controversial, often dubious and even false. We maintain that there are alternative policy options which would serve the interests of the European people and strengthen their cooperation and unity much better than the present one.

We consider the fundamental failure of EU economic strategy to be its very narrow conception of economic stability which is almost exclusively defined as price stability. This disregards the stability of growth, employment, wages, social security and the environment which are equally important aspects of economic and social stability. The obsession with the fight against inflation has determined the convergence criteria and it also dominates the provisions for the monetary policy of the European Central Bank (ECB) in the monetary union as determined in the TM. It even prevents member countries from taking energetic coordinated measures to fight unemployment through an appropriate fiscal policy. Because of very high intra-European interdependence the restrictive policies which were adopted in most countries from the beginning of the 1980s have considerably accentuated the economic slow-down and have had only very limited success in terms of deficit reduction. The lack of a coordinated policy for economic stimulus at the European level has had severe consequences. These have already been very visible and worrying in recent years, and the problems will be aggravated in the context of monetary union, where, if no substantial changes are made, the lack of economic policy coordination will constitute a major difficulty.

The assertion that low inflation will, through the market mechanism, lead automatically to more growth and thus to more employment is very unconvincing given the experience of the

last ten years, when inflation has fallen to very low levels - from 10,6% on average in the 1970s through 6,5% in the 1980s to 2,6% in 1996 - while economic growth has slowed down considerably and unemployment has risen to post-war record levels in the EU, from an average of 4,0% in the 1970s and 8,9% in the 1990s to 11,2% in 1996. There are also sufficient studies to show that low and stable rates of inflation do not generally have a negative impact on growth and employment. On the other hand, a disinflationary policy, continued even when inflation is firmly under control, has a clear negative impact on the economy. This is the present situation in the EU: inflation is not a danger in the foreseeable future. Therefore the dominant policy of tight money and contractionary budgets, required by the TM and reinforced by the recent "stability pact", is leading to a deflationary downward spiral. This is undermining the macroeconomic basis which is necessary for the creation of more employment, income and social security and for a realistic approach to regional cohesion and ecological restructuring.

Unemployment amounts to a personal catastrophe for the individuals affected. It is also an enormous economic waste and a burden on public budgets, with a tendency to raise deficits in spite of all efforts to reduce them. Persistently high unemployment is eroding social cohesion in the member countries and in the EU as a whole and is leading to political instability and to the rise of nationalism and xenophobia.

In our view this economic policy in the EU is partly an incorrect response to external turbulences and to internal constraints on economic development in our countries since the 1970s. We also see it as in part a result of strong pressures exerted by powerful business groups, particularly by financial institutions. But we do not accept the view that these new problems have no other and better solution than the prevailing one, nor do we think that the forces behind the pursuit of austerity are universal or uncontrollable. Economic policy in the EU remains a contested area. With the following proposals for an alternative economic strategy in the EU we want to contribute to a public debate leading out of the present impasse and to the establishment of an alternative type of economic development.

An alternative economic policy: Objectives and priorities

In our view market processes unaided cannot determine a coherent pattern of economic development. Market agents require for their orientation a clear vision of the general direction of economic development, but they cannot themselves produce that vision. It requires social and political processes to determine basic economic objectives, together with the institutional and instrumental means to achieve them and to ensure that market agents act in accordance with these goals. We consider the basic economic objectives to be full employment, social equity and security, and environmental sustainability. Each of these objectives should be pursued for itself; together they form a complex framework for policy. Therefore it is necessary to develop and apply a complex and differentiated set of economic policy tools to reach them. However, in our view a strategy for full employment plays a central role, because it strengthens the macroeconomic basis in ways which facilitate the pursuit of the other objectives. Therefore we concentrate our proposals on monetary, fiscal, working time and labour market policy, which we regard as the main instruments of a comprehensive employment policy. They can and should be applied in a way which is consistent with, and in many cases also contributes to, the fulfilment of the other goals. For each of these policy areas we propose short-term measures and medium and long-term policy reforms. The former can and should be put into effect immediately and would lead to a distinct increase in employment. The latter require more institutional reforms at the national and particularly at

In the area of external monetary relations we propose the establishment of a reformed and modified European Monetary System (EMS 2). If the monetary union begins in 1999 as laid down in the TM, the EMS2 would serve as the framework for cooperation between the members and non-members of the monetary union. However, in our view it would be desirable to defer the beginning of the monetary union in order to permit a substantial revision of its priorities and methods of operation. In this case, EMS2 would provide a general framework for cooperation among all member countries. The viability of this system of fixed but adjustable exchange rates should be ensured through additional instruments with which the monetary authorities could respond to speculative capital movements: currency transaction taxes and the use of the European Fund for Monetary Cooperation, which should dispose of additional resources coming from surplus countries. In the case of a postponement of the monetary union an additional possibility would be to introduce a common external currency, which would circulate alongside national currencies inside the EU and would be the exclusive reserve asset for member states in their dealings with third countries.

In any case the EU should in our view actively promote and contribute to international monetary reform with the aims of establishing a stable global framework for monetary and

Finally we recommend the introduction of some automatic stabilisers into the fiscal system of the EU in order to strengthen the political mechanism of social cohesion and solidarity across member countries while contributing to macroeconomic stability.

Working time reduction

Under the present circumstances the reduction of working time represents a considerable job creation potential, which must be used in order to restore full employment in the foreseeable future. Depending on the size in working time cuts and on the responses at the managerial level, the creation of between five and ten million jobs throughout the EU is a realistic proposition. Working time reductions should take different forms, starting with the immediate reduction of overtime and extending over a whole range of measures, such as less hours per day or per week, parental leave and sabbaticals, retraining and different forms of part-time work etc.

Governments and the EU can do a lot to promote working time reductions under socially acceptable conditions. As themselves very large employers, governments could play a pioneer role, thereby also creating room for the expansion of publicly financed employment in fields where this is particularly necessary and urgent. It is also a political responsibility to ensure that working time reduction does not simply become a way to more flexibility in the interests of business without taking into account the working time interests, remuneration and social security of employees. Otherwise, working time reduction would only lead to more intense work at lower wages and a smaller number of jobs. On the important question of wage compensation the Community should aim at a legal framework which could guarantee (and where necessary support) full compensation for lower income groups.

The EU should enhance its efforts to ensure that working conditions and social security are not negatively affected by reductions in working time. This should include the fight against insecurity in all its forms, the enforcement and gradual raising of minimum standards and of the provisions in the social protocol of the TM. It is particularly important, in order to make part-time work more attractive, that full coverage of social insurance and of retirement payments is maintained. Here, too, the EU should play a leading role.

Labour market and welfare policy

We reject all attempts to abandon labour market and welfare policy under the pressure of budgetary constraints and the convergence criteria. Active labour market policy cannot restore the conditions of relatively low unemployment under which it was originally designed in order to resolve bottleneck problems in the labour market, but it still has a very important task and we recommend that the EU should be energetically engaged in maintaining and extending it. Its main orientation should be an ambitious assault on increased labour market differentiations and the ensuing process of social exclusion. This requires an energetic legal defence of the basic social rights which are now under attack. Effect should also be given to the so far mostly nominal commitment to life-long education and retraining, and to the facilitation of labour market access for disadvantaged groups such as jobless young people and people with physical or mental handicaps. In tackling these problems successfully the EU could make a considerable contribution to the preservation, re-establishment and progressive reform of the European model of the welfare state which, in most countries of the EU, was erected after World War 2 and has been under continuous attack during the last 15 years. In this sense the vast majority of the provisions of the Social Charter of 1989 still remain unfulfilled commitments. Their implementation requires not only a return to higher and eventually full employment. It requires also, that the dramatic redistribution in favour of profits, interest and very high income groups, which has taken place during the last two decades, is halted and then reversed.

Theoretical and political problems of an alternative economic strategy

We have criticised the economic policy predominant in the EU: theoretically it is unfounded and false; practically it is harmful to the majority of the people and is polarising society. We have made proposals for an alternative economic strategy which we regard as much better founded. If adopted, it would put the EU on the way towards full employment, more social cohesion and equity, thereby advancing the transition to an alternative type of economic development. This would strengthen the basis for closer integration and unity among European countries and their peoples.

Of course it is difficult to achieve such a change in the direction of economic policy. Because we reject a simplistic market-only approach we realise these difficulties. They consist firstly in the fact that an alternative economic strategy requires a multi-level approach among different agents and institutions; secondly, we recognise that, because many problems are very complex, there are often no completely satisfactory solutions yet and our proposals, therefore, sometimes have a tentative character. Finally there is the fact that an alternative economic strategy is - like the dominant one - not only a matter of theoretical insight and research but also of material interests, social mobilisation and political forces. Thus, while we shall continue to work for the technical improvement of our proposals, we will also try to offer our supporting arguments to the social movements which have begun to resist the policy of persistent job destruction and social cuts and to demand a well founded alternative economic vision and policy for Europe.