European Economists for an Alternative Economic Policy in Europe

-EuroMemo Group-

Europe in Polycrisis: Struggles for Survival, Climate and Energy Justice

-EuroMemorandum 2023-

Dedicated to the memory of Axel Troost (1954-2023), coordinator and guiding spirit of the German Memorandum Group, and a long-standing supporter of the EuroMemo Group.

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Summary

Introduction

The neoliberal global and European order has entered a polycrisis, understood as multiple shocks feeding each other with growing complexity. Taking its cue from the UNEP *Emissions Gap Report* that the time for incremental change has passed, and that only a root-and-branch economic transformation can save humanity from disaster, the 2023 EuroMemorandum analyses the polycrisis Europe faces, critiques EU policy, and offers radical policy-alternatives.

CHAPTER 1: The macroeconomic outlook

2023 will be a difficult year as the EU is ill-prepared to address the polycrisis. The following alternative macroeconomic policies are urgently needed.

- The centrepiece of EU macroeconomic policy should be a major public investment programme to promote an ecological and social transformation.
- The inflation-problem should be dealt with through fiscal policy, rather than interest rate hikes, including selective cuts in indirect taxation of essential goods and services, higher taxation for particular sectors and sections of the population, price controls in sectors of strategic importance (energy, rent, essential food items), support for the middle-and-low-income households suffering from the cost-of-living crisis, and for businesses that have problems meeting increased energy bills.
- Increased public spending should be financed through increased taxes on the income and wealth of high-net-worth individuals and large corporations, windfall gains made by energy providers and other manufacturers, as well as by the financial sector.
- Public spending may also be financed through common borrowing based on the solidarity principle. The positive experience of this aspect of Next Generation EU indicates its feasibility.
- The common EU budget needs expanding. 5% of EU GNI is the minimum rate required under the present circumstances.
- The revised SGP does not include preferential treatment for green investment, nor reference to indicators beyond GDP, accounting for social and environmental goals. This should be rectified.
- The ECB's mandate should be expanded to include full employment in addition to inflation, while the 2% inflation target must be raised to accommodate a needs-based fiscal policy.
- EU economic governance should be embedded in a democratic participatory framework, where the European Parliament participates in decision-making, oversees implementation, and holds the European Commission and the ECB accountable.

CHAPTER 2: Dealing with the cost-of-living crisis

Real wages are expected to decrease on average by 6.5%in 2022 and 2023; social benefits have not been adjusted to compensate for increased inflation. Furthermore, the consumption basket of lower income households renders them particularly vulnerable to price-increases of energy, food and rent. However, wage devaluation concerns all

employees, increasing the risk of impoverishment.
The cost-of-living crisis adds a further layer to a wider and long-standing crisis of social reproduction. Everyday life does not simply involve difficulties in covering energy and supermarket bills, repaying loans, paying taxes etc., but also ensuring access to essential social services that have been eroded by austerity and privatization (healthcare, childcare, long-term care and education).
EU social policy developments have been contradictory. Important relatively progressive developments include the Action Plan of the European Pillar of Social Rights: the Directive on adequate minimum wages; the European Commission's proposal for a Council recommendation on adequate minimum income; and the European Care Strategy. However, these are not compatible with the economic policy stance analysed in the first chapter.
The EuroMemorandum Group calls for the following alternative social policies:

- Wage increases and wage indexation mechanisms, especially of low wages, should be prioritised in policy and collective bargaining agendas.
- Disconnecting households from energy grids should be banned.
- Access to essential public services and goods should be part of a rights-based approach to ensure that the needs of the population are effectively covered. Investment in public services and infrastructures is a means to deal with both the immediate cost-of-living crisis and longer-term social and environmental goals.

CHAPTER 3: Global disorder, the climate crisis, and the need for rapid socio-ecological transformation

The scale and urgency of the climate crisis is growing. Several tipping-points have either been triggered or are imminently threatened. Approximately $4.3 trillion are necessary by 2030 to avoid the worst outcomes. Reliance on private "green finance" to address the climate crisis and mitigate the effects of damage already sustained, dominates EU policy.
This optimistic faith in "green finance" is misplaced. Studies of the world's largest asset management funds show clear evidence of "greenwashing". Three companies manage assets of over $20 trillion and spend large sums advertising their green credentials. However, as large shareholders in fossil fuel corporations, they have consistently supported the carbon majors' resolutions at shareholder AGMs. Rather than promoting environmental stewardship, the Big Three are stewards of the status quo of shareholder value maximisation. The political leverage of both asset management corporations and global carbon-intensive enterprises is also colossal, adding considerable confusion to debates over environmental renewal within civil society.
Further, major obstacles to ecological transformation include the hegemonic rivalries of major states, and wasteful and destructive wars. These all dilute the formulation and implementation of effective policies.
The Euro Memo Group holds fast to its conviction of the indivisibility of climate mitigation and the radical reduction in social inequalities at national, regional and global levels. The current accumulation regime of financialised capitalism and value-extraction by narrow elites weakens the potential for the democratic legitimation of fundamental change to our patterns of production, employment and consumption. The preparedness of advanced economies, including those of the EU, to provide major volumes of financial and technological support to less developed regions, is vitally important in order to carry forward the hope of avoiding a ruined planet and the associated perils for the physical

well-being of future generations. In concrete terms, this means the bulk of funding being deployed to support poorer states.

CHAPTER 4: Global disorder and its repercussions on the future of the EU

Anaemic uneven economic development and increasing uncertainty in everyday life shapes the dynamics of world political economy, including through rising inequalities and the development of political systems. Wealth can be translated into political influence also in liberal democracies. When rules limiting the influence of money on politics in favour of the wealthy and big corporations are changed, the process easily becomes self-reinforcing. Previous changes enable new changes in the same direction, resulting in de-democratisation and increasingly asymmetric power-relations.

In a tightly interconnected world economy, no major development is isolated, while interdependence can easily become weaponised as illustrated by US-China relations. A lot depends on the capacity of actors to solve common problems by means of peaceful cooperation. In the 2000s, global governance began to decline. Global problems left unresolved may exacerbate those very problems and generate social conflicts. But they also involve disintegrative tendencies and contradictions in the global political economy. The rise of nationalist-authoritarian orientations deepens the current gridlock of global governance. While attempts at forging unity of 'the people' through negativity mean anti-elitism, they also take the form of othering and enemy-construction. Even in moderate versions of nationalism, the tendency to follow myopic self-regarding policies in the interstate field makes cooperation more difficult and increases the likelihood of conflicts and their securitisation.

Global disorder has now culminated in full-scale war at the heart of Europe. The brutal short-sighted Russian invasion of Ukraine violates international law and causes enormous suffering and turmoil. Furthermore, the escalation has reached a point verging on nuclear war. There is a nearly absolute moral imperative to de-escalate the conflict. This is a war between Russia and Ukraine, with intensive NATO involvement and with long-deteriorating US-Russia relations looming in the background. Any peace agreement must be negotiated by the relevant participants and with appropriate third parties; UN involvement is essential. But a mere peace agreement alone is insufficient to reverse the ongoing disintegrative tendencies. It requires a series of far-reaching, long-term reforms in the governance of the world economy; that is, more adequate common institutions.

Introduction

The European Union was founded in 1993 as part of a neoliberal global order where hubristic properties were attributed to self-regulating markets at the 'end of history'. Since 1997, EuroMemoranda have critiqued the inadequacies of European Union institutions and policies and have warned against the disintegrative tendencies that these inadequacies generate. Disintegration is now being actualised in what former Commission President Juncker also recognised as a 'polycrisis'.[1] The neoliberal order is giving way to disorder.

[1] European Commission, "Speech by President Jean-Claude Juncker at the Annual General Meeting of the Hellenic Federation of Enterprises (SEV)", June 21, 2016.

A polycrisis can be understood in terms of a multiplicity of shocks feeding each other with growing complexity. The shocks may appear disparate, but they interact, such that the whole becomes even more overwhelming than the sum of the parts.[2] The polycrisis Europe now faces includes climate change, the Covid 19 pandemic, the energy crisis, a cost of living crisis, the war in Ukraine, and an emergent hegemonic rivalry between the United States, and China. It also includes a care crisis in ageing societies, social inequalities, and a crisis of democracy.

Some of the above problems are far from new, but – unresolved - they have been exacerbated; this generates a potential for social conflict. At a deeper level, these involve disintegrative tendencies and contradictions in the global political economy itself.[3] The large-scale shift toward individualised responsibility and private competitive markets has transformed agency and social contexts. Causal outcomes such as inequalities, increasingly insecure terms of employment, and economic crises generate concerns and anxieties in everyday life but unevenly, subject to various asymmetries. These concerns and anxieties of everyday life can be mobilised for antagonistic politics, mostly in terms of frames of reference, categories, metaphors and myths that have been sedimented into the deep structures of national and religious imaginary.

Climate change is the overarching global issue par excellence. EuroMemoranda have critiqued the inadequacies of measures taken over many years, including the instruments of the European Green Deal. The consequences are becoming acute. According to the IPCC, at current levels of emissions, the 'carbon budget' for keeping global warming within a 1.5^{o} C limit will have been expended in 4 ½ years. The extreme weather conditions of 2022 – catastrophic floods in Pakistan and unprecedented droughts in Europe, Africa and China – are ominous signs of 'tipping points', with their negative feedback loops, being reached. Under today's policies, the world will experience a catastrophic average rise of temperatures by 2.8^{o} C by the end of the century.[4]

The Covid19 pandemic is also a global shock. As of mid-November 2022, 633,263,617 cases had been recorded worldwide, of which 262,997,353 (40%) were in Europe, while deaths from the virus had reached 6,594,491, of which 2,127,342 (32%) were in Europe[5]. At the end of October, the cumulative vaccine uptake in the EU/EEA was equal to 75.3% of the total population for one dose, but only 53.9% for the first and 7.6% for the second booster [6]. On 27 April, the European Commission announced that it was moving out of the emergency phase of the Covid19 pandemic. All restrictions were subsequently lifted by member states. However, following increased travel in the region during the summer 2022, there are signs of rising Covid19 activity. The pandemic is certainly not over. Investing in good quality,

[2] Adam Tooze, "Welcome to the world of the polycrisis", *Financial Times,* April 28, 2022.
[3] Heikki Patomäki, *Disintegrative tendencies in global political economy: exits and conflicts.* Abingdon and New York: Routledge, 2018; Heikki Patomäki, *The three fields of global political economy.* Abingdon and New York: Routledge, 2022, chapter 7 and 8.
[4] UNEP, "Emissions Gap Report", 27 October 2022.
[5] WHO, "Coronavirus (Covid19) Dashboard" (accessed November 17, 2022).
[6] ECDPC, "Country overview report" (accessed November 17, 2022).

adequate health services is going to be crucial in dealing with the next wave, on top of investments required to deal with an ageing population.

Equally global are the energy and food crises that took shape in late 2021. The reopening of the economy, coupled with increased financial speculation in both energy and agricultural commodities markets, induced a fast rise in prices. The Russian invasion of Ukraine dramatically exacerbated the situation, especially in Europe after Russia slashed exports in June in retaliation to western governments' sanctions in support of Ukraine. Although European gas prices have declined, after spiking at a peak above €300MW/h in August, to about €130 MW/h in early November, this is still well above the long-term average of €20-30 MW/h. The burden of this crisis will fall disproportionately on poorer populations and pushing large sections of the population into poverty. [7]

The war in Ukraine, although it takes place on European soil, has very significant global implications and has taken the world to the brink of nuclear war. It also has global causes as a symptom of the aforementioned disintegrative tendencies, and forms part of broader geopolitical rivalries. Energy prices, inflation, interest rates, economic development and food shortages are connected to the war, as is a growing refugee crisis in Europe. Over 7.8 million refugees fleeing Ukraine have been recorded across Europe, 90% of whom are women and children. The Ukrainian refugees are adding to the political tensions amongst EU member states regarding the handling of the thousands of refugees fleeing from conflict, hunger and climate change in the Middle East, Asia and Africa countries and landing on the shores of the EU Mediterranean countries. The war has resulted in massive increases in military expenditure commitments, not the least in the German 'Zeitenwende', accelerating the tendency towards militarisation documented in EuroMemoranda in recent years. The longer the war continues, the greater the repercussions on the EU in political, economic, and social terms.

We take the conclusion of UNEP's *Emissions Gap Report,* that the time for incremental change has passed, and that only a root-and-branch transformation of our economies and societies can save us from disaster, as validation of the policy-position that the EuroMemorandum Group has taken over the years.[8] As outlined in the 2020 EuroMemorandum, the centre-piece of EU economic policy must be a major federal public investment programme equal to at least 2% of EU GDP to promote ecological and social transition towards a sustainable and equitable economy, thereby boosting significant fiscal commitments by all member states. Previous EuroMemoranda have critiqued the hope the EU has pinned on 'blended finance' and financialised mechanisms for reaching these objectives. The 2023 EuroMemorandum amplifies and further substantiates this critique. Chapter 3 analyses in detail the myopia, dysfunctions and vested interests of 'green finance'. Chapter 1 traces current macroeconomic problems such as inflation to an non-resilient, highly financialised, and privatised energy system. The policy of the ECB and of other central banks, of raising interest rates, and the return to nationalist fiscal responses, are deemed misguided in this regard. They also make it difficult to address solidaristically

[7] IEA, "World Energy Outlook", November 2022.
[8] UNEP, "Emissions Gap Report", October 27, 2022.

the cost-of-living crisis, analysed in chapter 2. Chapter 4 reflects on the disintegrative tendencies of the world order that has brought the world to the brink of nuclear conflict. While the brutality with which Russia has conducted the war has made a peaceful resolution exceedingly difficult, the chapter concludes that avoiding nuclear catastrophe is an absolute moral imperative, and pleads for a transformation of the EU and for cosmopolitan social and democratic governance in the region and beyond.

CHAPTER 1: The macroeconomic outlook

1.1 Macro developments

A major aspect of uncertainty concerns the future of economic growth. Contrary to the 1988 Cecchini Report that provided its original rationale, European growth rates have declined in the era of the Single Market. Furthermore, the multiple crises the EU has been through have resulted in even lower rates of growth. For example, the average rate of growth of the EU was equal to 2.1% over the period 2004-2008, dropping to -0.4% between 2009–2013 and to 1.9% over 2014-2018. Neither was this performance associated with a change in the pattern of consumption and production towards a more sustainable model.

However, explanations for declining growth rates differ wildly. The mainstream economic explanation focuses on obstacles to market competition and ageing populations while recognising that the world's economic centre of gravity is shifting toward Asia.[9] But it is not only the unevenness of growth but also the effects of neoliberal economic policies that have slowed down growth in the OECD countries and other parts of the world economy. As has been discussed in several EuroMemoranda since 1997, these policies have been deflationary while they have facilitated financialisation and contributed to rising economic inequalities. The combination of growing inequality and processes of financialisation, involving cumulative and circular causation, can explain the declining rates of growth.[10] To this one should add restrictive macroeconomic policies and the 'fallacy of composition' caused by competitive austerity. Moreover, in service sectors, labour productivity has stagnated, while in others it has risen only modestly. Finally, the ecological limits to growth, as the Club of Rome anticipated already in 1971, may also have started to affect GDP, although it is well known that as a measure GDP is insensitive to ecological damage.

The 2020 and 2021 Memoranda pointed out that the economic expansion that followed the 2010-12 Eurozone crisis was 'historically weak', 'uneven', and 'drawing to a close' even before the COVID-19 lockdown and that the future was uncertain.[11] That turned out to be the case. Before a post COVID 'V-shaped' recovery had been completed, the European

[9] Yvan Guillemette and David Turner, "The long view: scenarios for the world economy to 2060", OECD Economic Policy Paper No. 22, July 2018, accessed November 8, 2022.
[10] For a good discussion along these lines, see Yılmaz Akyüz, "Inequality, financialisation and stagnation." *The Economic and Labour Relations Review* 29, (April 2018):428–45.
[11] EuroMemorandum 2021, "A post-COVID global-local agenda for socio-ecological transformation in Europe", p. 9. See also EuroMemorandum 2020,"A Green New Deal for Europe - Opportunities and Challenges", p. 9-10.

economy faced effects of the war in Ukraine and reduced Russian gas supplies. Figure 1.1 below shows selected economic indicators as forecast by the European Commission in its 2022 Autumn European Economic Forecast. As noted by the Commission, a large degree of uncertainty hangs over them.

- The EU economy as a whole is expected to display a positive rate of growth in 2022. This is mainly due to the 2021 momentum, while GDP is expected to contract towards the end of 2022. The decline in the growth rate is set to continue in 2023, moving into negative territory in Latvia, Sweden, Finland and Germany, with the latter having been hit especially hard by the energy crisis.
- The supply-chain constraints and the exorbitant increase in energy prices and in commodity and food prices have resulted in a significant rise in the inflation rate. Core inflation – excluding energy and unprocessed food – is 4.8% in the Euro Area and 5.8% in the EU, as opposed to 8.5% and 9.3% headline inflation respectively. Although unpredictability is the new norm, should these markets normalise, inflation will prove to be transitory. Food prices have come down in Dollar terms, because of record exports by Russian farms to Asia, the Middle East, and North Africa. The spikes in food prices in 2022 were caused by speculation in the futures market, triggered by the onset of the war in Ukraine.
- Unemployment in 2022 is expected to be lower than in previous years, although there are notable differences across member states. For example, unemployment both in Greece and in Spain is double the average rate of the EU. Furthermore, the rate of unemployed persons under the age of 25 is more than double the rate for the labour force as a whole.
- Real wages are set to decline in all member states in 2022. The decline is especially noticeable in some CEEs, while certain Nordic and Southern European countries are also experiencing significant falls in real wages. As a result, a cost-of-living crisis has ensued in the EU, hitting especially hard low-and-middle-income families especially hard, which, as documented in chapter 2, tend to spend a larger share of their income on food and energy.
- The total income received by the richest 20% of the population in the EU is 5 times greater than that received by the poorest 20% on average, while the range varies considerably across member states. Compared to previous years, inequality has increased in the EU. Furthermore, energy poverty – the inability of households to access essential energy products and services – is, as documented in chapter 2, on the rise[12].
- National budgets show deficits, with the exception of four countries - Denmark, Sweden, Cyprus and Ireland - which have a surplus, albeit a small one. It is worth noting that the deficit exceeds the 3% of GDP institutional mark of the Stability and Growth Pact in the case of 15 countries. The SGP is currently de-activated, while its review is ongoing.
- Government debt is also above the 60% of GDP limit set by the SGP both on average in the EU and the Euro Area, as well as in 13 member states. Furthermore, there is

[12] Energy poverty is extensively discussed in Chapter 2 below.

considerable variation across member states, with Greece and Italy displaying the highest ratio.

Figure 1.1 Basic EU economic and social indicators, 2022

Source: European Commission, Autumn 2022 Economic Forecasts

		Real GDP - % change on preceding year	HICP annual average % change on preceding year	Unemployment - Number of unemployed as % labour force	Real compensation of employees per head - %change over preceding year	Ratio of Top 20% to bottom 20% of income earners (2021)	Net lending (+) or net borrowing (-), general government as % of GDP	Gross debt, general government as % GDP
	Euro area	**3.2**	**8.5**	**6.8**	**-2.8**	**5.02**	**-3.5**	**93.6**
	EU	**3.3**	**9.3**	**6.2**	**-3.1**	**4.97**	**-3.4**	**86.0**
Nordic	Finland	2.3	7.2	7.0	-3.2	3.58	-1.4	70.7
	Denmark*	3.0	7.9	4.5	-6.0	3.93	1.8	33.7
	Sweden*	2.9	8.1	7.2	-5.1	4.04	0.2	32.1
Western Europe	Austria	4.6	8.7	5.0	-4.1	4.08	-3.4	78.5
	Belgium	2.8	10.4	5.8	-1.7	3.42	-5.2	106.2
	France	2.6	5.8	7.7	-0.6	4.42	-5.0	111.7
	Germany	1.6	8.8	3.1	-2.5	4.48	-2.3	67.4
	Ireland	7.9	8.3	4.4	-2.4	3.83	0.2	44.7
	Luxembourg	1.5	8.4	4.7	-1.7	4.59	-0.1	24.3
	Netherlands	4.6	11.6	3.7	-3.4	3.88	-1.1	50.3
Southern Europe	Cyprus	5.6	8.0	7.2	-3.0	4.23	1.1	89.6
	Greece	6.0	10.0	12.6	-3.5	5.79	-4.1	171.1
	Italy	3.8	8.7	8.3	-4.1	5.86	-5.1	144.6
	Malta	5.7	6.1	3.2	-2.0	5.03	-6.0	57.4
	Portugal	6.6	8.0	5.9	-1.3	5.66	-1.9	115.9
	Spain	4.5	8.5	12.7	-5.4	6.19	-4.6	114.0
Eastern Europe	Czechia	2.5	15.6	2.7	-8.3	3.43	-4.3	42.9
	Estonia	-0.1	19.3	6.1	-7.4	5.03	-2.3	18.7
	Latvia	1.9	16.9	7.1	-5.3	6.63	-7.1	42.4
	Lithuania	2.5	18.9	6.0	-6.7	6.14	-1.9	38.0
	Slovakia	1.9	11.8	6.3	-4.5	3.03 (2020)	-4.2	59.6
	Slovenia	6.2	9.2	4.1	-8.9	3.24	-3.6	69.9
	Bulgaria	3.1	12.8	5.2	4.0	7.45	-3.4	22.5
	Croatia	6.0	10.1	6.3	-2.1	4.78	-1.6	70.0
	Hungary	5.5	14.8	3.6	-0.3	4.19	-6.2	76.4
	Poland	4.0	13.3	2.7	-3.5	4.02	-4.8	51.3
	Romania	5.8	11.8	5.4	-3.5	7.13	-6.5	47.9
Non EU	**UK**	4.2	7.9	3.8	-3.3	5.9	-6.4	105.6
	Japan	1.7	2.5	2.7	-1.2	(top 10% over bottom 10%) 4.5	-6.9	(43% held by Bank of Japan) 266
	USA	1.8	7.9	3.7	-0.2	17.0	-5.9	102.7

1.2 Tightening of Monetary Policy and Uncoordinated Fiscal Policy

Overall, the macro perspectives of the EU economy point to a difficult outlook for households and businesses across Europe. This is made all the more likely given the monetary austerity pursued by the ECB through the continued raising of its interest rates and ending its asset purchase programmes. Following the lead of the US Federal Reserve's sharpest tightening of monetary policy since the 1980s, which has increased the value of the Dollar and import prices, the ECB raised interest rates four times in 2022 in its efforts to bring inflation down to the magic number of 2%. This has driven up the main refinancing rate to 2.50%, the marginal lending facility rate to 2.75% and the deposit facility rate to 2%.

This policy is misguided. 'Quantitative tightening' risks once again widening the spread between Eurozone bonds, which happened during the Eurozone crisis. Insofar as current inflation is the result of factors outside the central bank's control, increased interest rates will not bring inflation down in the short-run, while in the long-run there is a strong risk they will cause a recession, which is already forecast for the early part of 2023. In addition, the hike in the ECB rates raises the cost of borrowing both for the private and for the public sector, while the deteriorating economic and financial conditions carry increased risks for the stability of the euro area financial system. This is especially so given the large non-bank, largely unregulated EU financial sector. As pointed out in previous EuroMemoranda, financial stability is a public good and, as such, needs to be guarded. Indeed, some of the EuroMemo Group's recommendations have found their way into the financial regulation framework, set up in the post-crisis era. However, shadow banking remains a major challenge, especially certain parts of it, such as the collateralised loans market[13]. On the fiscal side, European governments have adopted policies to soften the impact of rising energy and food prices on businesses and consumers. However, in contrast to the nascent move towards fiscal-federal solutions, as in the case of Next Generation EU and the COVID-pandemic, the response has been purely intergovernmental with little coordination. It is estimated that the cost of such policies will amount to €700 billion, of which €200 billion (5% of its GDP) is incurred by Germany. This is in addition to Germany's pledge to raise its military spending to 2% of GDP in the future.[14] In a context where state-aid rules are suspended, this 'protective shield' distorts competition in favour of German companies and those of other countries with the requisite fiscal space. Countries that need the protection of a common public borrowing scheme - such as Greece, Italy and Spain - are thus left to fend for themselves. This will reinforce economic polarisation and social tensions both within these countries and in the EU more generally. Together with the danger of widening yield spreads, this could again put the integrity of the Eurozone at risk.

Restrictive monetary policy and a lack of fiscal-federal measures also pose a threat to the EU's ability to meet its greenhouse gas (GHG) reduction-targets. The EU reduced GHG emissions by 34% below 1990 levels by 2020, exceeding its target of 20%. However, much of

[13] Marica Frangakis, "The European leveraged loans market – Developments, Risks and Policy Implications, in *Ten Years into the Global Financial Crisis: The current state of finance in the EU – Prospects and Alternatives",* Nicos Poulantzas Institute, 2019.

[14] McKinsey & Co., "Global Economics Intelligence", Executive Summary, November 10, 2022.

this was the result of the Covid19 lockdowns and the disruption in economic activity; the lifting of the lockdowns and the surge in energy prices in 2021/2022 has led to increased emissions and a slowdown in the EU's exit from coal. Under the 2021 European Climate Law, the EU aims at a 55% reduction in GHG emissions by 2030 and net-zero by 2050. However, unless the much-needed investment in new energy systems is forthcoming, achieving these targets is highly doubtful. The EU is perhaps facing one of the most difficult moments in its history. The certainties of the post-WWII period are being shattered as geopolitical, social and economic tensions emerge across the globe. The 'too-little-too-late" response of the European leaders to the financial crisis was largely avoided in dealing with the pandemic. However, this is not the case in the current juncture. National differences in productive structures, dependencies and aspirations have so far prevented the EU from taking concerted action in dealing with the multiplicity of crises facing it. The ability of the EU and its leaders to remain 'united in diversity' is yet again being tested.

1.3 Stability and Growth Pact Review

In November 2022, the European Commission published its 'orientations for a reform of the EU economic governance framework'[15]. The new framework is to be decided by mid-2023, and applied as of 2024, when the current derogation from the SGP fiscal rules expires. The main orientations proposed by the Commission are shown below.

Fig. 1.3 Review of the SGP by European Commission[16]

National ownership embedded in EU framework	Simplification and focus on fiscal risks	Enforcement
0. Commission puts forward reference adjustment paths 1. Member States propose medium-term fiscal-structural plans 2. Annual budgets will commit to follow the fiscal trajectory and ensure that debt will start converging to prudent levels within the adjustment period 3. Member States can request a longer adjustment period underpinned by reforms and investments 4. Council endorsement of the plan 5. Stronger role of national IFIs	1. Net expenditure path anchored on debt sustainability and agreed by Council will be the single fiscal indicator 2. Surveillance and enforcement will be risk-based 3. Debt reduction benchmark, benchmark for reduction in structural balance, significant deviation procedure and matrix of requirements no longer exist	1. Deficit-based EDP (3% of GDP threshold) maintained 2. Debt-based EDP will be operationalised and strengthened, as a tool to ensure compliance with the agreed net expenditure path 3. Financial sanctions toolbox will be enriched with smarter sanctions 4. Macroeconomic conditionality will be maintained

Source: J.W. Friis, R. Tore, M. Buti, "How to make the EU fiscal framework fit for the challenges of this decade", VOX EU/CEPR, November 10, 2022.

[15] European Commission, "Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of Regions on orientations for a reform of the EU economic governance framework", September 11, 2022, COM(2022) 583 final.
[16] Ibid

On the plus side, more time is allowed for highly-indebted countries to avoid immediate spending cuts, to the extent that the reduction in public debt is expected to take place as part of medium term structural fiscal plans over 4-7 years. Also, more attention is given to the quality of public spending in terms of addressing priorities such as the National Energy and Climate Plans and the European Pillar of Social Rights. Further, certain fiscal rules which were complex and unobservable have been abandoned.

On the minus side, the unsubstantiated debt/deficit limits of 60% and 3% of GDP respectively have been maintained. Even if one were to accept that the 60% rule is a long-term debt anchor, the 3% deficit rule is not only arbitrary, but also contradicts the potentially more flexible target of primary expenditure envisaged by the Commission. In particular, the fiscal limits restrict debt-financed investment, especially for highly-indebted countries, which have greater difficulty initiating the necessary investment and reforms so as to grow out of debt.

A further problem concerns the net expenditure indicator, defined as 'expenditure net of discretionary revenue measures and excluding interest expenditure as well as cyclical unemployment expenditure'. In essence, this is the cyclically adjusted primary balance that was introduced in a previous SGP reform to allow for the operation of automatic stabilisers. It did not work because the cyclical adjustments are impossible to measure with any degree of precision. There is no reason to believe that it will work now.

An additional inconsistency, implicit in the orientations, is the outsized role of the Commission in the negotiation process, which contrasts with the professed aim of enhancing national ownership. Thus, the Commission proposes the reference scenario and assesses countries' counter-proposals. A modified plan is then agreed and submitted to the Council for endorsement. If there is a disagreement between the two parties, the Council is expected to adopt the Commission's reference scenario. The independent fiscal institutions (IFIs) are mentioned in the orientations, although their role is limited. Empowering these institutions, which monitor their government budgets from the preparation stage to final realisation, would enhance ownership and reduce the Commission's central role.

At a conceptual level, the orientations rely on GDP growth as the metric of wellbeing, whereas there is a need for indicators beyond GDP to promote investment towards social and environmental goals. Also, there is no preferential treatment of green investment, nor a ban on environmentally harmful subsidies.

Last but not least, the role of the European Parliament, the EU's only democratic assembly, is limited to that of accepting the explanations of the finance ministers of countries that have failed to meet their commitments and who are called on to explain this before the Parliament, as part of the proposed 'reputational' sanctions.

Overall, the orientations proposed by the European Commission update the 25-year-old SGP, without attempting any major transformation of the rules. This risks being a missed opportunity, given the pressing problems facing the EU in the early 21st century.

1.4 Alternative policy proposals

In the epicentre of the EU polycrisis is the energy crisis. This is closely linked to climate change, to inflation and to financial speculation. Hence, a holistic, coordinated and solidaristic way of dealing with it is necessary.

More specifically, energy must be recognised as a public good, as must the right to clean and affordable energy. To this end, massive investment is needed in the EU domestic energy supply and related infrastructures to produce the volumes of clean and affordable energy needed to reach the Climate Law objectives and to ensure a green and just transition.

Further, the energy sector is directly linked to the inflation bout of 2021/2022, as exorbitant energy price increases fed into a rising rate of inflation, a cost-of-living crisis and energy poverty, as well as problems in the EU's industrial sector, especially its energy-intensive industries. The EU needs to take measures to contain this effect. Such measures include a cap on gas prices and more generally price controls on energy, a common gas-purchasing policy, fiscal support to businesses and consumers against higher energy prices; these should take a fiscal-federal form and build on that aspect of Next Generation EU.

Indeed, on 19th December EU energy ministers agreed on a price cap of €180/MWh to apply to gas contracts traded on all European trading hubs for supplies of one month, three months and a year ahead. The cap is triggered when gas prices hit the limit for three days and remain above an average of global liquefied natural gas prices by the amount of €35/MWh for three days. The actual formulation is a compromise reached between the sceptics, worrying that gas supplies will be diverted away from the EU and the proponents of the measure. The gas price-cap is to take effect as of 15th February 2023.

The significance of a price-cap is shown by the fact that, following the announcement, month-ahead gas futures on the Netherlands-based benchmark were down about 8% at €107/MWh, far below a high of more than €340/MWh in August 2022 but still well above the €69/MWh at the end of 2021.

The energy sector is also closely connected with the financial sector, insofar as energy providers trade in derivatives, such as an option to buy or sell gas at a fixed price in the future. To do so, they need to lodge collateral ('margin calls'), mostly cash, with clearing houses processing the deals. With recent price spikes, the demands for such 'margin calls' rocketed. According to the ECB, about half of traders of power and gas derivatives could be hit by such margin calls, should prices rise further, creating a liquidity problem, while a domino effect on the banks that organize and fund the deals is likely.[17] Thus, the energy crisis has a financial stability risk aspect that needs to be taken into account, with appropriate regulatory measures taken by the ECB.

Beyond energy, the Covid19 pandemic is an ongoing crisis. The EU record in this area has been poor, as it accounts for a relatively high share of global cases and deaths from the virus. Indeed, the pandemic revealed the dire consequences of neoliberal policies and of the

[17] ECB, "Financial Stability Review", November 2022.

privatization of public services in the past 30 years. The pandemic is in no way over. The case for enhancing the public health sector and public services more generally remains as urgent as it was at the start of the pandemic crisis.

In view of the urgent needs arising from the multiplicity of crises, the centrepiece of EU macro policy should be a 'major public investment programme to promote an ecological, social transition towards a sustainable and equitable economy at the European, national and local level", as already stressed in our Memorandum of 2020. Such a programme should include investment in the green economy and in new technologies, such as renewable energy providers, technologies that reduce the use of energy and non-renewables, smart and green mobility, tackling the technological gap between peripheral and core EU countries, as well as investment in education, health and social care, in social housing and more generally in public services.

The issue of inflation, at the top of the EU agenda, is best dealt with through fiscal policy, rather than interest rate hikes, which are a blunt instrument. In addition to the investment programme mentioned above, fiscal policy may include selective cuts in indirect taxation of essential goods and services, higher taxation for particular sectors and sections of the population, price controls in sectors of strategic importance (energy, rent, essential food items), support for middle-and-low-income households suffering from the cost-of-living crisis and for businesses that have problems meeting higher energy bills.

The revised SGP, set to become effective as of 2024, does not include any preferential treatment for green investment, nor does it mention any indicators beyond GDP to support investment towards social and environmental goals. For example, green investment is not exempted from the debt and deficit limits. At best, member states are expected to prioritise investment addressing social and environmental concerns as part of their overall medium-term commitments.

Financing increased public spending should be made possible through raising taxes on the income and wealth of high-net-worth individuals and on large corporations. The inequality observed in the EU provides a solid ground for this. Furthermore, the windfall gains made by energy providers and other manufacturers, as well as by the financial sector (banks, hedge funds, etc) must be taxed. For example, in late December 2021 the Spanish Senate approved a windfall tax on banks - with the exception of small local lenders and foreign banks' units in Spain - and on large energy companies.

Public spending may also be financed through common borrowing, which would complement national resources. This was done successfully as part of the anti-Covid19 plan. Any political objections to its broader use need to be overcome by persuasion and by negotiation amongst member states. The positive experience of the Next Generation EU plan is the basis for such a discussion, which, albeit difficult, is directly connected to the principle of solidarity on which the EU was founded.

In addition, a bigger EU budget needs to be put in place. This has traditionally accounted for around 1% of EU gross national income and some 2% of total public spending in the EU. By contrast, federal spending in the USA represents about 50% of public spending and 15-20%

of GDP. It is clear that for an entity such as the EU, its budget is too small. Previous Memoranda have suggested an increase of the EU budget to 5% of EU GNI. Indeed, this is the minimum rate required under the present circumstances.

On the monetary front, the ECB's mandate needs to be expanded to include full employment in addition to inflation, while the 2% inflation target must be raised in order to accommodate a needs-based fiscal policy[18]. Indeed, mainstream economist Olivier Blanchard has noted that 'it is time to revisit the 2% inflation target', arguing that a 3% target is more appropriate for advanced economies[19]. Sacrosanct as the 2% target is viewed by monetary hawks, it is high time to move away from a mechanistic view of the economy and to embed policy targets in the actual circumstances of the economy and society.

Our alternative policy proposals should be embedded in a democratic participatory plan. The European Parliament should participate in the decision-making process regarding the setting of macro-objectives and policies, overseeing their implementation and making the European Commission and the ECB accountable for the results achieved, a point raised in our previous Memoranda.

More generally, the EU economic policy and governance framework needs a thorough transformation, taking into account the many and different challenges the EU is facing, its internal divergences and capabilities and the changing geopolitical context. Environmental and social sustainability must be at the centre of such a transformation. Furthermore, economic governance must be transparent and democratic, with the European Parliament and the national parliaments participating in the process.

The ongoing SGP review provides the opportunity for a public debate on EU macro policy. The EuroMemo Group intends to contribute to this debate and to collaborate with other critical/ progressive initiatives in promoting alternative solutions to the present pressing problems of the EU.

CHAPTER 2: Dealing with the cost-of-living crisis

2.1 The cost-of-living crisis and its effects

The cost-of-living crisis is a key and urgent facet of the polycrisis Europe is currently experiencing. It denotes the erosion of the purchasing power of households as a result of the nominal growth of their disposable income falling behind the rise in inflation. Since inflation is a major mechanism of income redistribution between capital and labour, different fractions of capital and different social groups, the cost-of-living crisis refers to the difficulties encountered by the an increasing proportion of middle- and lower-income households in their attempts to make ends, meet and avoid impoverishment.

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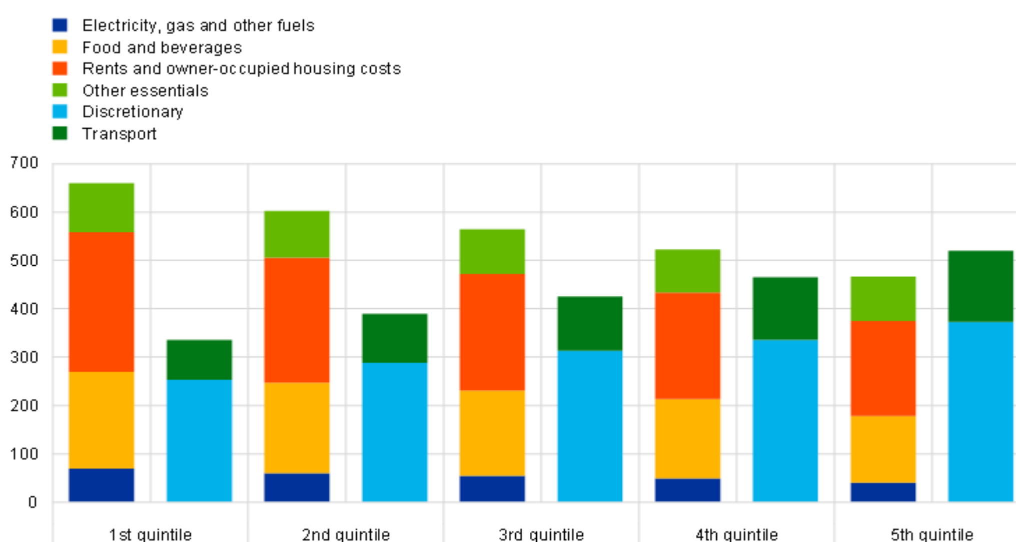
[18] Özlem Onaran, *Needs-based macro policy for a green-red-purple new deal in Europe*, Paper presented at the 28th Annual workshop of the EuroMemorandum Group, London, September 3, 2022.

[19] Olivier Blanchard, "It is time to revisit the 2% inflation target", *Financial Times*, November 28, 2022.

Regarding the capital-labour distributional conflict, nominal wages increased by 4.6% in 2022 and are expected to increase by 5.2% in 2023 in the EU on average, while the harmonised consumer price index (HCPI) is set to rise by 9.3% and 7% respectively. This implies a real wage devaluation of 6.5% over a two-year period and a huge income redistribution from wages to profits, if the latter continue to grow in 2023, as was the case for 2022.[20] However, the disposable income of individuals and households does not only depend on wages but also on social benefits. Benefits in EU Member States generally have not been adjusted upwards so as to compensate the rise in inflation; this greatly affects individuals and low work-intensity households whose living (mainly) depends on social transfers.

Figure 2.1 Euro area consumption baskets for 2015 by income quintile



Source: Charalampakis et al. 2022.

Finally, given that consumption baskets vary across income groups, the impact of the increase in inflation differs significantly for low and high-income households. Low-income households are more vulnerable to shifts in energy and food prices, which were the main drivers of higher inflation in 2002, as they spend a higher proportion of their total consumption expenditure on essentials such as food, electricity, gas and heating (Figure 2.1). In addition, rents represent the most important share of total expenditure in low-income households. This implies that, on top of the rise in energy and food prices, soaring rent prices from the second quarter of 2020 also contribute significantly to the current cost-of-living crisis. As a result of the variation in consumption baskets, low-income households experience higher effective inflation rates than those with higher incomes. According to a recent ECB study[21], the difference in the effective inflation rate between the lowest and the highest income quintiles rose from 0.1 percentage points in September 2021 to 1.9 percentage points in September 2022.

[20] ETUC, "Profits rise while wages fall", October 18, 2022.

[21] Evangelos Charalampakis, Bruno Fagandini, Lukas Henkel and Chiara Osbat, "The impact of the recent rise in inflation on low-income households", 2022, ECB Economic Bulletin, Issue 7/2022.

It is thus evident that, although the cost-of-living crisis is affecting the everyday life of most European households, those with the lowest incomes incur the greatest cost in terms of impoverishment and material deprivation and are more subject to liquidity constraints. Already, in 2021, when the strong recovery from the pandemic compounded the surge in energy prices and inflation, 21.7% of the EU's overall population was at risk of poverty[22], more than one in ten people (11.9%) faced material and social deprivation (6.3% even suffered severe material and social deprivation) while 7.3% were unable to afford a meal with meat, fish or a vegetarian equivalent every second day and 54.3% of single adults living with dependent children were unable to meet unexpected financial expenses[23].

However, wage devaluation affects all employees and increases the risk of impoverishment not only for the poor but also the middle classes. A recent EU-wide survey illustrates that the great majority of the EU population, regardless of income level, considers the measures taken by governments so far as inadequate.[24] Finally, it should be borne in mind that the cost-of-living crisis represents the latest layer of a wider and long-standing crisis of social reproduction[25], which has been brought to the fore by the Covid-19 pandemic. This means that, today, the everyday life struggle does not only concern difficulties in paying energy and supermarket bills and coping with loans, taxes etc., but also in ensuring access to healthcare services, childcare, long-term care or education, i.e. essential social services that have been/are being eroded by a long-standing process of austerity and/or privatisation.

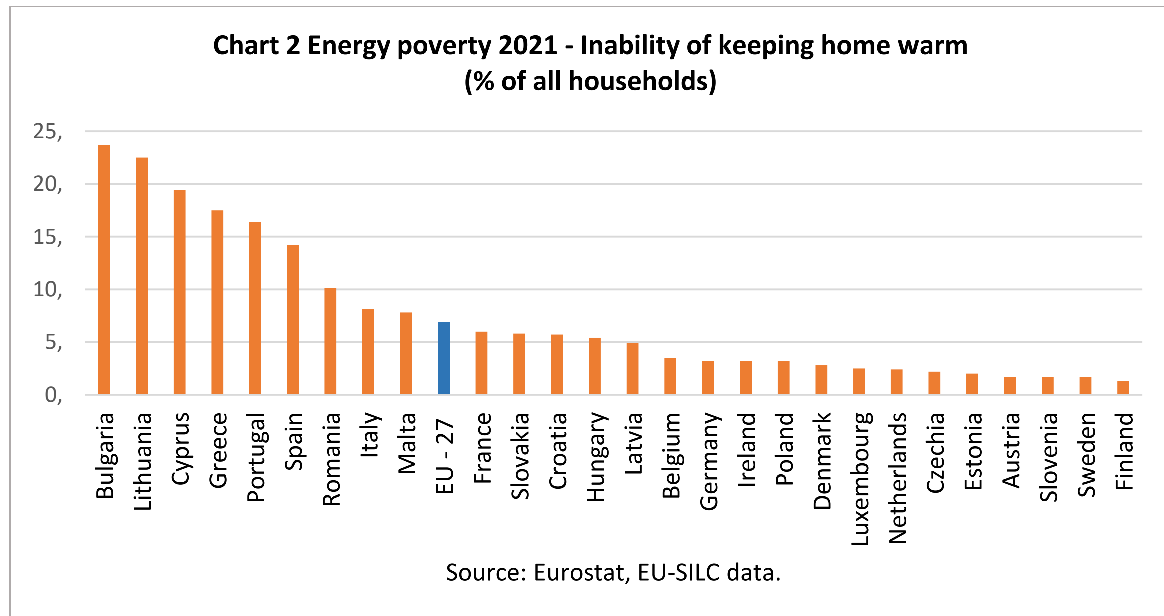
Box 2.1 Energy poverty

Energy poverty is commonly defined as the inability of households to ensure their energy needs i.e., to adequately heat/cool or provide other required energy services in their homes at an affordable price. Combating energy poverty is not only crucial for protecting the EU population against the current energy crisis but also for fostering a just energy transition with a view to achieving Fit-for-55 climate goals. According to Article 29 of Directive 2019/944, EU Member States must establish a set of criteria to assess the number of energy-poor households, while the European Commission's Recommendation on Energy Poverty 2020/1563[26] proposed a list of indicators for the assessment, which includes the percentage of households unable to keep their home warm (see Chart 2).

In 2021, household electricity prices increased by 7.5% and industrial electricity prices by 19% while gas prices rose by 4.4% for households and 95.4% for industrial consumers in the EU, on average[27]. Electricity and gas prices skyrocketed in 2022, after the Russian invasion Ukraine, extending energy poverty and increasing the production costs of European firms. Governments have introduced a variety of measures to mitigate the impact of price hikes[28]. These include direct assistance to

[22] Eurostat, "Living conditions in Europe - poverty and social exclusion", September 2022.
[23] Eurostat, "Living conditions in Europe - material deprivation and economic strain", October 2022.
[24] Consumer Expectations Survey carried out in October 2022 in: Charalambakis et al.
[25] Nancy Fraser, "Contradictions of Capital and Care." *New Left Review*, (2016) 100: 99–117
[26] European Commission, "Commission recommendation on energy poverty", October 14, 2020/1563.
[27] ACER/CEER, "Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2021. Energy Retail and Consumer Protection Volume", 2022.
[28] Ibid, footnote 5.

households and businesses (e.g., vouchers, tax reductions, or state aid), as well as measures affecting retail markets (e.g., introducing/increasing price caps or increasing oversight of suppliers). Some countries have also opted for redistributive policies and interventions in wholesale markets (e.g., taxation of windfall profits, or capping fuel prices for generators to lower the price of electricity). From the start of the energy crisis in September 2021 until the end of November 2022, €600.4 billion have been allocated across EU countries to shield consumers from the rising energy



Source: Eurostat, EU-SILC data.

costs.[29] A great proportion of this amount has subsidised excess profits in the energy sector. On 30 September 2022, the Council of the European Union agreed to impose an EU-wide windfall profits tax on fossil fuel companies to fund relief for households and businesses.[30] However, according to European Commission estimates, the tax would only recover some €140 billion.[31]

2.2 Policy developments at EU level: fiscal discipline inconsistent with new social commitments

During the Covid-19 crisis, the opt-out clause in the Stability and Growth Pact was activated, and Council recommendations in 2020 have derogated from fiscal austerity and wage containment to focus on measures to reinforce member states' health systems and income support schemes, or to foster the role of social partners in social and employment policies.[32] This phase is now over. As outlined in chapter 1, it has given way to a tightening of monetary policy and uncoordinated fiscal policies. The imminent recession will expose the

[29] Giovanni Sgaravatti, Simone Tagliapietra, and Georg Zachmann, 'National fiscal policy responses to the energy crisis", Bruegel Datasets, November 29, 2022.

[30] European Council, "Council agrees on emergency measures to reduce energy prices", Council press release, September 30, 2022.

[31] Jennifer Rankin and Alex Lawson, "EU expects to raise €140 bn from windfall tax on energy firms", *Guardian*, September 14, 2022.

[32] Silvia Rainone, "An overview of the 2020-2021 country-specific recommendations (CSRs) in the social field. The impact of Covid-19", *Background analysis 2020.01*, ETUI, p. 109

EU once again to the risk of rising unemployment and a private debt crisis. At the same time, three important developments are taking place in the field of European social policy with the implementation of the Action Plan of the European Pillar of Social Rights (March 2021): the Directive on adequate minimum wages; the European Commission's proposal for a Council recommendation on adequate minimum income; and the European Care Strategy.

Adequate minimum wages

The Directive has been qualified as a 'paradigm shift' for European wage policy. Its implementation could improve the standard of living of low-wage workers in the EU, reduce existing gender wage gaps and promote collective bargaining.

Box 2.2 The Directive on adequate minimum wages

The Directive (EU) 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages[33] stipulates that minimum wages must ensure a decent standard of living for full-time workers and suggests assessing the adequacy of minimum wages in relation to the wage distribution, using reference values of 60% of the gross median wage or 50% of the gross average wage. Among other instruments, a basket of relevant goods and services in real price terms may be used at national level to define the cost of living. The Directive does not provide for a compulsory indexation mechanism but requires that member states, "where automatic or semi-automatic indexation mechanisms do not exist, should update their statutory minimum wage at least every two years". It does not impose a statutory minimum wage on Member States where this is set by negotiations (Austria, Cyprus, Denmark, Finland, Italy, and Sweden). Most importantly, it also aims to foster collective bargaining in a context of declining coverage of employees by collective agreements: Member States whose coverage rate is below 80% will have to adopt an action plan with a view to increasing it. This action plan must involve social partners and be revised at least every five years.

A microsimulation for the European Commission suggested that the introduction of an adequate minimum wage (following the reference values of the directive) would upgrade the wage of more than 20 million workers, reduce in-work poverty by more than 10 % and diminish wage inequalities and the gender pay gap.[34] The microsimulation also predicted a weak positive impact on public budgets and a small negative impact on employment. During the elaboration of the directive, in several EU countries minimum wages were upgraded making reference to median wages or to a fair standard of living. In Ireland, social partner used the "living wage" as a reference for negotiation. In Germany and Spain, left-wing parties and trade unions also relied on the EU initiative for the upgrading of minimum wages.[35] However, the Directive cannot be used to protect workers against the cost-of-living

[33] European Council and European Parliament directive 2022/2041 on adequate minimum wages in the European Union, October 25, 2022, *Official Journal L 275*.

[34] Grünberger Klaus, Narazani Edlira, Filauro Stephano, Kiss Áron, "Social and fiscal impacts of statutory minimum wages in EU countries: A microsimulation analysis with EUROMOD", *JRC Working papers on Taxation and Structural Reforms*, 2021, n° 6, p. 46.

[35] Aumayr-Pintar Christine, Kostolný Jakub, Vacas-Soriano Carlos, "*Minimum wage in 2022",* Annual Review, Eurofound, Dublin, 2022, p. 67.

crisis since it does not provide for strict indexation mechanisms and it allows member states a two-year ratification deadline[36].

Adequate minimum income

The adequacy of minimum income schemes (MIS) in terms of poverty alleviation as well as social inclusion is a topical matter, both at EU level and in member states.[37] Ten years after the 2008 Council recommendation on active inclusion, objectives are far from being achieved. The European Pillar of Social Rights provided the right to an adequate minimum income in 2017 (Principle 14), but this right has remained a soft one, since it has not been translated into a Directive, as demanded by the European Parliament.[38] Instead, the 2022 European Commission Proposal for a Council recommendation "*on adequate minimum income ensuring active inclusion*" suggests that member states improve the adequacy of income support by extending coverage rates and tackling the issue of non-take up, by developing individual support and ensuring access to inclusive labour markets as well as enabling services and improving the monitoring of social safety nets.[39] Yet, the recommendation cannot ensure that member states will be eager or able to dedicate sufficient resources to the fight against poverty in the coming years.

European Care Strategy

In September 2022, the European Commission published its European Care Strategy accompanied by two proposals for Council Recommendations, one raising the Barcelona targets on early childhood and care and, the other, inviting Member States to draft and implement Action Plans so as to improve the access of the elderly and the disabled people to affordable and high-quality long-term care. The Strategy recognizes the urgent need to expand care services in the EU to cover unmet care needs and promote gender equality; it also addresses the issue of the workforce, primarily female and migrant, by calling for improved pay and working conditions in the care sector. However, the necessary public investment to meet the new Barcelona targets is incompatible with the calls for a return to restrictive fiscal policies in the euro zone to combat inflation, while the recommendation on long-term care does not include targets that would put pressure on Member States to expand services.

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[36] As the ETUC Deputy General Secretary Esther Lynch said: "Member States need to become serious about getting wages rising, they should not wait for two years before implementing the Directive. They should take action now to increase statutory minimum wages and promote collective bargaining", available at: https://www.etuc.org/en/pressrelease/minimum-wage-directive-boost-struggling-workers

[37] Marcello, Natili, "Worlds of last-resort safety nets? A proposed typology of minimum income schemes in Europe.", *Journal of International and Comparative Social Policy*, 2020, 36(1): 57-75

[38] Regina Anna Konle-Seidl, "Strengthening minimum income protection in the EU." Briefing, EMPL in Focus, European Parliament, 2021, 11

[39] European Commissio*n, "*Minimum income: more effective support needed to fight poverty and promote employment", News, September 28, 2022, available at: https://ec.europa.eu/social/main.jsp?langId=en&catId=89&furtherNews=yes&newsId=10417#navItem-relatedDocuments

2.3 Alternative proposals

Cost-of-living crisis

Given that wages are not the cause of inflation which is driven by supply-side factors (energy bottlenecks and excess profits due to market power and speculation), the cost-of-living crisis should be tackled by a comprehensive set of measures and reforms[40]. Immediately needed measures are: wage increases and wage indexation mechanisms to protect the purchasing power of wages, a ban on disconnections and emergency support for needy families, caps on energy prices, taxation and redistribution of excess profits. More radical measures to tackle energy poverty include the reform of the EU energy market (notably the dissociation of the price of electricity from the price of gas and anti-speculation measures), the re-nationalisation of energy companies and networks, boosting investment in renewable energy sources, decentralizing the production of renewable energy to communities etc.

Low Wages

In many EU countries, in-work poverty has increased over the past decade, and the minimum wage is insufficient to protect all workers against poverty or material deprivation. Low-skilled, part-time and short-term employees as well as microentrepreneurs are particularly exposed. Firstly, in the context of the cost-of-living crisis, the strict indexation of low wages should be placed at the top of the policy and collective bargaining agenda. Upgrading minimum and low wages is not only crucial for protecting the purchasing power of low-paid workers in hard times but also in order to deal with labour shortages in "essential" public services (notably health, education, childcare and long-term care) where pay is particularly low. Secondly, since the adequacy of minimum wages refers to regular full-time employment, the re-regulation of employment should also be part of the solution.[41] Third, to allow member states to increase low wages, notably in the public service sector, it is necessary to remove existing inconsistencies in the EU's strategy. Fiscal austerity and neoliberal reforms of European labour markets clearly impede or undermine the achievement of EU social goals. The European economic strategy has to adapt in order to serve the social and environmental goals of the EU.

Adequate minimum Income

The current focus on activating minimum income schemes weakens the "adequacy" of income guarantees, since it balances the objective of poverty alleviation with the aim of providing incentives to accept a (low-wage) job. It thus maintains minimum income protections below the poverty line. As underlined by the Joint statement of the EAPN, Eurodiaconia and Caritas Europa, a rights-based approach to adequate minimum income is

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[40] See for instance the measures proposed by the European Trade Union Confederation at: https://www.etuc.org/en/document/end-cost-living-crisis-increase-wages-tax-profits

[41] Agnieszka Piasna, Jill Rubery, "Labour market segmentation and the EU reform agenda: developing alternatives to the mainstream, *Working Paper 2016.10*, ETUI, p. 30.

necessary to avoid "*negative and punitive conditionalities*"; these prevent many of those who need an income guarantee having effective access or maintaining their position in income-support schemes.[42] Defining the adequacy of income-guarantees not only requires reference to national at-risk-of-poverty thresholds, but also to associated budgets and data on the expenses of low-income households. Income support schemes must also be strictly indexed to the rise in the cost-of living.

Public services & infrastructures

After decades of fiscal austerity in most member states and three years of pandemic, the public service sector is exhausted. Many hospitals lack beds, doctors, nurses, carers. The education system lacks teachers. Public employment services and social services lack resources. This state of affairs has severe consequences for the population. Similarly, access to public goods such as energy is crucial for the well-being of the people, while investment in collective infrastructures for renewable energy is of primary importance for the ecological transition. In other words, the public investment programme that the EuroMemo Group calls for has an important social dimension. Access to essential public services and goods should be part of a rights-based approach to ensure that the needs of the population are effectively covered, while investment in public services and infrastructures must be seen as a means to deal with both the immediate cost of living crisis and longer-term social and environmental goals.

CHAPTER 3: The climate crisis and the need for rapid socio-ecological transformation

It is becoming increasingly clear that the climate crisis is urgent and requires rapid , large-scale, and radical action.[43] According to the IPCC's Sixth Assessment Report, at current emissions, only 4 ½ years remain of the carbon budget for having an 83% change, to remain below a 1.5 degree increase in global temperatures.[44] With current climate policy, global warming is heading towards a 2.6 degree increase while emissions are increasing, with 2022 recording the highest ever volume.[45] Yet, the Sixth IPCC report on impacts points repeatedly to 1.5° as a level where many climate damages are likely to enter new and particularly dangerous levels, often affecting all continents, and where each fraction of a degree makes a major difference. According to the IPCC, the transition to extreme weather - heatwaves,

[42] Joint statement available at: https://www.eapn.eu/wp-content/uploads/2022/10/eapn-EAPN-Caritas-ED-Joint-statement-Min-Income-5550.pdf

[43] Ronan O'Brien, 'The Imperative of Rapid Change to Address the Climate and Related Crises, Diversions and Delays, and Critique of EU Policy in a Global Context,' Paper presented at the 28th EuroMemorandum Annual Workshop, London, September 3, 2022.

[44] IPCC, "Climate change 2021: The Physical Science Basis", 2022, Sixth Assessment Report https://www.ipcc.ch/report/ar6/wg1

[45] Data from *Climate Action Tracker,* see "Climate Target Update Tracker", last updated: February 06, 2023, https://climateactiontracker.org/climate-target-update-tracker-2022/; "The Global Carbon Project", https://www.globalcarbonproject.org/

heavy rain, drought, flooding and wildfires - has already started, but the IPCC projects further substantial increases in several extreme weather event types with a global warming of 1.5ºC. The consequences of this are seen to be profound. They include rapidly increasing risks of simultaneous crop failure across worldwide breadbasket regions and increased exposure to water scarcity for an additional 350 million people living in urban areas, not to mention rural areas. Extensive biodiversity impacts include the widespread death of trees.[46] Of the 16 "tipping points" identified by climate scientists[47] as critical threats to our biosphere, five are either imminent or already passed, others are likely to be triggered earlier, including the melting of the Greenland ice cap and the northern permafrost. The latter will have considerable negative feedback effects, as it will emit further hydrocarbons into the atmosphere.

The EU has acknowledged its critical role as multilateral political agency in combatting climate change, providing a strong (reputational) impetus to the UN Climate Change Conference(s) of the Parties from Paris (2015) through to Glasgow (2021), and now Sharm El Sheikh (2022). However, as previous EuroMemoranda have noted, Commission proposals, including The European Green Deal (EGD), to achieve Net Zero by 2050, have remained inadequate in relation to the speed and scale of change required. While acknowledging EGD objectives on achieving a 'circular economy' (the reduction of non-renewable throughputs), 'smart mobility' (to reduce transport emissions by 90% by 2050), and the 'zero pollution' of water, air and soil, EuroMemoranda 2020 and 2021 critiqued the EGD for remaining firmly within a neoliberal paradigm. In particular, the EGD was critiqued for its reliance on private actors and finance for allocation (such as the EU Carbon Emissions Trading System) and 'blended finance' leveraging. The Sustainable Europe Investment Plan (SEIP) principally rests on the assumption of finance through private sources.[48] This year's EuroMemo amplifies this analysis by taking a closer look at how financial markets approach 'green finance'. It adds substance to our conclusion that the optimism which the EU invests in 'blended finance' is misplaced and in itself represents an obstacle to any sustainable socio-ecological transformation.

It has to be said that the efforts of the EU to develop an effective eco-social transformation received a timely boost by Russia's weaponisation of energy as a key element of its war-strategy in the invasion of Ukraine, reinforcing the inflationary effects of post-Covid demand in a region with inadequate storage capacity, notably for natural gas. Energy price inflation of around 40% after March 2022 provided a general impetus to accelerate the programme for reducing the region's dependence on fossil fuels, in particular from Russia, even if some states were more critically dependent on Russian gas imports and their associated East-West pipeline networks. In May 2022, the EU Commission adopted its REPowerEU Strategy, aimed primarily at rapidly reducing dependence on Russian energy supplies. A draft

[46] IPCC, 2022, Sixth Assessment Report

[47] David I. A. McKay et al., "Exceeding 1.5°C global warming could trigger multiple climate tipping points", *Science*, September 2022, Vol. 377, No.6611

[48] EuroMemorandum 2020, "A green new deal for Europe: Opportunities and Challenges", p. 6-7.

programme, rooted in the collaborative solidarity of member states, was produced in July, followed by a draft regulation issued on October 18th, which was duly endorsed on December 19th and published in the Official Journal on December 29th.

The EU's programme of measures is interventionistic, inasmuch as it envisages extensive fiscal incentives to influence the private allocation of capital towards accelerated de-carbonisation; this mirrors efforts by the Biden administration to implement an extensive $369 programme of subsidies and tax credits for green investments. The tensions emerging from these two emergency programmes - in particular over ostensibly protectionist features of US subsidies - illustrate the contradictions that have emerged within the global political economy relating to the opportunities and dangers of increased interdependence in trade and investment. Such tensions could easily dilute efforts to focus on collaborative global solutions to the intensifying climate crisis and facilitate destructive corporate arbitrage, notably from carbon majors.

Nevertheless, the establishment of an EU Energy Crisis Fund and a Green Deal Industrial Plan (GDIP), with commitments to accelerate the roll-out of clean tech and the expansion of renewables, to incentivise the reduction of energy-demand and to "correct" disruptive market developments, reflects both the urgency of the immediate crisis and the potential for a future intensification of a green transition. It is nevertheless too early to assess how these ambitions will translate into macro-economic practice; the ultimate scale of EU and member state commitments to the GDIP will depend on achieving unanimity within the EU27 and the extent of collaborative agreements with the US.

3.1 The false hope of commodified and financialised climate governance

By basing its approach on blended finance, the EGD subjects itself to the structural power of financialised capitalism, in assigning finance a key role as mediator of human economic and social relationships. Banks, shadow banks, investment funds, insurance companies, traders in currency and commodity futures, together with derivative services and, now, crypto-currencies – operate in small or large degree as strategic gatekeepers in the allocation of financial and material resources. This mediation involves both a colossal misallocation of capital as well as a dangerously effective narrative justifying the scale and manner of that mediation. This contributes both to the further damaging of key elements of our biosphere and to a diversion of critical financial resources away from vital environmental mitigation strategies.

Privately mediated Green Finance, marketed expensively by the financial services sector, promises extravagant benefits for both climate and humanity, but amounts to little more than "a financialised spectacle of climate change action which obscures both the empirical reality of ecosystem and biodiversity, and the uncomfortable imperative of how our ways of

living need to change".[49] While the global pool of "green finance" has grown more than a hundred-fold in the last decade[50] to over $500 billion, the deployment and impacts of green bonds, climate bonds, species bonds, sustainability bonds etc. remain opaque at best.

The EU's Sustainable Finance Taxonomy works through 'soft regulation', with disclosure expectations aligned with US-centred global financial markets, and with the City of London as the leading centre. Many 'green' certificates are actually merely self-labelled with an accompanying narrative. Others are set through 'use of proceeds' ringfenced for environmentally beneficial projects'. These 'green bonds' relate investing and spending money to a *notional financing gap.* That is, what it would cost to retrofit, rebuild, or decommission aspects of the current built environment, infrastructure, energy system, housing stock and agriculture. But transformational change of the order required must be based on changing the ways in which we relate to nature and to one another within complex transition opportunities, damages and losses.[51] In addition, to keep global warming within the 1.5 degree target, would require investments of between 1.6 to 3.8 trillion Dollars.[52] The geographical destination of any such climate finance is equally undefined, again raising doubts over the ability of the financial services sector to bridge the large investment and infrastructure gaps in developing economies, identified by both UNCTAD and the OECD, The latter, in a 2017 report, estimated an infrastructure gap of $95 trillion in sectors critical to decarbonisation ambitions, like transport, energy, water and telecommunications.[53] Furthermore, developing economies would require 60-70% of global climate finance to achieve agreed targets. The uncertainty surrounding the scale, the nature and the destination of green finance deployment makes any reliance on the finance sector as primary source of funding extremely hazardous. Even with "blended finance", combining private and public funds and regulatory control, there is a strong element of risk, above all where "climate funds" fail to yield sufficiently attractive returns to investors and where public agencies are obliged to salvage floundering projects or underwrite contractual obligations.

Governments and companies are taking an extraordinary gamble on behalf of the public. Even the IPCC benchmark of 83% means a 1-in-6 chance of failure to stay below 1.5°C. Given the extraordinary consequences of passing 1.5ºC, this is highly dangerous, as is anything other than a tiny risk of failure. Yet governments and companies frequently state that they are going for a far higher chance of failure -50%- and this has become by far the most frequent objective for emissions-reduction. Risk assessment, of course, needs to take the scale of potential damage into account, and in this case it is astronomical. Those gambling on the public's behalf would not take such a risk

[49] Sarah Bracking, "Averting Climate Change Catastrophe? Neoliberal Environmental Governance in Europe", Keynote Address, Paper presented at the 28th EuroMemorandum Annual Workshop, London, September 3, 2022.

[50] Some estimates suggest that the stock of "green finance" now exceeds $1 trillion. See: Matt Mace, "Global green finance market grew more than a hundred-fold over the last decade", *eddie*, March 31, 2022, available at: https://www.edie.net/global-green-finance-market-grew-more-than-a-hundred-fold-over-the-last-decade/

[51] S., Bracking, "Averting Climate Change Catastrophe", 2022.

[52] Estimates from "*Climate Policy Initiative*", https://www.climatepolicyinitiative.org/wp-content/uploads/2020/12, 2020, p. 9.

[53] OECD, "Investing in Climate, Investing in Growth", 2017.

themselves to cross a road with a 50% chance of being knocked down. This highlights a fundamental obligation to take immediate action to reduce emissions drastically.

These broader conclusions about private climate finance are strengthened considerably by specific studies of the behaviour of those investment funds that boast green credentials, such as the Big Three global asset management funds – Black Rock, Vanguard and State Street.[54] Together, these three funds manage over $20 trillion in assets and control 80% of the market for exchange traded funds. Several environmental regulators, NGOs and think tanks have pressed the urgency of action over carbon emissions on to the Big Three, who in turn duly pledged to promote ESG funds in their portfolios and to use their influence in shareholder meetings to steer companies towards long-term commitments to favourable practices of environmental governance. However, monitoring of the proxy voting behaviour of the Big Three, notably in meetings of the Carbon Majors, demonstrated a dramatic contrast between the marketing rhetoric for ESG funds and the actual practice of the Big Three in the management of their holdings. It revealed unequivocally that the Big Three tended "to vote the same way as their non-ESG funds on environmental resolutions tabled at Carbon Majors' AGMs"!! "[R]ather than promoting environmental stewardship, the Big Three are better characterised as stewards of the status quo of shareholder value maximisation"[55] and by implication are protectors of the commercial interests of the fossil fuel majors. The loudly trumpeted claim of such stewardship is revealed to be a dangerous distraction which can and, in fact, does lull large sections of civil society into a marked and perilous complacency. The Big Three, in their role of managing the assets of pension funds, sovereign wealth funds and others, are thus self-evidently and cynically engaged in "green-washing", raising serious questions about the quality of regulatory monitoring by national or multilateral agencies of corporate governance.

A global political economy characterised by deregulated global financial flows and a fundamental asymmetry of economic relationships favouring the developed financial centres and disadvantaging the periphery of less developed national economies is, in other words, a dangerous option. The asymmetries apply significantly to the highly unequal and growing over-exploitation of nature in the periphery, high levels of debt-dependency in the periphery but wide disparities between extravagant emission levels in the energy-intensive "North" and the lower carbon footprint of the "South". "Sustainable finance" therefore operates within a fundamentally skewed distribution of both global assets and power. But also a 'reformist' option, involving stricter regulation of green finance and a greater general involvement of public agencies in the formulation and delivery of green development models and including the collaborative participation of peripheral economies, is weakened by the fact that it does not stop the expansionary logic of capitalism and contains the

[54] Joseph Baines, and Sandy Brian Hager, "From passive owners to planet savers? Asset managers, carbon majors, and the limits to sustainable finance", *Competition & Change,* 2022, https://doi.org/10.1177/10245294221130432

[55] Ibid, p. 3

danger of provoking international conflicts about increasingly scarce natural resources and allowing environmental damage to worsen.[56]

3.2 Geopolitical Rivalries

The risks of geopolitical conflict have been highlighted in the 2020 and 2021 EuroMemoranda with regard to Critical Raw Materials upon which the EGD depends, and then with special reference to American and EU relations with China. This is leading to a new 'scramble for Africa' which Josep Borrel has infamously called a new field of geopolitical competition. The EU, its member states and companies have also made agreements with African states on natural gas; this takes those African countries down a fossil fuel path rather than that of (distributed) renewables. This undermines the credibility of the EU's climate leadership, vital in international climate negotiations like COP27.

China's own obstacles to a socio-ecological transformation are highlighted by its hegemonic ambitions, operating in conjunction with its role as key dissenter from COP pledges on de-carbonisation. With some 200 million adults dependent on predominantly peasant modes of production, the contrast to the investment-intensive manufacturing and service sectors is marked; this is again reflected in the comparatively weaker performance of Chinese biotechnology patents, compared to other leading economies. This raises doubts over the coherence of the state's approach to overall economic development. The *Belt and Road* strategy, the expansion of Chinese financial aid to LDCs and its increased military visibility in the North Pacific are further evidence of imperialist objectives, building on the remarkably successful nurturing of a worldwide structural dependence on Chinese manufacturing exports; these foundations of hegemonic power can be accordingly "weaponised" within the framework of global rivalries and thus constitute a very considerable obstacle to environmental and human rights diplomacy. Conversely, China's ability to challenge the United States' hegemony is not strengthened by its failure to promote technological innovations capable of raising land profitability and thereby achieving lower ecological and reproductions costs.[57]

3.3 Decommodification and Socio-Ecological Transformation

The urgent climate crisis requires a socio-ecological transformation that stops the unequal exploitation of resources and guarantees the equitable access of all to such resources.[58] A transformative global political economy would, by implication, entail the construction of a global monetary and financial architecture, rooted in multilateral, interventionist solidarity.

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[56] Johannes Jäger, "Sustainable Finance and Sustainable Monetary Policy: Beyond Passive Revolution in Europe", 2022, Paper presented at the 28th EuroMemorandum Annual Workshop, London, September 3, 2022.

[57] Dario Di Conzo, "Hegemony within the Ecological Crisis: The Case of China", Paper presented at the 28th EuroMemorandum Annual Workshop, London, September 3, 2022.

[58] Johannes Jäger, "Sustainable Finance and Sustainable Monetary Policy: Beyond Passive Revolution in Europe", 2022.

A key point of departure in this context is the threat represented by the current accumulation regimes to the climate and to the resolution of the climate crisis. Financialised capitalism over recent decades has increasingly shifted the focus of the global political economy towards the extraction of exchange value from industrial, commercial activities and from service provision, in a manner which prioritises rates of return in the short term and diverts both capital and human energies away from economic activities that promote human welfare in the medium and long term. Financialised capitalism, in its legal structures and processes, thus represents a significant misallocation of precious resources. The current policy architecture of the European Union remains embedded in the legal structures of ownership and power and its cultural institutions, even if the pressure for fundamental change is growing within the representative bodies of the Union and its member states and within European civil society.

The real threat to the global biosphere, and the growing likelihood of critical tipping-points being reached sooner than expected, represent a colossal challenge. Meeting that challenge also involves a realistic assessment of the obstacles to progress, represented firstly by agencies resisting change and/ or denying the levels of urgency, but above all by the economic costs and social implications of replacing the current paradigm of accumulation with a new and sustainable paradigm. This involves, above all, the inseparability of strategies for ensuring the survival of humanity in a sustainable environment and for reducing the crippling disparities in the distribution of income, wealth, access to health, housing and education that currently afflict nations, regions and communities across the planet. The fact that, currently, the carbon emissions of the top 1% of the world's citizens are as high as those of the bottom 50% of the global income and wealth distribution, is testimony to this fundamental injustice, the removal of which is essential for any socio-ecological transformation to succeed.

The EuroMemo group has proposed a public investment programme of the size of 2% of EU GDP annually as an alternative to the current policy based on 'blended finance' (see chapter 2). This scale of commitment by the EU would come on top of the green investment programmes of the individual member states; it would of necessity:

1) assign highest priority to the rapid transition to renewable sources of energy and to the energy efficiency of private and public buildings;
2) prioritise the reduction of the real demand on material, natural assets;
3) reject any strengthened temporary support for the fossil fuel infrastructure and to resist the lobbying of Carbon Majors;
4) pursue a major expansion of the number and capacities of public banks;

This is in addition to the immediate priorities of combating energy price inflation and fuel poverty proposed in chapters 2 and 3. This would include the rejection of marginal cost-pricing to overall electricity prices across Europe, where the price has been determined by the highest-cost fuel, gas, instead of by much lower-cost renewables.

Finally, the EU must improve the distributional equity of funding, expertise and discursive engagement with the Global South, breaking the influence of colonial/ post-colonial policy hierarchies.

The Euro Memo Group urges the EU and all other participants in the ongoing round of COP27 discussions to acknowledge, above all, both the scale of the threats to the global biosphere and the scale of the commitment – in resources and multilateral cooperation – required to combat those threats. The distractions and the costs of war and stagflation cannot be allowed to reduce that commitment.

CHAPTER 4: Global disorder and its repercussions on the future of the EU

The liberal end-of-history optimism of the 1990s has turned into the polycrisis of the 2020s, including the Covid-19 pandemic, an unstable world economy, the weaponisation of interdependence,[59] the war in Ukraine, and the increasing division of the world into two camps. At the heart of these developments lies a world economy exhibiting uneven growth, economic imbalances, financial instabilities, and contradictory responses to them. The world economy operates through a system of separate sovereign states and their alliances; these states did not fully stop worrying about their security after the end of the Cold War. From a security perspective, changes in productive capacities or financial positions are perceived in terms of relative state power; this risks turning economic imbalances into antagonisms such as trade wars. Geopolitics becomes salient again when states start to securitise and territorialise issues involving competition over increasingly scarce resources and carbon sinks. This happened already at the beginning of the 2000s. A neo-conservative turn in world history occurred when George W. Bush took office in January 2001, followed by 9-11 and the global war on terror, including the US-UK invasions of Afghanistan and Iraq. Also, the rise of Vladimir Putin and the military phase of the Second Chechen War occurred at this time.

4.1 Political consequences of the concentration of wealth

A major aspect of uncertainty concerns increasingly anaemic and uneven economic growth, including its ecological limitations (see chapters 1 and 3). For grasping the acute sense of

[59] 'Weaponisation of interdependence' means that states are leveraging asymmetric global networks of informational and financial exchange for their strategic advantage over other states. SWIFT (Society for Worldwide Interbank Financial Telecommunication) is an example of such a network. What is perhaps particularly noteworthy is that, from the weaponised interdependence perspective, technology supply chains (once a cornerstone of neoliberal common good) appear as an area of key strategic weakness. Meanwhile, also the Covid-19 pandemic has shifted attention to shorter supply chains. On weaponisation see Henry Farrell, Abraham L. Newman, "Weaponized interdependence: How global economic networks shape state coercion". *International Security*, 2019, 44(1), 42–79.

global disorder, the key lies in the political repercussions of the developments underlying this trend, which in turn can shape the economic processes. Thomas Piketty has argued that in slow-growing regimes, the average rate of return on capital (r) tends to exceed economic growth (g). This can be summed up with the simple formula $r > g$. Piketty's conception is not without limitations. But simple equations based on abstract concepts such as 'r' and 'g' can be useful, if they are investigated in relation to changing multidimensional social and historical constructions.[60] In slow-growing contexts, the average rate of return on capital tends to exceed economic growth, which means that the past increasingly determines the present, and accumulated inherited wealth grows faster than production and income. The concentration of wealth and capital tends to have far-reaching political consequences. Wealth can be translated into political influence also in liberal democracies, not only through labour relations but also more generally by changing the rules of politics. When the rules limiting the influence of money on politics in favour of the wealthy and big corporations are changed, the process easily becomes self-reinforcing, as it produces positive feedback connections. Previous changes enable new changes in the same direction. This results in de-democratisation and increasingly asymmetric power-relations.

Following the 'shock therapy' of the early 1990s, Piketty's inequality $r > g$ became a prevailing reality in many parts of the former Soviet area in just a few years. In the 1990s, Russia and other countries faced negative growth and sharply rising inequality and poverty (Russia also went through two periods of hyperinflation).[61] Chaotic privatisation ensured the concentration of wealth in a few hands. The rise of global financial markets and a new wave of financialisation since the 1970s made it possible for those oligarchs who became rich in the 1990s to buy and sell existing assets in the hope of quick profits; tap into large financial flows and move funds to offshore centres and tax havens, including, for example, Geneva or the City of London; and to invest in housing markets around the world. They have received the same rate of return r on their assets as investors and elites in other parts of the world. This has benefited not only oligarchs but also financial centres and tax havens, while at the same time weakening local and national economic developments.

The insecurity dynamics of the 2000s and 2010s emerged in part from critical responses to the one-sidedness of the prevailing world 'order'. In a tightly interconnected world economy, no major crisis, war, or development is isolated. In the early 2000s, Russia started to turn against universal liberal claims and complain about double standards and forms of self-righteousness (especially concerning Kosovo, Iraq, and attempts at regime change, but

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[60] Thomas Piketty, *Capital in the Twenty-first Century*. Harvard University Press, 2014. Piketty's acknowledgement, see "Toward a reconciliation between economics and the social sciences", in H. Boushey, J. B. DeLong, & M. Steinbaum (eds.) *After Piketty: The Agenda for Economics and Inequality*. Harvard University Press, 2017, p. 548.

[61] The shock therapy is often associated with Jeffrey D. Sachs. Sachs has later criticised shock therapy and complained that some of his advice, such as establishing a stabilisation fund or cancelling part of Russia's debts, were not followed. Amy Goodman, *The West's False Narrative about Russia and China*, 2022. Interview with Jeffrey D. Sachs. *Democracy Now!,* August 30, 2022, www.jeffsachs.org/newspaper-articles/h29g9k7l7fymxp39yhzwxc5f72ancr (accessed October, 3 2022).

also concerning economic policy). Step by step it adopted a doctrine of multipolarity and power-balancing. Since the invasion of Iraq in 2003 and the colour revolutions in Georgia (late 2003) and Ukraine (late 2004-early 2005), this doctrine has framed Russian interpretations of NATO expansion.

4.2 The decline of global governance and disorder

In the 2000s, global governance began to decline. The development of multilateral institutions stalled across issue-domains ranging from the Doha trade round (preceded by the Battle of Seattle in 1999) and climate summits, to the inability to agree on effective financial regulation in the wake of the 2008–9 crisis. A possible explanation of this 'gridlock' is that it is to an important degree an unintended second-order effect of the liberal institution-building during and after WWII. These second-order effects occur in the context of growing multipolarity, harder problems, institutional inertia, and fragmentation of governance. This perspective suggests that the absence of adequate institutions tends to exacerbate common problems, weaken cooperation, and further entrench the gridlock. The possibilities, thus generated, include 'a return to great power rivalry'.[62] In other words, global problems left unresolved may exacerbate those very problems and also generate social conflicts. But this is only a part of the story. The problem is deeper and involves disintegrative tendencies and contradictions in the global political economy.[63] The large-scale shift toward individualised responsibility and private competitive markets has transformed agency and social contexts. Causal outcomes such as inequalities, increasingly insecure terms of employment and occasional economic crises generate concerns and anxieties in everyday life but unevenly, subject to various asymmetries. These concerns and anxieties of everyday life can be mobilised for antagonistic politics, mostly in terms of frames, categories, metaphors, and myths that have been sedimented into the deep structures of national and religious imaginary.

The rise of nationalist-populist and often authoritarian responses began in the 1990s (in some cases even earlier; also the development of Putin's United Russia is part of the same process), but the global financial crisis of 2007-8 was a world-historical saddle point, inducing further stasis and regression. The rise of nationalist-authoritarian populism deepens the gridlock of global governance. While attempts at forging unity of 'the people' through negativity mean anti-elitism, they also take the form of othering and enemy-construction. All this and much else provide fertile ground for generic narratives that

[62] The quotation is from Thomas Hale, David Held, and Kevin Young, *Gridlock: why global cooperation is failing when we need it most*. Cambridge: Polity Press, p. 275, 2013. See also T.Hale and D.Held (eds), *Beyond gridlock*. Cambridge: Polity, 2017.

[63] Heikki Patomäki, *Disintegrative tendencies in global political economy: exits and conflicts*. Abingdon and New York: Routledge, 2018; Heikki Patomäki, *The three fields of global political economy*. Abingdon and New York: Routledge, 2022, chapter 7 and 8.

tendentiously “make sense” of the wider world-historical context, from conspiracy theories to national grievances about some past or present wrongdoings by others, to accounts of eschatological clashes of civilisations. The emergent social media and sensationalist commercial media have amplified these effects.

Even in moderate versions of nationalism, the tendency to follow myopic self-regarding policies in the interstate field tends to make cooperation more difficult and increases the likelihood of conflicts and their securitisation. The ensuing processes may end up in cataclysms that in turn feed into a wider crisis. Hence, it seems likely that the second-order problems arising from the cooperative processes themselves have been less important than the disintegrative tendencies and political economy contradictions in explaining the decline of global governance and the ‘gridlock’ obstructing paths of cooperation. At the same time – to reiterate – the absence of adequate institutions tends to exacerbate common problems, weaken cooperation, and further entrench the gridlock. This circularity of causation is further reinforced by the unstable and crisis- and conflict-prone nature of the capitalist world economy. The Covid-19 crisis has exacerbated some of the underlying tendencies, for instance through increasing inequalities (many new billionaires, etc.) and triggering nationalist responses, including by the EU.

Box 4.1 On the effects of sanctions

International sanctions have a centuries-long history. The US and other Western countries started to use them frequently during the Cold War, the most famous cases including Cuba, Iran, and South Africa. The EU currently applies sanctions against more than 30 countries, while the US has imposed new economic and other sanctions on more than 20 countries since the late 1990s. The most significant increase has been in in the number of US-sanctioned individuals and entities: from 1,000 to 10,000 between 2000 and 2021.

A lot of research on the real effects of economic sanctions has been published in the field of International Relations. One general conclusion is that if the goal is to bring about a desired policy change, the effects of sanctions are complex, unpredictable, and often counterproductive. Sometimes they contribute to regime- and leadership-change, which may or may not be democratic, but most research concludes that sanctions are either ineffective or have a negative impact on the level of democracy in targeted authoritarian countries. This should come as no surprise if it is acknowledged that sanctions often result in ‘rallying around the flag’ (reactionary nationalist sentiments giving legitimacy to the prevailing regime), whilst regularly triggering internal political repression. Sanctions can impoverish countries, increase inequality, and kill people in need of adequate care and medication. We also know that economic troubles can further securitisation and enemy-construction and contribute to conflict-escalation.

The new era of sanctions against Russia started in 2012 with the Magnitsky Act that aimed at punishing Russian officials responsible for the death of Russian tax lawyer Sergei Magnitsky in a Moscow prison in 2009. Following the annexation of Crimea in March 2014

and the beginning of the war in Eastern Ukraine, the US and the EU imposed rounds of sanctions upon Russia, to which Russia tried to respond in kind. This led to a spiral of sanctions and counter-sanctions, which since 2016 has been accompanied by rounds of expulsions of diplomats and antagonistic rhetoric (e.g. 'Countering America's Adversaries through Sanctions Act'). A new source of sanctions came from the 'Protecting Europe's Energy Security Act' adopted by Congress in 2019 as part of the 2020 National Defence Authorisation Act and reinforced the following year. The goal was to prevent the completion of Nord Stream 2, and thus was directed as much against Germany as Russia. The sanctions imposed on Russia in response to the invasion of Ukraine are the most severe ever applied against a major country, and in effect impose a policy of collective guilt, with few if any attempts made to mitigate their effect on the population at large. The punitive goal has been to impose unprecedented 'costs' on Russia and to demand its withdrawal from Ukraine.

At the end of 2022, what have been the main effects of the sanctions? Russia's economy has not collapsed. Forecasters are currently expecting its GDP to contract by only 3% or at the most 4% in 2022. The Russian response has consisted of two parts: import substitution and refocussing on Asian markets. Russia has employed both since 2014, and in 2022 they scaled up their efforts. The sanctions have hit certain parts of the Russian economy (e.g. automobile production and aircraft manufacturing and maintenance) and they will have long-term effects on technological capacities, but the immediate effects are relatively minor. The EU's attempts to reduce energy imports from Russia have backfired, contributing to rising inflation and the energy crisis. It is not even clear whether the effects of sanctions are significantly harsher on Russia than the EU – some even talk about a 'war of attrition' – while many US firms have benefitted. All signs of a possible regime-change in Russia appear speculative. In the immediate aftermath of the invasion, a rally-around-the-flag effect went together with tightening internal repression. Since then the prolonged war and partial mobilisation have mitigated the nationalist euphoria, and hundreds of thousands of people have escaped the country, yet there is no organised opposition or systematic mass movement against the war. The effects on inequalities and health in Russia remain to be seen, but it is clear that sanctions have promoted securitisation and enemy-construction and thus boosted conflict-escalation. Finally, yet importantly, the sanctions have induced deglobalisation and contributed to the de-dollarisation of the world economy.

We know that parties and governments often respond to political opposition, economic difficulties, and high and possibly rising inequalities by intensifying nationalistic sentiments, generating 'rally-around-the-flag' effects, and leading to securitisation across the world (in addition to Russia, e.g. in Brazil, India, China, and Turkey). Something similar is true even for the EU. While the EU faces internal opposition to further integration from the populist nationalists and also – albeit in a very different sense – 'frugal' member-states, it is searching for 'strategic autonomy'. This autonomy could be important in terms of countering the effects of US extraterritorial and secondary sanctions on European

commercial interests, but it also involves EU-scale securitisation of potential dangers, such as migration, Russia, and now China. The effects of the war in Ukraine on the US-EU relations have been ambiguous. On the one hand, bloc unity in relation to the war in Ukraine has deepened the EU's subordination to the US global power through strengthening the role of NATO, by increasing arms imports from the US, and by extending the US-China conflict to EU-China relations as well. On the other hand, EU officials have criticised the US over sky-high gas prices, weapons sales and US subsidies affecting trade. Independently of the precise path ahead, the EU is contributing to global geopolitical developments. The global insecurity dynamics imply regressive unlearning and a partial return to the interstate practices of the late 19th and early 20th century – given nuclear weapons, satellites, and missiles, this is increasingly perceived also as a new round of Cold War. Extractivist rivalries over raw materials in 'green' transition and a scramble for natural gas, as discussed in chapter 3, form part of this development.

Global disorder has now culminated in full-scale war at the heart of Europe. The brutal and short-sighted Russian invasion violates international law and has caused an enormous amount of suffering and turmoil. What is more, the escalation has continued to a point where the world is verging on nuclear war. Nothing can justify a nuclear war and yet humankind is now becoming close to the darkest moment of the Cuban Missile Crisis, through brinkmanship and escalation. Nuclear war will be on the horizon unless a peaceful solution is found. From a moral perspective, there is a nearly absolute imperative to de-escalate the conflict. This is a war between Russia and Ukraine, with intensive NATO involvement and with long-deteriorating US-Russia relations looming in the background. Any peace agreement must be negotiated by the relevant participants and with appropriate third parties. However, a mere peace agreement alone would be insufficient to reverse the ongoing disintegrative tendencies. What is needed is a series of far-reaching, long-term reforms in the governance of the world economy, that is, more adequate common institutions.

4.3 Alternative policies and the need for institutional transformations

It may be a bit contradictory to suggest that these huge processes can be tweaked by 'policy' but, as argued above, the EU is contributing to global geopolitical developments no matter what course of action it chooses. The question is not whether it should have a role in these developments, but what kind of role? A short-term task is to de-escalate the war in Ukraine and the conflict between Russia and the West. All wars come to an end. In the absence of an outright victory by one side or the other, or total destruction of the world, all violent conflicts or wars end in a reciprocally negotiated agreement. It is not a matter of whether there will be an agreement, but rather when and with what contents. Of the EU

leaders, the President of France Emmanuel Macron has spoken in favour of a negotiated agreement capable of stopping the violence and destruction in Ukraine but, as a whole, the EU has been pushing for more war rather than peace. This should change and the EU should act consistently to further a peace agreement, even when it is continuing to support Ukraine in multiple ways. However, the EU cannot become a neutral mediator. Third party facilitators and mediators should come primarily from countries that are seen as outsiders to the conflict by both parties and may include representatives from institutions such as the International Court of Justice or Permanent Court of Arbitration.

A possibility that should be seriously considered is to demilitarize the contested territories in Eastern Ukraine and take them temporarily under the auspices of the UN. A relatively long period of transition would be required, anything from 10 to 20 years. Ukraine’s military non-alignment remains a key issue and must be part of negotiations. Moreover, other confidence-building actions could be also foreseen, such as a resumption of Russia-NATO Nuclear and Other Military Risk Reduction talks and official disarmament talks. In December 2020 a high-level group of 145 former generals, politicians, ex-diplomats and academics from the US, Europe and Russia, all concerned about increasing risks of nuclear and other military accidents, signed a report entitled ‘Recommendations of the Expert Dialogue on NATO-Russia Military Risk Reduction in Europe’. The talks continued in a smaller group but have essentially been moribund after the Russian invasion of Ukraine. At the last minute in 2021, the New START (Strategic Arms Reduction Treaty) was extended until 5 February 2026. Negotiations for extending and developing further the New START are another unacknowledged casualty of the Ukraine War. These talks should be resumed immediately.

A peace agreement would be a step in the right direction, yet only a small step in the long march toward a more sustainable and desirable future. A more demanding task is to shape relevant political economy developments and overcome the current gridlock in global governance. A root cause of the current predicament lies in the complex that involves financialisation, contributing to $r > g$, and more generally rising inequalities. In chapter 3, we have analysed the ecological dangers involved in this.

As briefly discussed above, while the efforts to support Ukraine have in some ways deepened the EU’s subordination to US global power, the resulting asymmetries have also led to grievances from the EU side. The grievances indicate the possibility of partial disintegration of the transatlantic alliance and further unification of the EU through competition against external others and common enemies. These include the deep conflict with Russia, constant ‘state of emergency’ related to the refugee crisis and terrorist attacks (often by the migrant sufferers of class inequalities), increasingly strained relations with Turkey, economic competition with China and India, and the election of another ‘America-first’ president in November 2024. The future as ‘strategic autonomy’ would involve the militarisation of the Union and contribute to the deepening of the decline of global governance.

Our preferred alternative would provide a basis for a much more sustainable dynamics than the current tendential direction toward a global catastrophe. In our preferred alternative, the EU would develop a new identity, new institutions, and its democratic potential, as part of a global social democratic system of governance. European integration has been justified both by appeals to peace, and to the ability to do some technical, economic, and other things better through integration than can be achieved by separate states. Both arguments can be applied also in the global context. Simultaneously, by aiming at full employment and social justice 'at home' through economic policy focussing on common fiscal means and economically and ecologically sustainable growth – or macroeconomically sensible degrowth – the EU should initiate and push further ideas to develop common institutions as part of a far broader global whole.

From a normative perspective, this kind of cosmopolitan orientation would make sense also because the Union is just part of the world economy and its processes. Financialisation, for instance, has been a worldwide process. Reversing it would require broad international treaties and global institutional reforms. The power of large multinational companies and the effects of worldwide oligopolistic markets cannot be tackled by the EU alone. Even more obvious is that many economic paradoxes and contradictions are not confined to Europe but play out on a global scale. Struggles over income distribution are taking place the world over, at the same time as efforts continue to reduce costs in the name of international competitiveness. If the EU as a whole attempts to create a balance of trade surplus, this could only happen at the expense of other countries and overall global demand. Self-reinforcing processes of unequal growth and development affect all parts of the world economy. The future of the EU is dependent on the dynamics of this wider whole, which can be shaped by the EU. Concrete proposals to do so include the reorganisation of the world monetary system in terms of a common clearing union, global taxes such as a greenhouse gas tax, and worldwide public investment programmes to make developments more even.

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Declaration of support

I support the general direction, main arguments and proposals in the

EuroMemorandum 2023

Europe in Polycrisis:

Struggles for Survival, Climate and Energy Justice

_______ Yes _______ No

Name: ____
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I would like to be informed about the regular work of the working group and be invited to their meetings. Please add my email-address to the mailing list of the EuroMemo Group.

_______ Yes _______ No _______ I am already on the list.

Please return this form to the EuroMemo Group **via e-mail to** info@euromemo.eu**.**

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