Memorandum of European Economists:

Full Employment, Social Cohesion and Equity for Europe - Alternatives to Competitive Austerity

1. Introduction: Persistent Mass Unemployment - The Challenge of European Decline

We are worried about the social, economic and political situation in Europe. As economists working in most of the member countries of the European Union (EU) we observe with deep concern that unemployment in our countries has risen and continues to rise to unprecedentedly - and intolerably - high levels and that economic policy is not taking energetic measures against this development. In the absence of an effective employment policy, poverty and exclusion in the EU are further increasing, exacerbating economic and social divisions, making for polarisation, leading to more inequality and injustice in society. This pattern of development also threatens political stability and democratic structures and gives rise to xenophobia and increasingly virulent euroscepticism. At present the EU seems to be locked into a vicious cycle: a series of mutually self-reinforcing negative-sum games with increasingly harmful consequences. In our view it is essential to reverse this trend and to re-establish a pattern of positive-sum games, based on firm cooperation, from which all parties will benefit.

We regard the present dismal situation as one result of an economic strategy which is presented to the public as the only valid one, whereas we think that it rests on theoretically very controversial and to a substantial degree utterly wrong foundations. It is often linked to the process of European integration and particularly to the Treaty of Maastricht (TM), which dominates the current phase of European integration, although, in our view, there are other and better paths to European unity.

For many governments the criteria of convergence of the TM are now the exclusive source of economic policy targets, and they are presented as the only policy option in a context of globalisation. National budgets are limited by strict deficit and debt restrictions; on the other hand there is no sign of an appropriate, corresponding expansion of the EU budget to offset contractionary effects and resulting distortions within the Community. In the envisaged monetary union monetary control will be entrusted to an independent central bank which will be forbidden to fund any public programs and which has, as its exclusive purpose the control of inflation. We certainly endorse low rates of inflation as one economic policy goal, but we reject the idea that economic stability means nothing more than price stability and that therefore economic policy can be reduced to disinflationary measures. Unemployment on the other hand is regarded as the result of excessive rigidities in the labour market and the blame for unemployment is thus put on the unemployed, the employed and the unions. The Economic and Financial Council of the European Commission relentlessly reiterates its recommendation for more flexibility in both wage-setting and employment conditions.

These principles, which some regarded as a transitory policy to achieve convergence different economies by 1999, will be perpetuated after that date, according to the provisions of the TM reinforced by the "stability pact" signed in Dublin in December 1996, which reasserts that budgetary restrictions and the control of inflation are the essence of a "sound" economic policy.

This policy may be coherent from a fundamentalist free-market standpoint in that its main postulates are: down-scaling of the role of state and society in the economy, fiscal restructuring in favour of firms and higher income groups, continuous increases in the share of profits in national income, abandonment of all restrictions to the free international circulation of capital, further deregulation of labour markets. These are the neoliberal policies that have already been practised for more than fifteen years in most countries of the EU, which have redistributed national incomes in favour of profits, strengthened and widened the grip of private investors on the development of the economy, and limited the range of economic policy choices to those approved by the financial markets. They have at the same time proved incapable of checking the growth of unemployment, poverty, inequality and exclusion. From a market-radical perspective, however, unemployment and insecurity are not evils to be fought with the highest priority; they are regarded as side-effects to be treated, at best, by social policy, or even worse, as levers to discourage any idea of resistance on the part of wage-earners.

This strategy, now imposed on all countries wishing to join the Monetary Union in 1999, is creating the most important deflationary risks since World War II. Public deficits increase because of falling tax revenue; and this is followed by tax increases and/or further cuts in public expenditure with an ensuing fall in effective demand, lower employment, lower income and tax revenue, higher deficits etc., thus continuing the vicious circle. Most countries will not meet the convergence criteria - but in trying to do so, governments apply austerity measures that will foster further unemployment, deficits and social tensions. Further, the design of a two-speed Europe in which the main policy emphasis lies on disinflation does not promote the unification of Europe; apart from exacerbating social inequalities and imbalances within member countries it will create new divisions and polarisations among member countries - and it will establish new barriers between EU-members and third countries.

Unemployment is very often an individual catastrophe for those concerned. It is an economic waste and a burden on public budgets; it is also a political danger, leading to intimidation, to more authoritarian structures and, at the same time, more instability. Therefore we regard unemployment as the most urgent social problem in the EU. We are particularly concerned that, at the same time, even the modest proposals for enhancing employment which the Commission made in its White Paper at the summit of 1993 have in practice been dropped from the European economic policy agenda.

We are opposed to these developments. Our criticism, however, is by no means anti-European as is sometimes suggested to the public. We have nothing in common with those parties and politicians who reject Maastricht for nationalist reasons - or because the design of EMU is not neoliberal enough. We strongly reject such attitudes. For us, any successful economic strategy must have a European dimension: in our view the prevailing economic policy contributes more to further polarisation in Europe than to European unification. It rests on theoretically wrong foundations which serve the interests of a minority but are harmful for the majority of people. Therefore we propose an alternative economic strategy for Europe which, while restoring employment, social security and equity will establish a stable basis for unity among European peoples.

We are encouraged in our approach by the fact that recent years have seen the beginning of social movements in several countries, often as resistance to social cuts. We support this resistance and hope to contribute to it in our professional capacities. As European economists we feel a responsibility to criticise the narrow economic discourse which has led to the present incorrect and damaging policies and to show that - in spite of tendencies to globalisation - there are alternatives to that policy. The allegedly scientific justification of free-market radicalism is in fact a caricature of economics as a science. There is indeed a debate amongst economists. While the dominant mainstream orthodoxy is far from supplying a genuinely scientific foundation for the economic policies of the last decade, we recognise that heterodox approaches in our discipline have their limits too, and are a long way from presenting solutions for all problems. On the other hand, by elaborating alternatives to current strategies they work to widen the field of possible policy options. In advancing alternatives we hope to challenge the "pensée unique" predominant in mainstream economic thinking and contribute to a broader public debate on the ways to full employment, welfare and equity in Europe.

In this memorandum we shall:

- present a brief criticism of current economic strategies, focusing first on their general theoretical foundations and then on their specific applications and consequences in the context of the European Union (chapter 2);

- formulate objectives and proposals for an alternative strategy in Europe, putting forward full employment, environmental protection, social security and equity as the central policy priorities (chapter 3). We do not claim that these proposals - which are focused on monetary, fiscal and labour market policies and on the reduction of working time - cover the whole range of necessary and feasible policy options, nor do we think that our proposals have reached some state of ultimate wisdom. Where we propose concrete policy measures, these often serve as examples to illustrate the direction of the new policy. They can, of course be replaced by equivalent measures, and need to be complemented by others;

- conclude by pointing out that the change of economic strategy which we propose is a very ambitious challenge; it requires thorough and differentiated policy design; its implementation on different policy levels is a complex task which involves both intellectual effort and the political energy and mobilisation necessary to overcome resistance from the powerful forces which gain from the prevailing strategy (chapter 4).

2. The Maastricht Agenda: a Threat to Welfare, Justice and European Unity

Both the design for Economic and Monetary Union (EMU) which was adopted at Maastricht and the "convergence process" which is meant to prepare the way foe EMU represent serious dangers to employment and economic development in the European Union. Here we make a critical assessment of these strategies and of their effects on European society.

2.1. The Turn to Free-Market Strategies

Since the mid-eighties, the main strategic choices of the European Community (now the EU) have been more and more focused on the intensification of market disciplines and competitive pressures. Other policy objectives and other policy methods have been increasingly subordinated to the pursuit of market-led integration.

The reasons for this shift are to be found in profound changes in the member states, changes both in economic circumstances and in the political climate. On the one hand the previous path of European economic development faced serious obstacles, internal and external, which called into question established patterns of economic intervention and control: at national level these included barriers to the continued expansion of the given industrial structure; internationally, there were instabilities which, for increasingly open economies, were difficult to control. On the other hand, these obstacles became the occasion for a reassertion, by conservative political groupings and important business interests, of free-market doctrines in the form of neoliberalism: it was asserted that there was no essential role for the state or for the public sector in the construction of a new model of economic development; rather the role of the state was to clear the way for an expansion and intensification of market relations, which, it was claimed, would themselves lead to a spontaneous recovery of investment and thus to renewed economic advance.

As such ideas, and the forces behind them, became increasingly influential throughout Europe, they began to dominate both the form and the content of the project for European integration. The first major expression of this linkage was the single market programme which attempted to drive integration forward by eliminating barriers to market relations among member states. The second was the programme for Economic and Monetary Union agreed at Maastricht, which aims at monetary integration according to rigid and dogmatic formulae placing exclusive emphasis on monetary disinflation and the reduction of public expenditures. At the same time other ambitions for Europe, in the field of social policy for example, have been virtually marginalised.

In our view, European integration has been and remains a contested domain, in which a variety of political forces seek to influence the political and economic character of European institutions. At present, however, the EU's own policy agenda is closely aligned with the policy agenda proposed by neoliberalism and conforms to its priorities: deregulation, privatisation, public expenditure and tax reductions, disinflation by means of monetary restriction and so on. The reasons for this state of affairs are complex: they certainly include the strength of the industrial, commercial and financial interests which actively promote these policies; on the other hand, it is also true that there are difficulties in formulating and popularising a coherent alternative strategy and that these difficulties encourage the political forces which are committed to European integration to hold to the existing agenda despite its increasingly obvious adverse effects on the populations which integration is meant to serve.

Our main goal in this document is to contribute to the formulation of just such an alternative strategy. Nevertheless, it is necessary to begin by emphasising the dangerous consequences of the present EU agenda.

Our objections to this agenda are based both on principle and on experience. Against the doctrine of neoliberalism we argue on principle: that it involves an extreme individualism which undermines solidarity and social responsibility; that, in treating private property as the basis of the social order, it ignores the limits to property rights which must be imposed by any democratic society; that it exaggerates the capacity of market exchange to organise economic relations and thus fails to see the role of political and social processes in the orientation of economic agents; finally, that, in spite of its professed opposition to state control, it involves a repressive state in reality since only a strong state can impose the disciplines which it requires and contain the social conflicts to which it leads.

Beyond these points of principle, however, we also insist on the actual damage and dislocation which can be traced to the policies influenced by contemporary free market doctrines, and in particular to the post-Maastricht agenda of the European Union.

2.2. Neoliberalism in the European Union

In this section we focus our criticism more narrowly on the main elements and recommendations of the Maastricht economic agenda, on their economic and social inconsistencies, and on their consequences.

At present, the field of macroenonomic policy illustrates the immense gap between the potential contribution of the EU to European development and its actual role, which has been, in recent years, to disorganise national economies and to intensify, rather than relax, the external constraints they face.

In the name of a dogmatic doctrine of purely monetary stabilisation, and on the quite unfounded assumption that market adjustments alone suffice to bring about economic modernisation, EU macro policy has established a contractionary regime in which restrictive, supposedly disinflationary, money and credit policies and a drastic, almost panic-stricken, tightening of fiscal policies have combined to obstruct development and to suppress employment. In both cases, policy is self-defeating in that it prevents that stabilisation of the productive system which would be the only sound basis for financial and monetary stability.

The issues at stake go beyond the immediate impact of macro policy on employment, although it is undeniable that the present macro regime is destroying jobs. In a longer perspective, this regime is also failing to challenge the chronic uncertainties which inhibit investment or to control the diversion of investment resources into a universal search for remunerative liquid portfolios, which has forced national governments, around the world, into a competitive escalation of interest rates.

A. The main elements of neoliberal strategy in the European Union and their criticism

Firstly, *European macroeconomic policy is almost entirely reduced to the control of inflation.* In achieving macroeconomic equilibrium, contemporary orthodoxy regards the fight against inflation as the key objective of economic policy. This fight is given almost exclusive priority, although economic stability involves much more than price stabilisation - e.g. stabilisation of production, of employment and of the environment - and although almost all economies in the EU currently display very low levels of inflation which no longer represent any danger to development. In the EU (15 members), the rate of inflation for private consumption, which was 13,2% in 1980 and 10,6% on average in the 1970s has fallen to 6,5% in the 1980s and to 2,6% in 1996 and there is no indication of an upward turn. But lowering it even further is still regarded as the main policy concern. This is all the more striking because, not so long ago, it was recognised that a positive but low rate of inflation might provide an optimal stimulus to business activity. Furthermore, choosing the control of inflation as the main, or even the exclusive, policy objective implies that growth, employment, income and welfare are regarded as at most subsidiary aims - while a clean environment is usually completely disregarded. The goal of a very low inflation rate, uniform throughout the EU, is particularly damaging to the Southern European countries, where sectoral disparities give rise to acute inflationary pressures: simplifying the question to some extent, we can say that wide differences in productivity growth among sectors, combined with a similar rate of growth of wage rates, lead to much bigger price increases in those with limited productivity gains. As these price pressures diffuse through the economy they lead to what can be described as structural inflation. To address these structural inflationary pressures simply by restrictive macroeconomic measures involves very high social costs in terms of unemployment.

Secondly, corresponding to this obsession with fighting inflation, *there is no scope for an explicit employment policy*: Officially registered unemployment in the EU15 has risen from an average of 4,0% in the 1970s to 8,9% in the 1980s and to 11,2% in 1996. And yet an explicit employment policy is nonexistent in the current European strategy. Employment policy, on the basis of free-market orthodoxy, is reduced to recommendations - and legislation - for more 'flexibility' in the labour market and for wage austerity as well as lower social standards in order to diminish the cost of labour. Although the real unit cost of labour has fallen in the EU15 from 100 in 1980 to 87 in 1996 (more than in the US and Japan, where the relative decrease was from 100 to 97,6 and to 94,0 respectively) it is maintained that raising employment requires more mobility and lower wages. Thus, on the one hand, responsibility for unemployment is placed on the unemployed and, on the other, unemployment is not regarded as an evil which should be fought energetically: a "natural rate of unemployment" is seen as inevitable in a well functioning economy, and a "non accelerating inflation rate of unemployment" (NAIRU) is, in this view, necessary and therefore an objective of policy.

Thirdly*:* Not only is there no provision for a common European employment policy in the TM; this same Treaty also prevents energetic job creating measures on a national basis by the member countries. *This is because public expenditure and public sector deficits in the member countries are severely restricted.* Since inflation is considered to be a monetary phenomenon related to excessive (mainly public) expenditure, tough controls on fiscal policy are established which impose very harsh limits on public deficits and public debt. These inflexible rules are an attempt to cure symptoms rather than the disease, because they overlook the causes of public deficits. Firstly, the most important of these causes is the high unemployment itself, leading to lower tax revenues and social security contributions and to more public payments for unemployment benefits - even though individual entitlements have been curtailed. Secondly, high deficits at present are also due to high interest payments to financial institutions. This in turn is a result of the rule, that deficit financing should be organised over the capital markets. This does not necessarily have to be the case: in the future there may certainly be a case for the centralised refinance of the public sector, which has been frequently, and successfully used in the past.. Thirdly, high deficits are also the result of falling fiscal revenues from the taxation of profits and capital income, i.e. of income redistribution in favour of capital through taxation policies. Moreover, the deficit restrictions of the TM also make no distinction between different types of deficit, or between types of expenditure - for instance, they neglect the fact that the financial problems posed by public consumption and public investment may be very different.

Fourthly, as well as reducing macroeconomic policy to monetary questions, *the Maastricht agenda is even more restrictive and one-sided in its provisions and convergence criteria for the move to monetary union*: The requirements of the Maastricht Treaty for monetary union correspond to a very specific design of economic policy favouring unduly narrow objectives. This design is based upon a theoretically weak rationale for monetary union. First, there is no solid economic support for the position that a single currency is absolutely necessary to promote European construction. There have been very few economists prepared to assert that the EU is an optimal currency area. Second, still less scientific support can be found for the purely nominal character of the convergence criteria which totally disregard the impact of the provisions on real variables such as employment, rates of growth, balance of payments equilibria... not to mention more structural variables such as productivity, per capita income, and regional and sectoral balance. Even the theory of customs unions, supposedly a substantially inferior stage of integration, emphasises the importance of convergence in real variables. The reason for this disregard in the Treaty is probably the postulate that the working of markets will take care of real variables, once basic nominal variables have been brought under control. Acceptance of this postulate requires an extreme faith in the working of markets, which, under wide-spread conditions of imperfect competition, oligopolistic behaviour and power structures, uncertainties and information asymmetries, is quite without justification. Another interpretation might be to suggest that this choice of nominal variables actually reflects the underlying objective of the Treaty and of EMU: to ensure that monetary targets are fulfilled regardless of what happens to real variables, because real convergence is not in fact an objective of EMU. Also, the quantitative limits of 3% of Gross Domestic Product (GDP) for public deficits, 60% for public debts, 1,5 percentage points inflation differentials etc. are completely arbitrary.

Fifthly, with the adoption of this narrow monetary perspective *relevant instruments for a differentiated and flexible economic policy are abandoned.* EMU and the TM imply the loss of relevant economic policy instruments at member state level, and these are not to be replaced by any corresponding introduction of new instruments at the Union level. By definition there will be no exchange rates within the monetary union and autonomous national monetary or interest rate policy will be eliminated under the rule of the European Central Bank. This makes the necessary adjustment of national real economic variables much more difficult. Asymmetric economic shocks or asymmetric structural developments - particularly those with a differential impact on northern and southern countries - constitute a very serious problem. With a single currency, the only way to achieve the necessary adjustment of real exchange rates is through flexible relative prices, that is through the flexibility of wages and employment. The alarming implication is that wages and working conditions might become substantially more unequal between the two groups of countries, accentuating the disadvantages of the southern group. Experience in the US suggests that real wage flexibility in disadvantaged regions is inadequate to maintain their levels of employment, and that only very high levels of labour mobility keep regional disparities in unemployment within limits. But in Europe, the mobility of labour among countries is much more limited because of cultural, social and linguistic barriers which cannot be easily removed. Thus the single currency will tend to accentuate the employment and income disparities among European regions.

These difficulties are enhanced by the tight budget controls and deficit restrictions of the TM, which further diminish, to a very substantial extent, the autonomy and scope of public intervention. Only responsibility for labour and social policy[1] is left to national governments who are at the same time severely constrained in their policy options by the provision against 'excessive deficits'. Moreover, except for monetary control (the TM imposes a general orientation for monetary policy which is even more restrictive than that of the Deutsche Bundesbank) there do not exist significant economic policies at Union level that could counterbalance the loss of instruments at country level[2], nor does it seem to be the political intention to establish an active Union policy dealing with the problems to which this elimination of national instruments gives rise.

As a consequence of this loss of economic policy options there will also be a lack of policy flexibility for the different member states - in spite of the strong pleas for flexibility in other aspects of economic and social life, the labour market in particular. The goal of real economic and social convergence requires that different situations and problems are dealt with in a differentiated manner, but the policy provisions of the Treaty do not allow for that flexibility. However, if different situations and structures are treated in the same uniform manner, differences and disparities will be accentuated rather than mitigated and convergence will be made impossible. The equal treatment of very unequal partners will make it much more difficult for the weaker countries of the Union to fulfil the Treaty requirements - and it will have much more dramatic consequences for them when they try to do so than for others.

Sixthly, apart from monetary austerity, and in sharp contrast to the alleged withdrawal of the state from economic intervention, *privatisation and deregulation are changing the balance of forces in the economies of the EU.* EMU and the TM reinforce the trend towards a restructuring of public intervention, rather than a reduction of the overall level of intervention. On the one hand, supposedly in the tradition of classic laissez faire, welfare policies are greatly curtailed and undermined

[1].- The existence of the European Social Fund cannot be regarded as a general social welfare policy.

[2].- Again, the meager structural funds or the even more limited cohesion fund cannot be regarded as constituting a significant policy for Europe as a whole.

and it is argued that deregulation of economic activity and privatisation of public enterprises and public services is the way to ensure efficiency and to maintain public deficits within narrow limits. This view ignores the fact that the sale of public enterprises is at best a short term solution and still more often a self defeating procedure - the public undertakings that are privatised are either profitable in any case or they have been made profitable before privatisation at public expense. On the other hand there is an increasing bias, in patterns of intervention, towards the general support of business interests. It is even contended that market competition among member countries should discipline public intervention, a view which completely subverts the logic of social decision-making and denies any real possibility of democratic intervention in the economy.

B. The economic and social consequences of the neoliberal strategy in the EU

Unemployment will continue to increase. The lack of policy instruments and their disinflationary bias will tend to accentuate further the dramatic problem of widespread mass unemployment. For many questions, but especially for employment, the theory upon which the EMU and the TM are based obviously does not apply in the way envisaged, since the employment situation is deteriorating continuously while inflation remains under control. It is widely accepted by now that high levels of unemployment have a structural character. But measures based on the assumption that these structural problems arise from rigidities in the labour market, and the strategy of social cuts and lower wages, have not led to more employment and less unemployment, and it is not likely that they will do so in the future

Moreover, *the welfare system will go on being dismantled.* In spite of the failure in terms of employment the governments of the EU will be forced to continue and even reinforce their policy of social cuts in order to meet the convergence criteria and the provisions against excessive deficits. The perspective of this policy is the gradual dismantling of Europe’s social security and welfare systems, so important for workers and their families. Although these systems have been established in different concrete ways in different European countries during the last 100 years they constitute a major example of progress for the majority of people in Europe, forming a common - and positive - feature of European, as opposed to American or Asiatic, capitalism. The destruction of these systems and their gradual replacement by privatised forms of social insurance will offer much less security to the population and much more business and profit to the private - or newly privatised - insurance corporations.

More unemployment and less welfare will result in the erosion of social life as a whole, because work is central to contemporary society. The consequences of more unemployment and social cuts will be - and are already- on the one hand, wage austerity, deterioration in working conditions and job insecurity for the 'fortunate' people who can find work (most increases in family income for the working population today arise from increases in the number of family members employed). On the other hand there will be an increase in poverty and exclusion for those that do not have a job and have little hope of getting one. This situation of generalised insecurity for the majority of people undermines the social role of paid work : its central importance in providing sufficient income, social security and a certain degree of participation and creativity, etc. This social role has only been recognised through long and painful social struggles, to challenge the reduction of the labour force to a mere tool for making profit. The current strategy of the EU puts these achievements in danger. All the measures required to meet the Maastricht criteria are likely to lead to a deterioration in the situation of working people, especially the poor and the unemployed, bringing back a degree of hardship which should not be tolerated in rich countries on the eve of the 21st century.

In spite of severe social cuts, public deficits may even rise instead of falling. Ironically the lack of an employment policy and the increase in unemployment and other forms of insecurity make the political emphasis on the reduction of public deficits largely self-defeating, since deficits are to a very large extent a result of high unemployment: loss of tax revenue and of social security contributions, increased expenditures on unemployment and poverty benefits. It seems that, at least in the long run, the structural character of the public deficit is to a considerable extent a reflection of the structural character of unemployment. This explains why, in spite of relentless attempts to curtail it, the public deficit has risen from 4,0% of EU-GDP in 1974-1985 to 5,0% between 1994 and 1996. And this development is likely to continue as long as unemployment continues. Instead of an ineffective austerity policy an energetic employment policy would be a fairer and even a more appropriate tool for the consolidation of the public budget.

This point can be taken further:
The design of current macroeconomic policy is often inconsistent with its own aims and instruments: the lack of employment policy is inconsistent with public deficit control, as also is the reduction of taxes on capital or the privatisation of public enterprises; uniform policy approaches in different situations are inconsistent with the goal of convergence; central regulation in many fields is inconsistent with the principle of subsidiarity..etc. These policy contradictions and inconsistencies generate budgetary burdens, more economic disparities, waste, and political instability. The Treaty of Maastricht constitutes a fragile and vulnerable project with no solid guarantees that it will even operate in the way that the official discourse asserts.

Corporate restructuring will lead to further polarisation within the EU. In more structural terms, an economic model based on the political priorities of external competitiveness and internal deregulation and privatisation allows big enterprises and power groups to operate without limits across the whole of the Union. This has already led and is still leading to a very radical restructuring of productive units and service enterprises and may result in a darwinist economic structure of survival and benefits for stronger, but severe negative consequences for poorer, groups, regions and countries. The EMU and the TM add considerably to this process of polarisation and restructuring: they provide new facilities for the unrestricted flow of financial and productive capital; they focus the expansion and modernisation of European transport and telecommunication infrastructures on the connection of already developed and even overdeveloped industrial centres at the expense of intraregional networks etc.

Inequalities in income distribution and regional development will be exacerbated: As a consequence of overall policy orientations in the EU, the income and wealth of small groups of people and the profits and prosperity of international firms will tend to increase rapidly, while small and medium enterprises are often struggling for survival and bankruptcies in this sector are growing dramatically. Thus an increasingly unequal distribution of income, and a dual structure of economy and society are being consolidated. In the TM, no attention is paid to the distribution of benefits and costs among classes and income groups, and disparities among member countries and the increasing inequalities among EU regions are only taken into account in a very inadequate way. All the information available suggests that the distribution of integration benefits will be unfavourable to the poorer countries and regions of the Union[3]. It is true that their weaker position is a result of historical factors for which the EU is not responsible, but the relative position of the poorer countries has not improved much with integration so far, and that of the poorest regions has even deteriorated: in its recent First Report on Economic and Social Cohesion the European Commission again confirms the persistence of huge differences between the regions of the Community. For instance, the ten least developed regions, situated mainly in Greece, Portugal and the French colonies, had an average income per capita in 1993 less than a third of the average income of the ten most advanced regions. Even more serious, empirical data indicate that this gap was no narrower in 1993 than ten years ago. In terms of unemployment, the average rate for the 10 least affected regions had remained almost unchanged between 1983 (3,8%) and 1993 (3,9%), whereas for the 10 most affected regions it increased from 19,4% to 26,4%, thus widening the interregional gap in the EU.

Under the rule of free-market orthodoxies, a European productive structure is being established which can only perpetuate and deepen these disparities. The most modern and fastest growing productive activities, and technological advances leading to higher productivity and competitiveness, are increasingly concentrated in the richer and more powerful areas while subsidiary and dependent activities with light and 'banal' technologies, making intensive use of energy and less skilled labour form the productive system of the poorer regions. At the same time, the weaker regions are losing important parts of their industrial structure. These regional imbalances and polarisation within member countries may lead to an acute threat to European construction, fostering beggar-my neighbour and negative-sum policy games among member states.

A small core monetary union will split the EU. Their obsession with a thoroughly disinflationary monetary union has led to a dangerous disregard by EU officials of the consequences which a monetary union between a small number of core countries would have for EU-members who do not belong to this core. The official certification of their monetary weakness will put their currencies under immediate pressure. In the envisaged new European Monetary System between EMU insiders and outsiders there will be no strict obligation for the European Central Bank to support the outsiders in the currency markets. At the same time, their political room for devaluation will be very limited, if it exists at all. Under these circumstances, it will be almost impossible to organise a catch-up process which will enable them to fulfil the convergence criteria and join the monetary union. A more likely perspective is that the split between a few strong countries and a weaker majority will be perpetuated and that the gap between the two groups will widen. In the long run this would pose a deadly danger to European unification.

2.3. The Design of Maastricht is Not the Only Option for European Unity

The specific design for EMU in the TM reflects the increasing dominance of conservative political forces and the business interests which support them. By eliminating monetary uncertainty and liberalising international transactions they facilitate the further globalisation of capital flows. By strengthening the currency of the European block they reinforce a trend towards powerful regional blocks which increases the competitiveness of the three central powers and maintains their pre-

3.- Moreover distribution and differences within countries have also to be considered eminence in the face of newly emerging industrial competitors. Governments regularly justify their tough policy towards labour by their concern to avoid inflation, and their policy to weaken labour organisations and control social movements by the danger of foreign competition. Domestic austerity leads to world-market superiority, and the ensuing currency revaluation then requires more austerity. This is a vicious cycle implied by free market fundamentalism in its approach to the world economy.

A non-economic but highly relevant question concerns the democratic deficit of the Union - the increasing distance between citizens and policy decisions. We are not discussing here such questions as the lack of democratic control over decisions, the environmentally destructive character of market radicalism and its waste of energy and water, the emergence of irrational consumption patterns and so on. But it is clear that such problems cannot be solved, and that some are even exacerbated, by the current neoliberal strategies of the EU. Moreover, it will be extremely difficult to alter the Treaty, since any change requires a unanimous vote of 15 member countries. In fact the Dublin summit showed that there is no intention to make any substantial modifications to the Treaty. Thus what we regard as an ill-founded economic doctrine and an economic policy detrimental to the welfare of European populations has acquired the status of supranational law.

The present policies of EMU and the TM point to a European Union that will be - in design, in theory and in practical results - damaging to the welfare of the population and mainly beneficial to large-scale business and financial interests, and to the rich. Therefore it should be clearly rejected. Other methods must be found to promote European unity in ways which enhance popular welfare. It is wrong to assert that there are no such alternatives and to present EMU and the TM as the only way to build Europe. If the goal of European unification is accepted - and we think it should be - there is no reason whatsoever to identify it with the present design of EMU; and there is every reason to develop a European project which is radically different to the Maastricht agenda.

3. Alternative Economic Policy for Full Employment - Main Elements and Proposals

3.1. Principal Aspects and Objectives

We dissent from the fundamentalist doctrine that market processes unaided can determine a coherent pattern of economic development. Given the limits to markets as means of communication, widespread uncertainties prevent the full commitment of resources to development, shorten time-horizons of agents and direct activity towards defensive and frequently dysfunctional forms of behaviour. Moreover, the internal dynamics of markets often lead to oligopolistisc or monopolistic structures which damage the economy as a whole. Leaving development to the markets therefore amounts to leaving it to private property and the laws of profit and competition, which undermines the social content of economic life.

Where economic development took a different path in the past, strong social forces were involved. Thus the phase of dynamic expansion and modernisation which characterised West European economies in the decades following the second world war, although it certainly presupposed fluent market adjustments, by no means rested on market processes alone. The unequivocal commitment to full employment, state action on a large scale, including massive public investment, and the active mobilisation of social forces - notably the labour movement - were necessary to define long run developmental priorities, to secure the redistribution of rising incomes and to exclude damaging actions and reactions by individual enterprises and investors.

Although the kind of development required in Europe today is very different from that achieved in the post-war decades, the instability and disorder of the last twenty years, after the collapse of the Bretton Woods system and the establishment of neoliberalism as the dominant economicstrategy, indicate that it is futile to expect purely market-oriented reforms such as privatisation, deregulation and tax reductions, to establish the conditions for a sustained and cumulative process of renewal. Just as in the past, renewal must rest on the active contributions of movements in civil society, on the presence of political forces in the definition of long run objectives, on the involvement of all social groups in the development process and on the reform of current economic methods and practices. It is only on this basis that enterprises and other market agents will be able to align their individual strategies on a continuing, self-reinforcing, process of general economic advance.

During the last two years we have witnessed increased resistance to social cuts in several countries of the EU. We support this resistance. At the same time we want to contribute, in our capacity as professional economists, to the necessary debate about alternatives to neoliberalism and to the development of a new, welfare-enhancing economic strategy for Europe. We believe that such a strategy is possible, and that the basis for it is the high and rising productivity of human labour. Of course it is not easy to concretise either general objectives or methods of implementation. This requires thorough theoretical and empirical work, and even then it cannot be reduced to a blueprint, designed in academic discussions and then applied to the European economy. We propose in this chapter short-term economic policy measures and reform steps for a longer perspective which we regard as essential parts of an economic strategy to overcome the dominance of free-market radicalism in the EU and start the transition to an alternative type of economic development. Our proposals relate mainly to monetary, fiscal, working time and labour market policies in the EU.

They are certainly not the only components of an alternative economic strategy and many have been brought forward by others, too. Some of the concrete measures should be taken as examples, to show that more general principles and approaches can be implemented, and to suggest how this might de done, without excluding other concretisations.

The general objectives of an alternative economic strategy can briefly be summarised as
- **full employment** in the sense that every person who is able and willing to work can find a job at wages which are sufficient for a decent living, and in which he or she can unfold and further develop her or his productive capabilities;
- **social equity** in the sense of a fair distribution of income and wealth and strict non-discrimination in the workplace or elsewhere in the economy;
- **social welfare and security** in the sense that nobody shall be left to poverty or helplessness in old age, sickness, accidents or other adverse circumstances;
- **ecological sustainability** in the sense that the exploitation of natural resources does not go beyond the limits of their renewability and the emission of waste into the environment does not transgress the limits of its absorption capability;

Each of these objectives stands by itself and should be pursued for its own value. The achievement of each is essential for an alternative pattern of economic development. A full employment economy on the basis of undifferentiated and environmentally unsustainable growth or accompanied by extreme social inequalities and widespread insecurity cannot be accepted, nor is a proper environment without social security and sufficient jobs a desirable situation.

We put full employment at the top of our alternative economic policy agenda because we regard it as - apart from being an objective in its own - the most important political lever to achieve a comprehensive change in the economic policy orientation in Europe. Unemployment is the most perceivable - and most widely perceived - unifying problem in Europe, and therefore the fight for full employment can and should in our view take the lead in the struggle for a comprehensive change in economic policy. In order to become really comprehensive, this change should of course extend to the other three objectives, too.

At the same time, in giving full employment the highest priority in our proposals we are aware that the concept cannot be simply transferred from the post-war period to the present but needs modifications. In the first place it has to be taken into account that the representative employee, to which the term full employment refers, is no longer the full-time male breadwinner of the 1950s. Female labour force participation has risen strongly, and this has consequences for the intra-familial division of labour and leads to corresponding changes in employment regulation: More time-flexibility, part-time jobs, non standard forms of employment, periods of work interruption etc. have become a regular part of labour conditions. As long as these new forms of employment are chosen **voluntarily** they must therefore be included in an appropriately adapted concept of full employment. At the same time equitable access to employment opportunities and new forms of ensuring employment security become more important under conditions of more flexibility.

Our insistence on the European dimension for economic recovery should not be interpreted as an argument for thoroughgoing centralisation. On the contrary, the complexity of European societies, the diversity of concrete circumstances and the need for economic experimentation are all arguments for the decentralisation of policy making and diversification in the activities of social movements. But, because of the ongoing globalisation of economic life and the increasingly obvious inability of individual states to master international economic forces, and because of the already very advanced stage of market integration and mutual economic interdependence in the EU there is a clear, positive role for the European Union in the articulation of a strategy of full employment and sustained recovery. A pooling of some aspects of sovereignty can, in effect, widen the scope for effective reform on a decentralised basis, always provided that EU institutions are not limited to a concept of cooperation focused exclusively on market processes.

3.2. Monetary Policy

In our view both monetary and fiscal policy in the Union are far too restrictive. Fiscal policy should certainly aim, over the medium or longer term, at a stabilisation of public finance, but the pursuit of the Maastricht convergence criteria has led to the attempt to bring about an impossibly large adjustment within a very short period. This attempt has become extremely dysfunctional: Its impact on employment, development and economic activity further destabilises both public and private finance and aggravates the problem which it is supposed to resolve.

The interaction of fiscal and monetary policy is compounding theses problems, and is the more worrying as it indicates the kind of difficulties in the formulation of monetary policy which are certain to arise in the post EMU regime.

Lack of monetary/fiscal coordination can be specified in the following way. The fiscal objectives of Maastricht imply massive reductions in public borrowing and public indebtedness. Since it is the private sector which holds government debt, it must reduce these holdings. There are three ways the private sector can make this adjustment: a reduction in savings via either increase in consumption or real investment in the EU economy or the shifting of savings abroad via acquisition of external assets. Of these it is almost certainly the second, employment creating investment option which should represent the main path of adjustment. To proceed in an orderly manner, such private sector corrections depend on monetary policy: if there is to be an increase in investment, for example, low interest rates must make this possible, facilitating the financing of real investment and disencourageing investment in monetary assets. If the levels of interest rates (and/or exchange rates) are too high, the private sector will not increase its real spending (or its foreign assets); then the public sector adjustments which are their counterparts simply cannot take place, regardless of the severity of expenditure cuts which are implemented. The demand-gap created by these cuts is not filled by increased private demand; this leads to a fall in overall demand and employment with new public deficits. Such private sector adjustment as does take place assumes the perverse form of a decline in savings via stagnant or declining incomes and employment. It is increasingly clear that the EU economies are blocked in this way: the failure to bring about a decisive relaxation in monetary conditions renders the ambitious fiscal targets even more unrealistic; <u>discretionary</u> changes in taxes and expenditures are swamped by <u>induced</u> effects in the opposite direction - just as happened in the recession of the early nineties which resulted from a similar breakdown in European coordination.

The European Union cannot afford these negative-sum policy games between fiscal and monetary authorities. Yet both the approach to EMU and the subsequent plans for European monetary policy fail to ensure effective coordination. The Bundesbank enjoys de facto supremacy in the period of preparation for EMU - this follows from the continuing role of the DM as anchor currency for the EMS and the commitment, required by Maastricht, to fixed exchange rates in the transition period. Yet the Bundesbank has not accepted the European responsibilities which its dominant position makes necessary, and the dogmatic provisions of the Maastricht Treaty obstruct the formulation of any coherent strategy for macro stabilisation by assigning monetary policy to the single-minded pursuit of price stability while making the baseless assumption that the private sector moves automatically towards financial stability and the full use of available resources.

In the short run a decisive relaxation of monetary policy is needed to counteract growing unemployment and to take pressure off public finance in the member states. This should take place in the context of an explicit internationalisation of EU monetary policy along the lines suggested by the European Parliament: monetary objectives are coordinated across countries and the Bundesbank ends its harmful policy of routine sterilisation of currency inflows from other member states. There are, in the present situation no serious inflationary risks associated with such a reform. It could even be said that a small rise in average EU inflation rates would in fact be useful to those countries, such as Italy, which are trying to converge to the general performance in this respect and would represent a fairer and more functional allocation of adjustment costs. The recent reduction of Japanese interest rates shows how much scope exists for such measures within the major currency blocs.

At the same time it is very necessary to revise the arbitrary and damaging fiscal policy targets associated with EMU both to make them compatible with feasible private sector corrections and to take into account the interactions among national policies. The promulgation of supposedly "tough" macro targets in complete abstraction from realistic projections of European economic development must be replaced by a coherent plan for growth and stability which takes into account the different structures of the economies, the actual phase of the business cycle, the interdependence of monetary and fiscal policy and the impact of national stabilisation programmes on neighbouring countries.

Such a policy reform poses acute political problems because EU leaderships have made a complete fetish of disinflation and of the quite unrealisable targets which were adopted, without any serious assessment of their implications, at Maastricht. Any revision of these formulae has thus to come to be perceived as a threat to European construction itself. We suggest, however, that the most significant political dangers to the European project are in the opposite direction: failure to alter targets and to correct inappropriate policies in the light of major economic malfunctions and growing distress can only convince European citizens that the emerging institutions will be hopelessly inflexible and incapable of a constructive response to changing circumstances and priorities. The damage that such perceptions are doing to the prestige of the European project and the risks of particularist or nationalist reactions is becoming every day more clear and more alarming.

Thus the correction of monetary policies in response to present economic and political realities is necessary in order to reconnect the European project with the real needs of populations. But beyond this there are positive possibilities for the deployment of a more coordinated and even an integrated monetary policy within a more ambitious development strategy. Four, interrelated, monetary aspects of such a strategy will be mentioned: each takes its importance from the context of uncontrolled globalisation of financial relations, a context in which it is indeed rational for EU member states to reinforce their control over money and credit through the integration of their monetary systems in ways which avoid the chronic instability of recent decades and negative-sum policy games which have frequently be observed among major industrial countries. This process can begin with a stronger and more continuous commitment to international policy coordination, advance to tighter monetary integration up to a monetary union and could even develop towards a comprehensive reform of world monetary institutions. One contribution of a united European monetary authority in this domain can be an insistence on policies sensitive to the need of the developing world, to replace the disastrous stabilisation programmes which have repeatedly sacrificed employment and growth in developing countries to the largely illusory pursuit of purely nominal stability.

a) The possibility exists of **establishing a stable European currency regime**, either through the monetary union if it takes place or through a new form of European Monetary Ststem (EMS2). In fact, it is envisaged that EMU will run in parallel with a new EMS in the coming years. However, the nature of the monetary union due to start in 1999 makes it questionable whether it will further, rather than hinder or even prevent, an effective employment policy. And the new EMS proposed today will impose an even stricter austerity drive on those countries not in the monetary union. Unlike the EMS up to now, there will be no symmetric obligations on the European Central Bank (ECB) to respond to exchange rate problems at the same time as the weak currency country which faces them. The ECB can refuse to intervene if it considers this to be against the interests of the monetary union. Thus the burden of adjustment will fall almost exclusively on weaker countries who, at the same time, will only be able to devalue their currencies with the agreement of the ECB.

Instead of this restrictive and highly discriminatory regime, we suggest the establishment of a renewed and modified EMS2 which would operate, either as a cooperation mechanism between EMU insiders and outsiders, or , if the start of EMU is postponed, as a general framework for monetary cooperation in the EU and in the associated countries of Central and Eastern Europe.
The EMS2 would resemble the previous EMS in that it would include:
- a parity grid and currency basket (or euro) for the determination of exchange rates;
- a symmetric obligation on both central banks to intervene in the case of imbalances;
- the possibility of realignments.

However, EMS2 would differ from the previous system in the following ways:
- the fluctuation bands employed should be both differentiated acroass countries and variable, thus providing an additional instrument of adjustment;
- there might be a recognised ceiling, in terms of monetary and credit indicators, for symmetric interventions by central banks; this could facilitate the decision to realign when it was necessary to do so;
- countries with persistent current account surpluses should be required to make additional payments to the European Monetary Cooperation Fund (ECMF) and deficit countries should enjoy greater acess to ecmf resources when they are needed to fight weaknesses with respect to the currency of such a country;

- realignments should be considered on a regular, and dedramatised, basis as a policy instrument for adjustment and macroeconomic control.

b) The European currency regime must be **protected from speculative attacks** from inside or outside the EU. European integration makes both necessary and possible **much greater social control over financial processes** which at present subject most if not all member states to the tyranny of globalised asset markets. In spite of the huge volume of international capital flows, globalised credit at present makes very little contribution to productive investment; rather one sees a ceaseless arbitrage among liquid financial placements which are highly unstable and force countries into a competitive escalation of interest rates with damaging consequences for overall development. On the basis of a more integrated monetary and financial system the EU countries will be in a position to exercise stronger supervision and control over both internal and external financial transactions and to protect individual member states from unnecessary disturbances to the investment process. Several methods may be considered.

One method is to reinforce bank supervision through agreement among BIS members or European legislation. Thus minimum reserve requirements on bank liabilities could be increased and introduced where they are absent. Off balance sheet activities could be included in capital adequacy provisions and the margin requirements on speculative operations could be raised in order to make speculation more expensive. The same objective could be pursued through a foreign exchange transaction tax, which would discriminate against short term flows in particular and thus affect speculative temporary exchange positions more than the finance of trade and long run investment.

None of these measures is likely to work perfectly, and there is bound to be a search for loopholes. But loopholes can be closed and, given the political will, the admission of a financial institution to EU markets can be made conditional on compliance with certain rules of conduct, including conduct in other countries. Without the participation of major banks, based in the leading financial centres, financial activity in off-shore centres would probably shrink to dimensions of limited relevance. Such restriction of speculative activity would at the same time restore much more power to central bank intervention.

A further step, beyond these supervisory and tax measures, which could protect a European currency regime from outside attack consists of making a common European currency the **exclusive medium** for all business activities with third countries (including subsidiaries and branches of EU institutions in these countries) while, at the same time maintaining at least some individual currencies and the EMS2 regime within the EU. Thus the protective effect which a monetary union confers on participating countries, no longer exposed to individual attack, would be extended to currencies not, or not as yet, participating in a monetary union. Inorder to protect the common external medium itself from outside attack, there could be a higher transactions tax (say 1% as against 0.5%) on flows involving third countries than within the EU. This kind of structure is bound to meet with resistance from inside the financial centres. But it could be achieved given the political will and would also increase the pressure for global reforms aimed at more stability.

c) Tighter European monetary coordination should lead to a **reassertion of more equitable fiscality towards capital and capital revenues**. Unchecked competition among financial centres at present blocks attempts to impose taxes on profits and interest. So-called "mobile" factors of production increasingly escape any reasonable share of the overall tax burden..With a unified system of financial supervision within an area of more integrated monetary policy it will become possible to address the problem of taxing property income in a more effective way.

Thus, in spite of our criticism of the current approach to monetary union, we do consider that European monetary integration could offer substantial advantages to EU citizens if it becomes the basis for a systematic and determined attempt to redress the balance between the general interest and the claims of private agents. But this kind of outcome, like the correction of the current macroeconomic stance in support of employment growth, requires a thorough reappraisal and rejection of the negative economic philosophy which was endorsed at Maastricht and it requires the reconnection of EU objectives with the real economic needs of the populations which European integration is supposed to serve.

d) European monetary policy should endeavour to **facilitate the reform of international monetary relations.** Since the collapse of the Bretton Woods system in the early 1970's and the subsequent financial deregulation, exchange rates and short term capital flows have become one of the most unstable and dangerous elements of the world economy. The increasing instability and volatility of exchange rates has led to an increase in interest rates as a consequence of the privatisation of exchange rate risks and the costs of hedging. Meanwhile, the enormous increase in predomonantly short term capital flows has not, contrary to neoliberal prophesy, brought about a fall in the level of interest rates through more competition and a more efficient allocation of capital. Short term capital movements, although they now involve almost unimaginable levels of foreign exchange turnover, have become disconnected from their original purposes of financing international trade and international investment and hedging of risks associated with these functions. They are now almost completely driven by speculative and arbitrage motives. As a result, these flows have become a major obstacle to the use of expansionary macroeconomic policies and lower interest rates in support of employment oriented strategies.

The best solution to this problem would be the re-establishment of an international cooperation regime comprising all major currencies. Essential elements of such a system would be:
- an internationally issued and administered reserve medium to replace the privileged “key currencies” of the past;
- a mutual commitment to maintain international payments balances, or to restore balance in the case of a temporary disequilibrium; the crucial point here is an agreement that surplus and deficit countries are both obliged to deal with their respective imbalances;
- an agreement to control international capital flows and to take measures discriminating against, and thus reducing, short tern flows.

It is only realistic to assume that the solution of these problems will take a considerable period of time. One reason for this is that there are powerful interests, mainly in the financial sector, which profit from the present situation and are strongly opposed to any reregulation. Nevertheless, the EU should work in this direction and exert its influence in international institutions to promote a global monetary stabilisation regime. The EU's opinion will carry more weight to the extent that the EU itself has successfully reformed its own monetary regime to the benefit of member states.

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3.3. Fiscal Policy

Fiscal policy is one of the most important economic policy instruments. Therefore in the long run European economic policy will not be viable if centralised monetary authority is not complemented by some centralisation in the budgetary policy of the EU and more harmonisation of the national budgetary policies of the member countries. There are sufficient theoretical reasons and ample empirical evidence to prove that centralised fiscal policy plays a vital role in every society (cf. for instance Sala-i-Martin and Sachs [1992], Goodhart and Smith [1993], Bayoumi and Masson [1994 and 1995], MacKay[1995], Kenen [1995], Eichengreen [1997] and the discussion in the special issue of <u>European Economy</u> [1993]). Therefore if the project of unification is taken seriously, a proper fiscal policy should be established at EU level.

Beyond the stabilisation of symmetric shocks affecting all member countries more or less equally, European fiscal policy must be able to deal with adverse events which affect only some or individual member countries. The handling of such asymmetric shocks requires centralised resources which are spent on the basis of agreed principles according to specific needs. Moreover, the working of the European Single Market regime is itself causing disequilibria and problems in some countries and regions which must be redressed by fiscal policy. Such central mechanisms of intra-federal compensation and redistribution - starting from a progressive tax system and extending to sophisticated inter-regional redistribution mechanisms - are indispensable for the achievement of social and economic cohesion..

In a **short-term perspective** the most urgent economic policy task with regard to the employment objective is put an end to the rigid pursuit of austerity and to move to an expansionary fiscal policy. More public spending is essential for an upswing in effective demand, without which there is no perspective of a sustainable reduction in unemployment on socially acceptable conditions. Therefore the fiscal centrepiece of a European employment strategy must be a public spending initiative. One part of it should be agreed centrally and financed out of the EU budget - the macroeconomic relevance of which is as yet, however, of minor relevance (1,2% of EU-GDP) - and through the issue of Eurobonds. Another and initially larger part of the programme will consist in specific national projects which must be tightly coordinated according to art. 103 of the TM.

Of course a fiscal employment initiative does not mean just public expenditure regardless of the purposes for which the money is spent, as long as it creates jobs. There are other aspects which have to be taken into account:

- First, environmental considerations are of particular relevance in public investment projects: It does not make sense to spend public money on projects which contribute to the further deterioration of the environment such as new motorways in regions of dense agglomeration, airports or energy consuming industrial parks etc. The saving of natural resources and the protection of the environment must be a primary concern in consideration and decisions on the concrete forms of employment programmes, taking into full account the very different situations and environmental priorities in the different countries.

- Second, the present structure and working of the public sector, and especially of the public services must be realistically assessed and where necessary modernised. In many cases bureaucratic structures can be contained and public services more efficiently directed to the needs of the population whose priorities have also partly changed during the last decades. Such necessary adjustments are much easier to effect in the context of an employment creating programme than under the pressure of a contractionary policy where they are often used as a pretext for job reduction.

- Third, central fiscal authority and resources are essential in order to advance common projects of high priority for the Community as a whole, such as specific research programmes, the improvement and restructuring of the transport sector, industrial and social policies etc.

There is no lack of sensible projects in every member country of the EU, which fulfil these criteria:

- in all countries the rigorous austerity policy of the last years has produced painful and dangerous gaps in the provision of public services in such sectors as health, child care, old age care, community counselling etc. The correction of this dismal development includes restoring many of these jobs and the creation of new services. The Commission in its White Paper of 1993 estimates that three million jobs can be created throughout the EU in local services, improvements in the quality of life and environmental protection.

- everywhere there is also an urgent need for the establishment, extension or modernisation and - particularly with regard to environmental sustainability - restructuring of the material infrastructure of the transport, energy and telecommunication sectors;

- in some underindustrialised southern countries energetic - but not energy intensive - industrialisation efforts would be the main sources for more and sustainable employment, whereas

- some northern countries with old industrial cores and heavy agglomeration and environmental problems need more decentralisation and ecological restructuring which will also result in more jobs.

In the past years several proposals for an effective employment policy have been brought forward from different sides. The most prominent came from the Commission in its White Paper on Growth, Competitiveness and Employment of December 1993. It suggested, among other proposals, the establishment of Trans-European Networks in the fields of transport and energy (250 bn. ECUs by the year 2000), telecommunications (150 bn. ECUs) and environment (174 bn. ECUs) with a total amount of 574 bn. ECUs to be spent between 1994 and 2000, i. e. a little less than 100 bn. ECUs per year. A very small portion of this (20 bn. ECUs or 3,3 bn. ECU per year) was to be financed by the EU, out of the regular budget (5,3 bn. ECU) or via EU borrowing (14,7 bn. ECU). The overwhelming majority of the financial resources should according to the White Paper be provided by private or public investors in the member countries. Officially this proposal was met with sympathy and approval at the Copenhagen summit; but subsequently it was decisively cut down and by now it has shrunk almost to a shadow existence.

Some of the proposals in the White paper must raise objections on general environmental reasons or because their realisation would increase already existing agglomeration, and, by focusing on improved connections between industrial centres, further isolate weaker regions. Other proposals like the improvement of the railway network can be regarded as a good starting point for an employment oriented turnaround in European economic policy. They could easily be complemented by projects taking account of the above criticisms,for instance by improving intra-regional transport systems.

Member countries can and should - in a coordinated manner - also take initiatives for tax or other subsidies for firms which undertake to create additional employment, provided there is adequate control of compliance.

To **finance** coordinated expansionary fiscal policy governments can principally proceed in three ways with a differing balance according to country-specific priorities:

First, there is the possibility of **restructuring public expenditure towards more employment intensive sectors**. This would be the case if more jobs were created in traditional and new fields of public services, where no large investment is required to create jobs. There is probably considerable room for manoeuvre in this direction in every member country. As a matter of fact, in spite of the strict austerity policy in most member countries the total amount of public expenditure is not falling. Instead it is shifted away from purposes of social welfare to subsidies to big firms in order to attract investment (which often goes along with heavy rationalisation) or to the support of industrial firms or banks which are in difficulties. A redirection of the structure and purposes of public expenditure is reasonable and would result in more jobs for the same money. However the employment dimensions of such restructuring remain limited.

Second, there is the method of **increasing taxes** to finance additional employment programmes. Such tax increases would make little sense where they have a direct and relevant negative impact on private expenditure for consumption and investment. (The benign effect of the Haavelmo theorem should be regarded with caution). Therefore a general rise in taxes on income and turnover or value added should be rejected. It would be more efficient for employment purposes to increase taxes on high incomes, luxury goods, profits which are not reinvested and short-term capital movements - all of which are of minor importance to the performance of investment, production and employment. In view of the drastic redistribution of income towards corporate profits and the upper income ranges during the last two decades in all member countries, such re-redistribution in the opposite direction can easily be justified by considerations of social equity - apart from the argument that inequality in income distribution is a relevant factor causing stagnation in effective demand and therefore raising unemployment.

Third there is **deficit spending.** Contrary to prevailing political and economic doctrines this makes good economic sense, even in a situation of a long lasting, "structural", public deficit. The experience of recent years should have made it clear that the basis for public deficits are neither boundless social benefits nor the claims of a never satiated government but simply the fact that rising unemployment reduces tax revenues and social insurance contributions and increases unemployment and welfare benefits and is therefore an extreme burden on the public budget. Therefore, in spite of rigorous cuts in social and some other government expenditures government borrowing and public debt have not fallen but risen in most member countries and in the EU as a whole during the first half of the 1990s, as compared to the second half of the 1980s. The so-called structural deficit is essentially a reflection of so-called structural unemployment. More employment created via public borrowing strengthens the revenue basis upon which the debt can be serviced and repaid.

The financing of a substantial part of a Europe wide coordinated employment initiative via additional government borrowing would not exacerbate the general scarcity of capital, nor would it lead to an increase in interest rates or to a crowding out of private investors. First, at least in the advanced countries there is no problem of scarcity of capital but rather one of absorption of capital. Second, interest rates are not necessarily linked to the level or development of public deficits or debt. For instance from 1985 to 1989 public borrowing fell slightly in most member countries and interest rates went up substantially. Third, investment is sluggish not primarily because of unsustainably high levels of interest rates but because of a lack of effective demand. The improvement of investment perspectives through a multiplier-accelerator reinforced public employment programme would create a demand environment which would make investment attractive. Therefore such an employment programme would lead to a crowding-in rather than a crowding-out effect.

However, some countries would have difficulties in raiseing additional credit or placing bonds on the capital markets without paying a premium interest rate - which would undermine or reduce the expansionary effect of the employment impulse throughout the economy. In these cases the European Investment Bank (EIB) should offer appropriate assistance by guaranteeing loans or by interest subsidies.

In order to alleviate the burden of public debt service the modalities of government borrowing should be reconsidered. As long as the growth of credit remains within the limits compatible with low inflation there is no need to insist that additional public borrowing be provided directly from the capital markets. Instead the national central banks could and should provide the money directly at lower (or possibly even zero) interest rates to the governments. The argument, that such facilities would amount to a licence to print unlimited amounts of money is incorrect: The abuse of preferential access to Central Bank finance can be prevented by appropriate institutional and parliamentary barriers. On the other hand there is no reason why democratic governments and parliaments should not have preferential access to Central Bank finance, as they have preferential access to every citizen's money via taxation. There is certainly every reason to be careful and vigilant with regard to state and government financial behaviour. But this applies to governments who engage in borrowing on the capital market, too. The essential difference between central bank loans to governments and capital market loans to governments is the additional profit of the financial sector in the latter case.

These considerations also apply to the EU as an institutional entity. For the purpose of financing immediate employment programmes the EU, too, should make more intensive use of the instrument of public borrowing. There is no convincing economic reason why the share of bonds issued by EU-institutions (mainly the EIB) in all public bonds issues of the OECD countries on international markets should remain at the 1995 level of 4,7%. This percentage has decreased in every year since 1990 (from 8,8%), while the amount of OECD public borrowing more than doubled during these years. This accentuated abstention from borrowing on the part of the EU is one of the harmful results of the neoliberal bias which has been imposed upon the EU even more strongly than on individual countries. If this ideology is rejected there will be more room for financing an expansionary European fiscal policy, to a considerable part via Eurobonds. This idea was also put forward in the White Paper of 1993, as well as in the project for a European Investment Fund (EIF), which has been established and started operating in 1994 as an institution underwriting private loans extended to promote SMEs and in the context of financing (very modest) parts of the TENs.

The argument on low interest government borrowing from national central banks also applies to the EU level and the ECB. There is no sensible reason why the EU should not have preferential access to the European Central Bank, within the framework of a comprehensive, transparent and well targeted employment strategy.

In the **long run** the **EU's own financial base must be enhanced to permit European institutions to fulfil their genuine political tasks.** Therefore it is necessary to change the balance in the fiscal system between the national and the European level in favour of the latter. **T**he MacDougall Report of 1977 had good reasons for recommending that the budget of the EC - remaining at 2%-2,5% of the EC-GDP in the pre-federal stage - should rise to 5% - 7% of EC-GDP once tEconomic and Monetary Union is reached. Of course the exact figures are always a matter of debate, but as a rough guide-line this recommendation seems to be reasonable. Its realisation would require a rapid doubling of the European budget and then a gradual further rise. There are certainly several ways to accomplish this. One would be the introduction of new and specific EU-wide taxes, some of which have been under consideration for considerable time in many member countries and at EU-level for regulatory reasons. As prominent examples of such taxes we mention:
- a **CO2 emission tax**, the main purpose of which is the promotion of energy saving production and consumption patterns;
- a **foreign exchange transaction tax** with the main purpose of discriminating against short term and speculative capital flows which in the past have led to considerable currency turbulence in the EU.

The introduction of such taxes at the EU-level would have several advantages over a national initiative. First, no member country would be put at a disadvantage, and therefore competitive pressure on budgets would be avoided. Second, the EU would develop relevant regulatory competence in sectors which have caused severe problems for the economy as a whole in the past and need energetic handling in order to provide sustainable economic and social development. Third, at least for a considerable time they will result in substantial revenue flows to the EU budget.
When the regulatory effect of these taxes has become fully effective and the revenue flows are decreasing, the financial basis of the EU budget must be shifted to a larger participation in regular

and permanent tax revenues. This will be necessary anyway when the effect of a new round of tariff reduction and of a more comprehensive reform of the common agricultural policy leads to less revenue at the borders of the EU. One basis for such extension of the own resources of the Community could be the VAT which already now finances half of the EU-budget, although only 1,4% of the standardised EU-VAT base is assigned to the EU-budget. The decision of the EU to reduce this proportion to 1,0% should therefore be reconsidered and reversed. We also recommend exploring the possibilities of assigning to the EU a share of revenues from taxation of interest and profits, as a step towards the harmonisation of tax structures.

It would be helpful for rapid budgetary reaction capability with respect to uneven developments within the Community, if some form of **automatic stabiliser** were implanted into the financial system of the EU. A remarkable debate in this direction was started some years ago from inside the Commission (Italianer and Pisani-Ferry [1991], Italianer and Vanheukelen [1993], Eichengreen [1997]). It envisaged a mechanism which automatically and rapidly leads to transfers to member countries in which monthly increases in the rate of unemployment (or, in order to get the figures more rapidly, the fall in production) exceed the EU average. The size of the payment (as a percentage of monthly GDP) will - up to a maximum limit - be proportional to this differential with regard to the EU average. Thus countries particularly affected by rising unemployment would very quickly and non-bureaucratically get resources to be spent for labour market measures or other employment programmes. Such automatic payment can be financed out of the EU-budget. Alternatively a stabilisation fund could be created to which every country contributes and which serves as a European "excessive unemployment insurance fund". Although the technical details of such stabiliser mechanisms are still debated, the direction of the proposal is helpful: Apart from the immediate labour market effect, automatic stabilisers of this kind contribute to the economic and social cohesion of the EU.

3. 4. Reduction of Working Time

An essential and indispensable instrument on the way to full employment in Europe is a substantial reduction of working time. This becomes obvious when the limits of public employment programmes and macroeconomic growth are considered:

- It would cost an enormous political effort and - with an average wage of 30 000 ECU a year - about 90 bn. ECU to create the three million jobs in local services, improvement of quality of life and environmental protection the Comission refers to in the White paper of 1993. And yet this number is only about one sixth of the present unemployment in the EU.

- Another seven million jobs may be created within the next five years through macroeconomic growth in the range of 3,0 - 3,5% p.a.: Since 2,0 - 2,5% growth is needed to compensate for rising productivity, the net effect on work volume and - under conditions of constant working time - on jobs will be about 1%. On the basis of about 148 million employed persons in 1995 this amounts to around 1.48 million additional jobs per year or 7.40 million in five years. This is already a very optimistic assumption. It is rather questionable whether macroeconomic growth of this size can be organised and maintained for long time, and whether it can be made ecologically sustainable.

Even under these two strong assumptions the number of jobless persons would at the end of the next five years only be about half of its present size. And this does not account for those who are entering the labour market for demographic reasons and because the participation rate of women will - and should - continue to rise. It is therefore necessary to take additional measures for a more rapid and more sustainable reduction of unemployment: The volume of hours worked has to be shared among more persons.

The job creation potential inherent in such a reduction of working time for the 148 million employed persons in the EU is impressive. It is true that cuts in working time will usually cause reorganisations and restructuring measures in most firms and this will prevent the volume of total hours worked remaining unchanged and the reductions in individual working time being compensated by an equal amount of hours in new jobs. But such rationalisation responses are not infinitely possible and they are less possible if the time reductions are substantial. Even if only half of the potential effect of a 10% cut in working time materialised in new employment, this would amount to more than 7 million new jobs.

In the field of working time, the situation is even more differentiated and heterogenous across the EU than in other fields of employment. Therefore the potential for working time reduction must be assessed not on an average EU basis but on the basis of the individual countries. This does not diminish the essential role of the EU in stimulating and supporting measures to reduce the duration of work. For instance the (general and, in particular, female) participation rate in the labour force varies substantially in different MCs, and even more so does the degree to which part-time work has been introduced into the economy, ranging from 4,8% in Greece to 36,4% in the Netherlands in 1994. These different structures have an impact on the prospects for working time reductions, on their likely effects and on the required implementation patterns.

In spite of the differences between member countries one striking similarity is the coexistence of high unemployment and a great volume of **overtime** hours which is, according to the European Parliament, equivalent to 3-4 million jobs. A European-wide initiative for a substantial reduction of overtime would not cost much co-ordination effort. It would produce rapid employment effects and at the same time signal the viability of joint action.

Working time reduction must be substantial to generate employment effects, but it cannot be imposed schematically and uniformly if it is to be attractive for the employed. This is true for each member country and it is, of course, all the more true in the EU as a whole with its different patterns and traditions of working time organisation and management. Although the pace of working time reduction during the last 15 years is negligible for the EU on average, there are several positive experiences in particular countries such as the Netherlands or Belgium. In the Netherlands, for instance, the share of part-time employees in the total number of employed persons rose from 21,2 to 36,4% between 1984 and 1994, and the rate of unemployment fell from 9,4% to 7,0%, wheras in most other countries and in the EU unemployment rose. An employment strategy should apply the whole arsenal of different forms: daily and weekly reductions, sabbaticals, parental leaves, early retirement, part-time work , job sharing etc. Most of these forms are associated with other social advantages besides their employment effect: more time for families or social activity, more equal distribution of household work and of the time for raising and education of children, improvement of knowledge, enhancement of cultural activities, more creativity etc.

The determination of working time patterns is not only a matter of collective bargaining betweeen trade unions and employers associations on the regional or sectoral level or between management and workers representatives within each firm. Governments can and should initiate, accompany and promote negotiations and agreements about shorter working time. First, with between 15% and 30% of all employed persons in the EU working in the public services or in state or community owned enterprises, public authorities are large employers themselves who can set examples to be followed by the private sector. Second, parliaments and governments can take specific actions to support working time reduction like taxes on excessive overtime or establishing extra tax allowances for the transition from full-time to part-time employment.

The EU, too, should play an important role in the advancement of working time reduction. Although not an employer of relevant macroeconomic dimensions, it can not only pave the way for national legislation through the formulation of opinions and recommendations. Furthermore it can through specific directives or regulations - for instance on maximum working time and minimum social standards - directly influence the conditions for working time reductions. Several interesting proposals in this direction have been made by the EP in its report on working time of June 1996. One of them is the conception of staggered social contributions: they should be reduced for the first 32 weekly hours and raised for the subsequent ones. This would create a stimulus for working time reductions with little or no additional cost.

The EU could and should also play a leading role in fighting for the abolition of precarious working conditions which are often a by-product of lower working time. This can be done by giving stronger effect to the corresponding provisions of the Social Charter and the Social Action Programme of 1989, both of which have for most part remained until now an unfulfilled commitment. The EU-wide enforcement and gradual raising of social minimum standards accompanying working time reductions is of great importance for more social cohesion in the Union.

One of the most crucial problems connected with the transition to part-time work is the maintenance of social security - for the individual concerned and as the financial basis of the social security system as a whole: For the individual, working less hours and thus contributing to more employment should not result in less coverage from his or her social insurance or in a reduction of her or his claims for retirement payments and pensions. For the system as a whole the reduction of working time and the increase in the number of employees means that under otherwise unchanged conditions the financial basis of the social security system does not grow as fast as the number of people who have access to its benefits. If, therefore, the social contributions of the employed and employers are not to be increased and the level of benefits is to be upheld for everyone regardless of his or her working time, part of the benefits will have to be financed through the public budget of the MCs. This can be done in different ways, one of which is, for example, complementary social contribution payments for part-time workers with lower income.

The most critical point for both sides in an agreement to reduce working time and for the economy as a whole is the question of wage compensation. A substantial reduction of hours worked - e.g. of 10% - with no compensation at all would lead to considerably lower gross incomes for those already employed (with a somewhat smaller reduction in net income in the ranges where income tax is progressive). After stagnant or falling net real incomes during most of the last decade this would in many cases lead to insupportable situations for workers and their families. Because not all hours cut by working time reduction will be replaced by additional jobs zero-compensation must in a macroeconomic perspective lead to a fall in effective demand and thus aggravate the employment problem which the working time reduction was meant to alleviate. This way, therefore, is not viable from either perspective. On the other hand full compensation - i.e. constant individual income in spite of substantially less hours worked - would lead to a considerable increase in labour costs on the employer's side. This rise would be dampened by rising capacity utilisation and hence a falling unit cost of capital if effective demand rises as a result of more employment and more consumption. Also - in terms of the theory of the marginal productivity of labour - shorter working time increases productivity per hour worked and therefore justifies higher wages. But in spite of all this one can assume that a substantial reduction of working time with full wage compensation will lead to a rise in the labour cost of production and under all realistic circumstances also to a redistribution of income in favour of wages against profits. Such redistribution can be justified on social reasons in view of the drastic redistribution in the opposite direction during the last two decades. It makes good economic sense, too, because a more equal income distribution is a reinforcing factor for domestic effective demand, growth and employment, while the threat of economically harmful inflation as a consequence of higher wages is, for the foreseeable future, rather negligible. On the other hand, there are severe political limits to redistribution from profits to wages and from the upper to the lower income ranges. The claim for fully compensated working time reduction will be met with fierce resistance by the employers, and the present strength of this side makes it rather unlikely that such a claim can be enforced. There are also economic reasons why full wage compensation of less working hours may not be possible, the most obvious being that the financing of public employment programmes is partly based, through higher taxes on higher incomes and wealth, on a form of redistribution of income. It can therefore be assumed that, if substantial cuts in work hours are put into effect in the near future, the wage-related consequences will be neither of the two extremes - as it has mostly been the case in the past. Under these circumstances it would therefore be economically reasonable and socially equitable to agree to a scheme in which full wage compensation is maintained for lower incomes (where it has also the highest impact on demand) while compensation may fall with rising income. The question of where to draw the borderline between low, medium and high incomes is not a matter of economic reasoning but of - sometimes conflictual - negotiations and compromises between social interests and forces.

3. 5. Labour Market Regulation and the European Social Model

A basis for the mobilisation of popular support for the European project has been that stronger European institutions can help to defend and to modernise the social achievements of EU member states. Both the main policy programmes of recent years, the single market and EMU, have been presented as instrumental towards this goal. Reinforced external competitiveness and internal stability arising from these programmes would, we were assured, serve to protect and enhance national systems of social welfare and national achievements in the field of employment relations.

Yet, in the actual course of European construction over the last ten years, social objectives have been increasingly subordinated to free market economic strategies, to the point at which it can be asked whether "Social Europe" is much more than a fig-leaf disguising a project which will limit and even undermine the social model so painfully constructed in many member states. The main initiative to develop employment at the EU level - the White Paper proposals on growth, competitiveness and employment - has become almost a dead letter; the drive for fiscal stabilisation has frequently been at the cost of social protection; and in the field of employment and labour market regulation, increasing emphasis is placed on market-enforced "flexibility" at the expense of any substantive measures to improve working conditions, to protect the most vulnerable participants in the labour market or to seek reforms of employment practice which combat social exclusion.

The reversal of this drift towards an abandonment of the European social model is certainly necessary in political terms: without it, cynicism about the meaning and direction of European construction - already growing in an alarming way - will become a serious threat to European institutions as a whole. But we would argue that it is also economically necessary to assert, within the European project, the need for an active, high priority assault on labour-market differentiation and exclusion. Labour markets in practice will always deviate substantially from the "perfectly" competitive paradigm which often guides mainstream theory. In consequence, employment practice at the microeconomic level involves costs and benefits which cannot be captured by simple price measures or profit and loss calculations by the individual enterprise. Without strong regulation and determined intervention, the competitive process itself will lead to the proliferation of retrogressive and divisive models of employment which aggravate social exclusion, waste human resources, encourage costly forms of opportunism and distort the pattern of investment in new work-places.

The labour market flexibility drive, frequently accepted in an uncritical way by the political leadership of the EU, is already generating many of these problems. Reliance on insecure and underpaid forms of employment to establish labour-market equilibrium has proved self-defeating in that it multiplies differentiations among the work-force, discourages investments in skills, slows the adaptation of productive structures to new patterns of consumption, adds to the high and rising social costs of exclusion.

A key case in point is the British example, which is still often taken as a useful model of labour market adaptation by employers and neoliberal political groupings in the Union. The boasted reduction of unemployment which is claimed for Britain's harsh and divisive employment model is largely spurious: declines in measured unemployment hide levels of welfare-dependence which in fact exceed those typical of other member states, while casualisation on a large scale undermines the security of the work-force as a whole and social dislocation exacts rising costs. Evidence is also mounting of a widening British deficit in skills and educational standards. The orthodox discourse which sees a valuable precedent in the social experiments of the British conservatives is in fact leading EU policy into a blind alley.

Active labour market policy was designed and developed in times - and in countries - of relatively low unemployment. Its main purpose was to tackle and resolve labour bottleneck problems in terms of qualification, regions and sectors. It was also aimed at facilitating labour market access for disadvantaged groups; finally it was to accompany the process of technical change on the labour side with continuous training and retraining, thus preventing workers from becoming jobless because of insufficient qualifications. Today conditions for active labour market policy have completely changed. It has to operate in an environment of high and persistent unemployment which cannot be ended by labour market policy alone. Nevertheless, it has an important role to play and is an essential supporting element in a full employment strategy. Therefore the EU should fight against the prevailing tendency to abandon labour market policy; rather, it should make every effort to maintain and expand it.

Our view is that the EU must frame its employment initiatives in terms of an ambitious assault on labour-market differentiation and exclusion. Some recent EU initiatives in social legislation are certainly useful to reinforce the rights of established employees in such fields as consultation and parental leave. But they are insufficient, and an exclusive emphasis on these measures would be misplaced, because any gains which are made in these directions remain precarious while a growing body of workers in the EU are unable to find stable employment which offers effective access to such provisions. Initiatives are therefore necessary to redress the gap between the social and private costs of "flexibility" in employment. **One** key example would be to give effect to the long-standing, but so far purely nominal, commitment of the EU to **life-long education and retraining**; a **second** would be to address the de facto abolition of **pension and other welfare entitlements for workers on short-term and other "atypical" labour contracts**; a **third** would be the reinforcement of at present inadequate intervention into the **unemployment blackspots** - geographic or demographic - in the European economy; a **fourth** would be the elaboration of an **active strategy towards "grey" or informal economic activity** which recognises what are often useful contributions to employment and output but seeks to avoid the simple evasion of responsibility for decent wages, social protection and investment in human resources.

Such an approach has both fiscal and regulatory dimensions. On the one hand, it is necessary to promote fiscal equity and the reduction of tax burdens on low income groups. This is hardly possible without a move away from the crude intensification of fiscal pressures which is inscribed in the present "convergence process" as criticised above. On the other hand, regulation should be used to redress the neglected social costs of casualised and precarious forms of employment; in doing this considerable scope can be left to individual member countries as to the methods used: in some cases it will be appropriate to constrain employers directly; in others to require public sectors to compensate and protect the workers concerned. What is essential is that the EU as a body lays down a clear line of advance towards more constructive and socially responsible forms of employment.

We do not accept that a determined assault on labour-market and social exclusion would be economically dysfunctional. More than a decade of the increasingly immoderate resort to deregulation of employment has failed to begin to deliver the employment growth that was promised; the uncritical adoption of US practices, in disregard both of their high social costs in the US and of the many specific policies which mitigate or correct these practices in their actual context, is giving Europeans the worst of both worlds - ever-growing exclusion without the genuine adaptability which sometimes characterises US experience. The acceptance of cynical employment practices by some enterprises subjects those which are more responsible to short-run competitive pressures which inhibit their development and slow down the necessary progress of economic and social experimentation.

We recognise that the European social models inherited from the past require change and development. But we would resist the tendency, under cover of the need for change, to dismantle or degrade these models. In many fields they have made and can make an enormous contribution to efficiency and long run development; they encourage the fuller use of human potential; they promote functional compromise and inhibit destructive and opportunistic forms of conflict; they promote forms of social cohesion which increase the readiness to accept economic change and work against the huge social costs which follow from a general breakdown in solidarity. These values have repeatedly been asserted by the political leadership of the Union. But they must now be given real effect if the process of European construction is to retain its progressive nature and to regain its popular support.

3.6. Structural Policies to Correct Intra-EU imbalances

There are rather heavy trade and current account imbalances of the individual MCs, ranging from 5% of GDP surpluses to 3% deficits in 1996. A considerable part of these imbalances occur between MCs and, because of the single European market regime, tariff or non-tariff trade policies are excluded as a way to handle them. On the other hand experience shows that leaving trade and investment flows to market forces alone does not mitigate or remove such imbalances but tends to aggravate them. Even wage differentials often do not lead to corresponding capital movements to the cheaper regions but to further de-industrialisation of the low wage regions; this exacerbates intra-MC and regional disparities while at the same time putting pressure on the wage and social standards of the more advanced countries.

Appropriate instruments to handle intra-EU trade imbalances are tightly coordinated and joint structural, regional and industrial policies with the aim of more convergence in productivity and employment as basis for balanced trade flows in the EU. Although the provisions and activities of the EU in the field of structural policies were reinforced by the Treaty of Maastricht, and the resources for structural funds have been increased considerably (in terms of growth rates) the disparities between MC have only been slightly reduced during the last 10 years and between the regions they have deepened considerably. One main reason for this is the lasting and increasing unemployment by which weaker countries and regions are more than proportionally affected. Therefore the most important step to reduce intra-EU imbalances is an effective employment strategy. On the basis of such a strategy it is possible and necessary to reinforce the programmes for regional development and to introduce an industrial policy which is more than just research subsidies in a field of unregulated competition. In order to finance such policies adequately the resources for the European Fund for Regional Development (EFRE) and for the common initiatives of the EU must be further increased .

At the same time efforts to reduce Intra-EU disparities and imbalances in wage and social standards should be reinforced through intensified social and cohesion policies. Important steps in this direction can be taken by setting - and subsequently raising - minimum standards, as well as by enhancing the resources and the field of action of the European Social Fund.

3.7. Balanced Relations through Cooperation - The EU in the World Economy

To realise the benefits of international division of labour neither protectionism and neo-mercantilism nor unfettered free trade are appropriate. If further polarisation and turbulence in the world economy are to be prevented, global cooperation and international decision-making are imperative. The EU is in a position to do much in order to achieve this. The long run goal should be a system of comprehensive cooperation, integrating trade, development, payments, capital movements and currency problems. The aim of such a system would be to realise balanced international relations for the benefit of all, which implies symmetric efforts from the stronger as well as from the weaker countries (as opposed to the present IMF practice). While following these guiding principles the EU can and should effectively protect her member countries against external shocks arising from the spontaneous movements of financial markets or from deliberate political strategies.

The EU is the largest trading block in the world with more than a third of all international transactions in commodities and services. More than other centres of the industrialised world she depends on international trade: a little less than 30% of the EU product goes to exports and comes from imports. However, between half and two thirds of the trade flows of the MCs are with other MCs. After deduction of this intra-EU component the internationally traded share of the EU national income amounts to around 10%, which is in the same range as that of Japan (1995:9,3%) and the US (11,3%). About the same proportions apply for foreign direct investment and for international finance.

Extra-EU trade and investment relations: With regard to trade relations with third countries the EU has no overall problem. The current account imbalances of MC with third countries largely offset each other so that the overall EU balance has for a long time oscillated around zero and has very rarely passed the mark of 1.0% of GDP. In this respect the position is much more favourable for the EU as a whole than for the US with its heavy deficits - or for Japan with its heavy surpluses (which can also lead to problems of macroeconomic balance) - although there are substantial imbalances with respect to particular countries and regions. In an environment of accelerated internationalisation and globalisation it is a good guideline to try to maintain this current account balance as the only viable long-term method of organising an internationally coordinated system of economic relations beneficial to all participants. The EU is in a very good position to work in this direction within the framework of the WTO and through her own industrial, R&D and trade policies.

There is no particular pressure on the EU as a whole with regard to foreign direct investment (FDI) either**.** According to the UNCTAD Investment Report 1996 in 1994 outward FDI flows from the EU amounted to 7,6% of gross capital formation in the EU and the corresponding share of inward FDI was 4,8%. For both directions the main sources and destinations of FDI of EU firms are other EU MCs. Thus the interconnections with the other two centres of the triad are relatively small in quantity, although in certain cases they are of strategic importance for individual firms and sectors and therefore also for individual countries' current account and capital balances. But there exist mutual strategic interconnections and Europe does not suffer from unilateral, overall or imbalanced strategic dependence on either Japan or the USA. In this field, too, industrial policy in the EU should be complemented by balanced intercontinental strategic cooperation and alliances which exploit the advantages of joint research and development according to social needs and priorities rather than under competitive supply side pressure.

Relations to third world and central and eastern European countries. The EU has had for a long time a special relationship with the group of (by now) 70 African, Caribbean and Pacific (ACP) countries. Although at the beginning these relations involved substantial commitments for development assistance and access to EU markets for these countries, the position of the EU has changed during recent years. Already the Lomé IV agreement moved towards the neoliberal attitude of the IMF, linking financial assistance to strict conditions, imposing an export-led development pattern on the ACP countries. This direction was further accentuated in the latest Green Paper on the perspectives of EU-ACP relations, focusing on comprehensive liberalisation and opening up of ACP markets. This pattern will not lead to industrialisation, sustainable development and self-reliance for the countries of the third world. Instead we propose that the EU pursues a policy of granting and managing asymmetric market access, of stabilising EU export prices for ACP primary commodities - and that the EU urges MCs to raise the level of development aid to the 0,7% of GDP which they pledged long ago, which has never been reached, and which in recent years has not even been 50% achieved.

As for **immigration**, we consider that attempts to build a European Fortress impregnable to migration pressures as totally unacceptable. (Such attempts are moreover very likely to fail.) A generous immigration policy should be negotiated with the main countries of origin and full economic and social rights granted to immigrants. Nor should illegal immigration be met with repression. These pressures will not be manageable, let alone eliminated unless development takes place in the countries of emigration, and the EU should make every effort to support this development.

With regard to the **central and eastern European countries (CEEC)** the neoliberal formula of radical market-led transition has been a failure and has exacerbated the steep fall in production and living standards in these countries. Apart from engaging in special aid programmes (PHARE) the EU has signed European agreements with (by now) 10 countries. These agreements contain special trade concessions and the - vague - perspective of EU-membership. However, the EU and the MCs do not seem to fulfil these commitments: European markets are still largely closed for the "sensitive" products where the CEEC are competitive, and there is a remarkable reluctance to be specific about the conditions for a further EU enlargement. It seems that in spite of all the rhetoric an all-European perspective with equal rights and access for all countries does not fit into the neoliberal strategy for Europe. It is true that the inclusion of the CEEC requires changes in agricultural and other economic policy areas of the EU as well as in the institutional structure and procedures of the Community. But instead of approaching such changes in an energetic and orderly way, the strategy of the EU consists of concentrating on internal matters, establishing new barriers to entry and avoiding any concrete steps forward. As an alternative we propose the acceleratiuon of negotiations for market access in the sensitive trade sectors, offering the CEEC membership in the reformed European Monetary System, and including their representatives - in a preliminary but serious manner - in the discussions and decisions on the future shape of the European construction. If the EU is not prepared to act in this way, opening itlf to European newcomers even if this requires changes in the hitherto prevailing integration pattern, it will be responsible for the emergence of new divisions in Europe less than ten years after the end of the Cold War.

The incorporation of the CEEC into the EU, however it takes place, is likely to produce new problems for existing member states, especially those at a lower level of development, such as Ireland and the southern countries. It appears likely that the benefits of an expanded Union, such as cheaper goods and reduced migratory pressure, will accrue mainly to northern countries while losses, such as more intense industrial and agricultural competition will largely affect the southern ones. The recasting of existing distributional mechanisms may work in the same way. This requires specific adjustment mechanisms for the southern and western periphery.

A specific danger is the emergence of conflict and rivalry between the “old” (southern and western) and the “new’ (eastern) periphery, with different power centres in the EU promoting the interests of those regions which are most important for themselves. This kind of development would be very dangerous for the EU as a whole and can only be addressed by a long term, comprehensive, strategy for real convergence among member states.

4. Alternatives in Europe: The Theoretical and Political Challenge

Neoliberalism does not provide a project for society that is acceptable for the majority of the populations anywhere. Everywhere it aggravates aggressive competition and extreme individualism, and it offers nothing except the perspective of an endless "adjustment". As we have shown in chapter 2 this is a synonym for all kinds of restrictions and constraints for increasing parts of the population: for those who have work, it means wage restrictions, deteriorating working conditions and more social insecurity, and for the unemployed it means poverty and exclusion. The distress of the growing number of society's underprivileged and outcasts fosters in turn xenophobic and authoritarian reactions. The rules of a world-wide deregulated financial market, strengthened by independent central banks, prevent any attempt to deviate from the right path of unlimited liberalisation. Neoliberalism thus creates societal conditions of no-return.

We reject the idea that this developments are inescapable and irresistible. In fact recent social movements in several EU member countries demonstrate that the neoliberal strategy is regarded as intolerable by more and more people. This, too, makes the search for well founded and credible alternatives a matter of highest urgency. In the preceding chapters we have tried to develop some proposals for such alternatives. We are well aware that they are certainly not perfect and not the last word in the debate but rather a contribution to a debate which it is essential to enrich with other views and proposals.

Challenging the neoliberal strategy in the EU is a huge task. While the rediscovery of Keynes would already mark progress in the debate, a simple return to keynesian policies would not be an adequate response to the coherent pattern of neoliberal policies and to the powerful interests they represent. A comprehensive counter-strategy requires large scale theoretical work and research in a number of closely interconnected fields:

- a European employment initiative to create millions of stable and decently paid jobs, fulfil social needs and follow the imperative of environmental sustainability. As we have shown, European and well coordinated national public investment programmes, expansion of the public sector, reductions in the duration of time and energetic and targeted labour market policy can contribute substantially to this goal;

- a transformation of the purposes and methods of the European construction. Whereas the currency question will probably remain a case for controversial debates two keypoints are central for every alternative to neoliberalism: first, employment must be at the heart of the European project - which must mean criticism or outright rejection of the famous convergence criteria and the recent "stability pact". Second, the institutions of the monetary regime, which are obviously central to a monetary economy, must not escape democratic political control. This has nothing to do with an inflation mentality but is a basic requirement of a democratic society - on the national level as well as in Europe.

- a thorough reform of the rules of the financial markets which guarantees the primacy of democratic policy over short term speculation or arbitrage driven capital flows. It is not acceptable that such short-term monetary flows undermine serious attempts to stimulate employment and growth.

Of course a comprehensive alternative economic strategy for Europe must envisage other institutional and political innovations in numerous fields which we have not discussed in the preceding chapters. Such further subjects are for instance:

* the debate on the organisation and management of firms should be re-opened. We claim that the initiative , the autonomy, the creativity of wage-earners and, moreover, their intervention at every level of management may be the opportunity to combine efficiency, competitiveness and the introduction of more democracy inside the firm.
* work conditions: the norms of employment are to be reformulated in order to reconcile safety, training, mobility and equal treatment of men and women.
* the tax system: reforms in order to introduce more equity in the taxation of incomes, including income from financial assets, reshaping and improving the progressiveness of the tax structure.
* reshaping and improving the system of social protection
* encouraging the revival of civic, trade-union and associative life, within and outside the working place, e.g. by the reduction of working time

These are only some catchwords and fields for which careful examination and elaboration are needed. But the more detailed proposals in the preceding chapters also require more discussion and concretisation. And even then, many of them will be difficult to realise. There are at least three groups of reasons for that:

- First we are dealing with **multi-level programmes** which require autonomous action of as well as co-ordination and co-operation between local, regional, national and European (and as regards financial markets also global) agents, political bodies and institutions. The process of democratic European institution building has not gone very far. Therefore, while it is essential to take measures on a European level, with which the populations of the member countries identify themselves, such as a European employment programme, this programme nevertheless has to be distributed across the lower levels of regional and local implementation and management. This raises problems of synchronisation and political coordination which are sometimes difficult to solve.

- There are many **objectively complicated and complex structures and problems** for which viable solutions have not yet been found; further research is therefore required and may lead to new answers and new practical steps which have not been thought of yet. Such problems exist for instance in the Common Agricultural Policy (CAP), in the management of technical and structural change and the establishment of a framework for a balanced European division of labour etc.

- There are **vested corporate interests and economic and political power groups** engaged in the preservation of the current strategy from which they derive profits and privileges. To overcome this resistance requires more than good intellectual arguments and moral persuasion. It requires social mobilisation and political pressure.

In the present situation it is difficult to regain political governance of the process of European integration and to formulate a more progressive framework for it. The neoliberal design for Europe is in the interests of the strongest and most internationalised corporations. Since these - although they represent only a small minority of people in every country - hold strong power positions in all European countries, it is unlikely that they will voluntarily relinquish this attractive pattern of development. On the other hand they will not perish under a different set of rules, aiming at full employment, ecological sustainability and welfare for the majority of the people. Therefore, if sufficient reasonable arguments and proposals are presented, sufficient social mobilisation takes place and sufficient political pressure is exerted the nightmare of mass unemployment will recede and make way for a pattern of development which is more in the interests of the majority of the population.