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Europe in Crisis: A Critique of the EU's Failure to Respond and Proposals for a Democratic Alternative.

With an Obituary For Joerg Huffschmid

(1940 –2009)

by Diana Wehlau

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Europe in Crisis: A Critique of the EU's Failure to Respond

– EuroMemorandum 2009/2010 –

Dedicated to the memory of Joerg Huffschmid (1940-2009)
Founder and guiding spirit of the EuroMemorandum Group

Due to the death of Joerg Huffschmid, the founder and guiding spirit of the EuroMemo Group, the publication of the Memorandum 2009/2010 has acquired a special character.

transform! europe has taken responsibility for its publication in print – available in English, French and Greek as well as in German, with the „Sozialismus" magazine and the Left group in the European Parliament, GUE/NGL, as co-operation partners.

With the publication of this year's Memorandum in the form of a special edition of the transform! magazine we want to honour the work of our friend and comrade, Joerg Huffschmid.

February 2010

"Continue Joerg's Work!"
by Diana Wehlau

On the European level, Joerg Huffschmid managed to establish a forum of critical economists and to "commit" them to the compilation of an annual EuroMemorandum. The working group – called *European Economists for an Alternative Economic Policy in Europe* (EuroMemo Group) – is a loose but effective association of European economists. Both the idea for a yearly EuroMemorandum and the formation of the group go back to an initiative by Joerg Huffschmid: In September 1995 he invited economists of the – at that time – ten EU member states to a workshop in Strasbourg to critically question the direction of the EU's economic and fiscal policy and to analyze its consequences. This was the hour of birth of the EuroMemorandum Group. The focus of the discussions was on the cut-backs of the social welfare state, the deregulation of the labour markets, the destruction of the environment and the steady rise of unemployment. On the basis of these debates, the group around Joerg Huffschmid wrote the first EuroMemorandum in Brussels in September 1996, bearing the title "Full Employment, Social Cohesion and Equity for Europe – Alternatives to Competitive Austerity". Together with a list of more than 250 supporters, this declaration was published right before the Amsterdam Summit in May 1997. The second EuroMemorandum followed in 1998, and since 2000, the EuroMemorandum has been published yearly and translated into several European languages (the EuroMemorandum 2008/09 was published as a supplement to *Sozialismus* 4-2009, the EuroMemorandum 2009/10 in *Sozialismus* 3-2010). The current EuroMemorandum "Europe in Crisis: A Critique of the EU's Failure to Respond" is dedicated to Joerg Huffschmid and was presented in several EU-capitals in December 2009.

Due to Joerg's determined yet endearing resistance against any restructuring, the conception of the EuroMemoranda has remained similar throughout the years: It starts out with a survey of the current economic, social and ecological situation of the European Union. The second part focuses on the empirically and analytically substantiated criticism of the orientation of politics on the European level. Thirdly, alternatives of action are developed.

With regard to both, content and staff, the work of the group was enriched by co-operation with EU-projects co-ordinated by Joerg Huffschmid, the last of these having been *Improvement of Economic Policy Coordination for Full Employment and Social Cohesion in Europe* (2001-2004) and *Privatisation and the European Social Model* (2006-2009).

With Joerg Huffschmid's death, the EuroMemo Group has lost its founding father, its "driving force" and its most ambitious contributor. We will not forget, how Joerg in the plenum exerted himself on behalf of a social Europe and called for resistance against the neo-liberal EU-politics – his "weapons" were the argument, the empirically substantiated refutation of the assumptions underlying the prevailing guidelines and the development of alternative proposals for "another" Europe: full employment at good working conditions and for wages and salaries which make an independent life possible, social welfare and social justice, ecological sustainability and international solidarity.

For his contributions to the debate, which he always presented with energy and emphasis as well as with rhetorical brilliance, he was applauded "by the scene". After long and productive *project* meetings (which were *work* meetings in the true sense of the word) scheduled for early in the morning and – due to Joerg's insistence – always starting on time, there was plenty of time for good wine and good food in the evening.

It was Joerg's particular merit to have created a space on the European level for an exchange between and networking of critical economists who he committed to a joint "project": not to accept quietly the subordination of all spheres of life under the doctrine of the economy, but to develop a vision of "another" Europe and to present realistic alternatives to approach step by step the goal of a social Europe. This was not always a space in which harmonious consonance or unanimity prevailed – the opposite was the case: the EuroMemorandum Group is a space of open discourse, of dedicated discussion and of critical reflection. As the group's coordinator, Joerg Huffschmid succeeded in committing this heterogeneous group to common and central cornerstones, although in questions of detail dissent and controversy sprang up more than once. But it was and still is the endeavour not to negate these different perspectives and approaches within the critical political economy, but to make productive use of them, which makes this group of alternative economists so unique and precious.

The EuroMemorandum Group would not have existed without Joerg Huffschmid's initiative and persistence. Clear-sighted as he was, he suggested already at an early stage to replace his central role in this European network by a Steering Committee. Thus the "production" of the annual EuroMemorandum and the continuation of the group are ensured.

Following the motto, "If not us, who then?", Joerg's commitment and enthusiasm were catchy and have not lost any of their model character, the more so in times which do not generously provide encouragement. In all this, Joerg was not concerned with himself, posts, titles or funding quota, but with "the cause": the improvement of living conditions for all, social justice, ecological sustainability, good working conditions, an economic policy for the people of Europe.

The void which Joerg's death leaves in the circle of critical economists in Europe can hardly be closed. Yet, in midst all the mourning over the loss, there is one underlying tenor: the continuation of the work he initiated for a democratisation of the economy on the European level represents the highest recognition of his efforts. "The group has lost its leader", one of its members wrote, and proceeded that "the best way to pay him due homage, is to continue his work". In the face of Joerg's zest for action, his obituary can only be concluded with an appeal for critically disputing the predominant orientation of politics and with an appeal for vehement commitment to democratic alternatives and to a social Europe.

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

Europe in Crisis: A Critique of the EU's Failure to Respond
– EuroMemorandum 2009/2010 –

Dedicated to the memory of Joerg Huffschmid (1940-2009)
Founder and guiding spirit of the EuroMemorandum Group

This Memorandum was formulated on the basis of discussions at the 15th workshop of "European Economists for an Alternative Economic Policy" (EuroMemorandum Group) on 25-27 September 2009 in Berlin, Germany. It is based on written contributions from Wlodzimierz Dymarski, Trevor Evans, Miren Etxezarreta, David Flacher, Marica Frangakis, John Grahl, Mahmood Messkoub, Catherine Sifakis, Diana Wehlau and Frieder Otto Wolf.

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Summary

The financial crisis, which began in August 2007 and deepened severely after the failure of Lehman Brothers in September 2008, led to a major slump in output in the final quarter of 2008 and the first quarter of 2009. While these developments originated in the US, Europe has been highly vulnerable as a result of the economic policies pursued by both the European Commission and the member states. Major European banks, which incurred huge losses on investments in risky US financial assets, have cut back on lending; and because of the European economy's dependence on exports, the slump in US demand was immediately transmitted across the Atlantic. At the same time, Britain, Ireland and Spain are suffering from the aftermath of their own house-price bubbles, while Eastern Europe and the Baltic Region, where many countries had been financing current account deficits on the international capital market, suddenly found their access to capital cut off and the crisis has had a more severe impact than in virtually any other region.

Expansive monetary and fiscal policies have helped mitigate the impact of the recession in many European countries, and employment has fallen by less than output. However, while the recession ended in the second half of 2009, unemployment is set to continue rising. There has already been a marked rise in temporary and short-term employment and, faced with the threat of unemployment, many groups of workers have accepted a deterioration in their wages and working conditions. Even before the crisis, European countries had registered a notable rise in the incidence of poverty, including among the working poor, and this is likely to increase as unemployment rises and some elderly people are hit by declines in private pensions. Furthermore, as governments seek to cut budget deficits following the massive spending on rescuing banks and stemming the collapse of demand, there is a strong danger that social expenditures will be cut. Meanwhile the pressing need to take action in the face of climate change has been partially eclipsed.

In the face of these challenges the EU has failed to respond and, for the most part, policy has been set at the level of the member states. In the immediate aftermath of the collapse of Lehman Brothers, there was a widespread expectation of major financial reform, but by spring 2009, when the threat of financial breakdown had receded, proposals have concentrated on relatively minor details. In the area of macroeconomic policy, countries have followed non-cooperative strategies, involving competitive wage reductions, social dumping and fiscal competition. There has been a serious failure to develop a coordinated budgetary policy that can deal with divergent developments in Europe, and the extremely small scale of the EU's own budget is a major constraint on any concerted initiative. In particular, the German government's export-led strategy is highly dysfunctional for the European economy, driving other countries to adopt deflationary policies. As far as dealing with unemployment

is concerned, policy is entirely left to the member states: EU pronouncements continue to reflect supply-side ideology, repeatedly stressing the need to make labour markets more flexible, and while there are rhetorical calls for a more co-ordinated approach to unemployment, little is actually done. When it comes to combating poverty, the EU has adopted the so-called Open Method of Coordination, thereby avoiding any attempt to establish a concerted policy, and there has been a striking failure to set concrete objectives. And in the area of climate control, while there is wide unanimity on what needs to be done, there is a lack of political will. The market-based system of tradable emissions certificates has scarcely any effect as prices fall, and if Europe's approach continues to be based on "realistic modesty", the goal of keeping global warming below 2 degrees is unlikely to be met.

In this EuroMemorandum we argue that, faced with these challenges, there is an overwhelming need for an integrated EU strategy that strengthens the recovery programmes initiated by member states, and which promotes a wider transformation aimed at achieving full employment with good work, social justice with an eradication of poverty and social exclusion, ecological sustainability, and international solidarity. To this end, we propose the following measures:

Finance

Instead of being driven by profit, the financial sector should function as a public utility. Commercial banks should be separated from investment banks, and public, co-operative and other non-profit forms should be promoted, with systemically important banks subject to effective public control. The activities of investment banks, hedge funds and private equity funds should be tightly restricted. In financial markets, all new instruments should be approved by a public regulator to avoid excessive complexity, securities should be cleared on a central platform, and a public European ratings agency should be established. All salaries of over $500,000, and not only in the financial sector, should be taxed at a marginal rate of 75% or higher. All EU members that wish to join the Euro should be admitted, and financial institutions in Euro-area countries should be restricted from conducting financial transactions though non-regulated financial centres, including London. Internationally, the EU should support the creation of a Global Economic Council under the United Nations in place of the G20, and the strengthening of the reserve role of Special Drawing Rights (SDR) as a step towards a major reform of the international monetary system.

Macroeconomic policy

There is a need to reassign instruments. Monetary policy should not be targeted at controlling inflation but rather at supporting sustainable development. Budgetary policy should be actively deployed to influence the level and structure of employment. Wage policy should support both price stability and a fairer distribution of income. There is also a need for a comprehensive reform of the European Monetary Union: the European Central Bank must be brought under democratic control, and the absurd restrictions of the Stability and Growth Pact should be abolished. National budgetary policies should be coordinated and there should be a significant expansion of the EU budget with a redistributional dimension that can reinforce solidarity within the EU. It is important that there is not a rush to cut government deficits before the economic recovery has gained strength.

Labour market policy

The crisis should have been met with an emergency plan to extend the period for which unemployment benefits are paid and to guarantee a minimum income for all. This is necessary to reduce hardship and will also contribute to strengthening the recovery. In addition, measures should be introduced to ensure that households are not threatened with the loss of their homes. At the same time, policies should be introduced to protect workers who are self-employed – often not from choice. More generally, there is a need for an active industrial policy, as lengthy experience has now shown clearly that deregulated markets do not result in sustainable growth. Such a policy should be designed to create good jobs, in terms of working conditions and job security. There is also an urgent need to reduce working time: the standard working time should be reduced, a weekly maximum of 40 hours should be introduced immediately, and socially-protected part-time work should be available for those that chose it. Finally, the public sector should play a direct role in job creation.

Social inclusion

The EU's designation of 2010 as "The year of combating poverty and social exclusion" is to be welcomed, but it needs to be given real content. To this end, clear targets for combating poverty and homelessness should be established, as proposed by the European parliament. There is also a need for special measures to guard against poverty amongst the elderly as public expenditure is threatened with cuts, and as private pensions are being reduced following financial losses. At the same time, moves towards the privatisation of public pay-as-you-go pension schemes should be opposed.

Ecological sustainability

There is a pressing need to integrate environmental sustainability into economic policy. A major programme of ecological conversion should be initiated in energy provision, housing and transport. This will serve to promote both economic recovery and a shift to a more sustainable economic model. The EU's reliance on market-based instruments to cap greenhouse gas emissions is at best slow and, with current low prices, largely ineffective. It should be replaced with direct instruments, including taxes, which will have a rapid and significant effect in reducing emissions. More generally, there is a need for "climate mainstreaming" so that climatic effects are taken into account in every area of economic policy, including the setting of macroeconomic priorities, public procurement policies, regional policy and the interpretation of competition policy.

Introduction

The near collapse of the international financial system in late 2008 and the dramatic slump in output which followed raise a fundamental challenge to the neoliberal narrative. The claim that the market system is self-correcting and that private enterprise is superior to the public sector simply collapsed. Eminent publications, such as The Economist and the Financial Times, questioned the validity of the so-called efficient market hypothesis, which had provided a key theoretical and ideological underpinning for the phenomenal growth of the financial sector since the 1980s. Strikingly, the very circles that had condemned any state intervention in the working of financial markets as distortionary became dependant on the support of the state when the crisis came to a head.

Massive government intervention in the United States and the major European countries was necessary to prevent a financial collapse, and huge amounts of taxpayer money were pumped into the financial sector, in particular the banks. As the impact of the financial crisis was transmitted to the rest of the economy, a depression on the scale of the 1930s was only avoided thanks to the widespread adoption of expansionary government programmes. At the peak of the crisis there was a widely held expectation that fundamental reforms would have to be introduced in the financial sector. But, once the prospect of a financial collapse had receded, the actual proposals for change that emerged were far more modest. In many respects, policy makers are seeking to deal with the current unprecedented situation by drawing on policies that have not only been found wanting, but which were actually responsible for the crisis!

This is especially the case in the EU. Not only was the EU slow to react to the crisis but, when it did so, one of its main preoccupations was to ensure that state aid rules were applied so as not to threaten market competition! Then, as soon as the worst of the crisis seemed past, the EU immediately began to emphasise the importance of a prompt exit strategy from the emergency measures introduced by member states, recommending the usual mix of fiscal consolidation and labour market flexibility.

The response of the EU elites to the crisis has, once again, shown how their theoretical and ideological framework fails to integrate an understanding of the social impact of economic policies. There has been no trace of self-criticism of the types of policies pursued over the past 20 years. In particular, the Lisbon Strategy, which was announced in 2000 and whose goals were to be reached by 2010, has not only failed to achieve its own growth and development targets, but also failed to deal with major social issues. Equally, the vigorous promotion since 1999 of European financial integration along the lines of the US model, with little regard for financial stability and consumer protection, has in no way been questioned in the two years since the onset of the crisis.

The present crisis presents a major challenge for the future of European integration. This goes beyond co-ordination and the reformulation of policy in the

financial sector. It is directly related to the viability of European unity and to the way this is conceived by European citizens. The crisis merely accentuated the problems that had arisen with the neoliberal strategy. These had already led to increasing inequality in the distribution of wealth and income, worsening social and environmental conditions, and a greater distance between citizens and the governing institutions.

The EuroMemorandum Group has for many years strongly criticised EU economic policy for its social, democratic and ecological deficits. We believe that that there is a need for a fundamental change in the conception, direction and focus of the EU's approach. Such a change will require a shift away from the ideological belief in the supremacy of the market and from economic policies in which society is subordinated to the workings of the capitalist economy.

The crisis has discredited the foundations of neoliberalism. What is needed is a convincing, alternative narrative. This year's EuroMemorandum aims to serve this objective. The first part presents a brief analysis of the current situation; the second part focuses on a critique of the EU's approach; while the third part attempts to set out the basis for an alternative approach.

1 Europe in crisis

1.1 From financial panic to global recession

Financial developments in Europe – as in most of the world – have continued to be strongly driven by the unfolding of events in the US in the last 12 months. The financial crisis which began in August 2007, when short-term lending between banks in the money market dried up, deepened dramatically in September 2008 following the collapse of the New York investment bank, Lehman Brothers. This set off a chain of failures at other financial institutions in the US and Europe that were linked, direct or indirectly, to Lehman's. The crisis in the money market also reached new heights, and banks abruptly curtailed the supply of credit, even to well-known companies. Amid widespread panic, the crisis spread to global stock markets in early October, and on 10 October the head of the International Monetary Fund (IMF), announced that the global financial system was on the edge of collapse.

The panic was only contained after G7 finance ministers, in Washington for the annual meeting of the IMF and the World Bank, agreed that no further major institution should be allowed to fail, and over the next few days the US Treasury and the governments of the major West European countries announced large-scale injections of capital into their banking system, together with state guarantees for inter-bank lending (policies initiated in Britain the week before). While this succeeded in stemming the chain of failures, the seizure in the financial system provoked the deepest slump in output since the 1930s.

The previous US expansion, which began in 2002, had been largely dependent on a rise in consumer spending financed by borrowing against rising house prices. This could not be sustained once the house-price bubble burst in 2006 and, according to the official definition, the US economy entered a recession in December 2007. However, as bank lending dried up following Lehman's collapse, the downturn deepened severely and in the final quarter of 2008 and the first quarter of 2009 the gross domestic product (GDP) fell at an annual rate of 6%.

The US authorities responded to the crisis with massive interventions. The Federal Reserve repeatedly cut the lead interest rate and by December 2008 it stood at virtually zero. In order to sustain the banking system, the Fed injected unprecedented quantities of reserves, with the total rising from around $1 trillion to over $2 trillion in the six weeks following the collapse of Lehman Brothers. Then, after the Obama government took office in January 2009, one of its first major initiatives was to launch a $787 billion expansionary fiscal programme, equal to almost 3% of GDP in both 2009 and 2010.

By spring 2009, however, a noticeable shift began to occur in US economic sentiment. The dangers of a financial collapse seemed to have receded and figures for the second quarter of 2009 showed that GDP had only declined at an annual rate of 1%. Commentators began to speak of so-called "green shoots" as some industries began to report rising production and by September the head of the Federal Reserve, Ben Bernanke, was saying that the recession was probably over. Remarkably, stock market prices gained over 55% between March and October, while a number of the big banks repaid their government aid and began to post high profits once again. With funding available from the Fed at close to zero per cent, and a huge increase in profitable government-bond business, those banks that had survived now faced less competition.

In reality, however, the US outlook is far less sanguine. Consumption is likely to remain weak: unemployment has risen from 4.5% in 2007 to over 10% in 2009 (17.5% if discouraged workers are included) and is likely to continue rising; the household sector as a whole has responded to the crisis by rebuilding savings, which have climbed back from around zero to 5% of income; meanwhile pensioners' incomes have fallen by as much as 30%, thanks to major losses incurred by many pension funds. Productive investment is also very unlikely to drive growth: the profitability of non-financial corporations has fallen sharply and capacity utilisation, which stands at just 70%, is unusually low. The only improvement in aggregate demand has arisen from increased government spending and an improvement in net exports, which have benefited from a weakening of the dollar, but neither of these can be sustained for long. The scenarios facing the US economy are gloomy. There is a possibility that rising company failures and household difficulties in meeting mortgage and credit card repayments could yet lead to a renewed tightening of credit markets and another downturn in output (a so-called W-shaped recession). The most likely development, however, is probably a protracted period of weak growth.

The crisis in the US has been transmitted to Europe through two main channels. The first has been through bank losses. European banks – encouraged by the EU policy of promoting competition in the financial sector – invested extensively in dubious US assets and had extensive cross-holdings in Lehman's and other US financial institutions. According to IMF estimates, banks in Europe have written off $685 billion in losses, but have yet to acknowledge a further $934 billion in losses – an even higher figure than that outstanding in the US.[1] Following the collapse of Lehman Brothers, European money markets also registered an acute deepening of the financial crisis and, as bank lending was severely constrained, output plunged across Europe. The recession is officially dated as having begun in the second quarter of 2008 but, as in the US, it deepened sharply in final quarter of 2008 and the first quarter of 2009.

The second main channel by which the crisis was transmitted to Europe was trade. According to WTO figures, by the second quarter of 2009, world merchandise trade had fallen by 33% compared with one year earlier. The main causes were a collapse in the provision of trade credit following the failure of Lehman Brothers, and the onset of the deep recession in the US, which had been driving the growth in world demand. Furthermore, as recessions in the US and Europe deepened, the demand-sensitive price of primary commodities, including oil, has fallen, and primary-commodity exporters have also cut back their imports of manufactured goods.[2] This has had an especially marked impact in Germany whose export-dependent economy is expected to contract by 5% in 2009.

There are two other important factors which have affected specific groups of countries in Europe. The first of these is the bursting of house-price bubbles in Britain, Ireland and Spain. In all three countries, strong economic growth prior to 2007 was closely tied to rising house prices. As in the US, this had helped to finance rising consumption and has left households with very high levels of debt.

The other group of countries to have been hit especially hard are in Central Europe and the Baltic region. Countries like Hungary and Latvia had been running large current account deficits which they had financed by borrowing on the international capital market. With the onset of the financial crisis, however, this source of financing suddenly closed and left the countries in a highly vulnerable position. The situation has been further exacerbated in these countries because the banking systems are largely owned by West European banks, in particular from Austria (in Central Europe) and Sweden (in the Baltic countries), and these have been withdrawing capital to their home countries since

1 IMF, *Global Financial Stability Report,* October 2009, Figure 1.9.

2 Between the first half of 2008 and the first half of 2009, exports to the US declined by 20%, while those to Russia (the second largest destination) fell by 39% (Eurostat, News Release 133/2009, 17 September 2009).

the crisis began. Unlike countries in Western Europe with current account deficits, these countries have not benefited from the protection of being part of the Eurozone. According to the European Bank for Reconstruction and Development (EBRD), the Central European and Baltic countries have been amongst the worst hit by the global crisis, with the Baltic States anticipating declines in GDP of as much as 20% in 2009.

1.2 The macroeconomic situation: European macro policies under pressure

The immediate threat of banking and financial collapse has been avoided by unprecedented measures in all major economies: a drastic reduction in central bank interest rates reinforced by the very active provision of liquidity on an enormous scale and across a wide range of financial markets; massive recapitalisation of banks by governments, together with government purchases or guarantees of risky assets held by the financial sector; and large-scale budgetary stimulus.

However, even the move to much more expansionary monetary and fiscal policies has so far only mitigated, not removed, the threat of a serious recession. Output has stopped falling in some major economies, but unemployment continues to rise. Although the regulation of the financial sector is being reformed and strengthened, little has been done to address the underlying imbalances in trade and in the distribution of income which were also very important factors behind the crisis.

In the United States, the overall pattern of economic development in recent decades has been extremely unequal. The share of wages in GDP has been falling since the 1970s; popular incomes have stagnated for decades while gains in income and wealth have been concentrated on the rich and, in particular, the super-rich. The adverse distribution of income worked to undermine savings and to make economic activity and employment increasingly dependent on an ultimately unsustainable growth in consumer credit. It was in these circumstances that the advance of mortgage credit to lower income groups could become the object of massive speculation.

The decline in overall US savings is partly due to these very adverse changes in the distribution of income which have led to the excessive dependence of ordinary US citizens on credit. However, the excess of expenditure over domestic production was greatly aggravated by the irresponsible budgets of the Bush administration which combined tax cuts for the rich and the big corporations with higher military spending. The outcome has been widening disequilibria in the world economy with the US running widening current account deficits, precariously financed by the recycling of the current account surpluses of

China, Japan and a few other export-oriented economies including Germany. This means that the US has simultaneously to deal with three difficult macroeconomic challenges: to switch resources from domestic consumption into net exports; to counteract recession and rising unemployment; and to reform and stabilise the financial system. Given the central role of the US in the international economic and financial systems, this implies dangers for the world economy as a whole.

There are also big imbalances among the European economies. The most important of these is the excessive dependence of the German economy on exports and its huge current account surplus. The German surplus – counterpart of deficits in some other Eurozone economies – has become a threat to the effective functioning of the monetary union and makes it much more difficult to define an effective European response to the crisis. The recession itself has narrowed the deficits of many countries but deficits in excess of 5% of GDP are still predicted in 2010 for Bulgaria (-9.8%), Greece (-7.9%), Portugal (-10.2%), Romania (-5.5%) and Slovakia (-5.3%) with Spain only just under this mark (-4.6%).

Once again there are distributional aspects to the imbalance – the consistent downward pressure on wages in Germany and especially on the wages of the lowest paid workers. Since the introduction of the Euro in 1999, wage growth has been very modest in the euro area as a whole with nominal wages per employee rising at between 2% and 3% per year. However, in Germany, wage growth has been consistently lower over the same period so that several of its partners in the Eurozone now have serious problems of competitiveness and very large current account deficits. This is the case in Greece, Cyprus, Spain and Portugal while Ireland has only reduced its deficit through a huge decline in incomes, with GDP estimated to fall by 12% over the period 2008-10. Also outside the Eurozone, the British economy faces acute problems: its very large financial sector has become a hostage to fortune while output continues to decline across the economy.

There are also acute problems in most of the EU's new member states in Central and Eastern Europe. These economies have been especially vulnerable to both financial turbulence and the downturn in international trade and investment flows. The global crisis has seriously undermined the foundations of sustainable economic growth in all of them. However they do not form a homogenous block, and their economic condition is even more polarised than among other EU member countries. The Baltic Republics have been affected most seriously. They are expected to suffer a decline in GDP in 2009 of between 13% and 18%. This compares with growth rates of 8-10% in 2004-2007. The most serious downturn is in Latvia where GDP fell by 20.4% in the second quarter of 2009. Since the middle of 2008 all three Republics have experienced an accelerating decrease in gross fixed capital formation. A second group of countries consists of Hungary, Romania and Slovenia. The decrease in their

GDP has been relatively moderate but accelerated in the first half of the year, reaching 7.3-9.0 % in the second quarter. The third group (Bulgaria, Czech Republic and Slovakia) has experienced a relatively shallow recession (ca. 5% fall in GDP). Poland, finally, represents a special case, as it is the only EU country that managed to avert recession, although expected growth in 2009 (1.3-1.8%) is the lowest since the beginning of the decade. In fact Poland also experienced an asset price bubble but, because the Polish banks used relatively stringent lending criteria they have only limited bad debts in their portfolios. Forecasts for Polish growth in 2010 are more optimistic and range from 2.2 to 3.5%. Behind this comparative success is a more conservative lending policy of its banking sector in preceding years.

In some countries getting out of the recession will be hampered by their huge total external debt. This is particularly the case in the Baltic Republics, Hungary, Bulgaria and Slovenia where the gross debt stock is approaching, or has already exceeded (in Latvia by more than 40%) the value of GDP.

The differentiated impact of the crisis on particular economies can be ascribed to economic policy errors in the preceding years. These included the following:

- an overvalued exchange rate (the Baltic Republics and Bulgaria);
- allowing overheating of the economy (the Baltic Republics) – average annual rates of growth between 2001-2007 were 8.1% in Estonia and Lithuania and 9.0% in Latvia;
- immoderate increases in public spending and household consumption financed with foreign currency loans (Hungary);
- a passive policy towards FDI, weakening internal linkages among firms while reinforcing external linkages and leading to a dual economy (Hungary).

The experience of the Baltic States contradicts a common conviction of neoliberal economists that fixed exchange rate systems combined with a restrictive fiscal policy can play an important role in stabilising the economy. In reality, by eliminating the shock-absorbing effect of floating rates, forcing national banks to intervene in the foreign exchange market to avoid a deep devaluation of the national currency,[3] and obliging governments to cut public expenditure, the fixed exchange rate system served to deepen the impact of the crisis.

The large disparities among member states accompany a general deterioration in economic performance, with unemployment rising in all member states. Already the Lisbon strategy, the basis of EU policy in the first decade of the new century, was hardly a great success: between 2001 and 2008, the rate of unemployment in today's EU of 27 countries only fell from 8.5% to 7.0%. In the context of a rapidly developing world economy this is a disappointing outcome. The central target of the Lisbon strategy was an employment rate of 70%. This

3 Some analysts argue that the Latvian currency is as much as 30% overvalued.

was comprehensively missed by all countries except those of Scandinavia and the Netherlands where more solidaristic and interventionist policies, associated with higher levels of public expenditure, continued. The intensification of the financial crisis in 2008 and the following recession more than wiped out this very limited progress with unemployment estimated at 9.1% in 2009 and predicted by the Commission to rise to 10.3% in 2010. The outcome in the 15 states which were already EU members at the turn of the new century is no better: there, the unemployment rate was virtually static, declining only from 7.7% in 2000 to 7.0% in 2007. The rate is estimated at 9.5% in 2009 and predicted to rise again to 11.1% in 2010.[4] The situation in Spain and Ireland, where the rate has already reached 18.9% and 12.5% respectively, is particularly worrying. Two digit unemployment rates have also been recorded in four CEE countries: the rates in Latvia and Estonia are close to that in Spain, and rates in Lithuania and Slovakia are similar to the Irish one (August 2009).

Since the objective of the Lisbon strategy was an improved employment performance, the present crisis and recession can be regarded as confirming what was already a comprehensive failure. Both on a global scale and within the EU, only more supportive budgetary and monetary policies are preventing an even more rapid increase in unemployment. In fact the discretionary budgetary stimulus has not been as great as is often claimed – around 2% of GDP – with most of the stimulus coming from the automatic stabilisers of lower tax revenues and higher spending as a result of the financial crisis and the recession. Some countries, such as Ireland and Latvia, have actually tightened fiscal policy.

The expenditures by households and businesses are subdued, while banks and other financial corporations are attempting to reduce their balance sheets and pay down their debt. In these circumstances there is a clear danger that supportive policies might be reversed before recovery is established. There are also dangers in the longer-term, associated with the nature of economic growth in the recent past. It is clear that the pattern of growth of in recent decades, centred on a huge US deficit and on the liberalisation and deregulation of finance, cannot continue. But no clear development model yet exists to take its place: the result could be paralysing uncertainty unless political actors lay down clear priorities for development and sustainability over the coming decade. Only decisive political change to assert these priorities can provide the necessary orientation for business decisions.

4 Figures taken from the Statistical Annex to *European Economy*, Spring 2009 and updated where possible from the European Economic Forecast for Autumn 2009, also in *European Economy*.

1.3 The labour market: Unemployment and insecurity as the main threats

The most serious problem in the labour market is unemployment, which increased significantly in 2009. However, in the Eurozone employment has not fallen as much as GDP (4.8%) nor as much as during the recessions in 1974 and 1993 when the decline in employment was similar to that of the GDP. This is especially marked in Germany where GDP has fallen by some 5% in the course of one year but employment has only declined by 0.5% (see table 1). Nevertheless, in the Eurozone the number of employed people fell by two million between the first half of 2008 and the first half of 2009, equal to 1.3% of the total, and it has affected most sectors.

Several elements may explain this evolution: the rapid fall in activity making it difficult to adjust employment so rapidly, the hope that the crisis would be short, the experience of previous recessions of having difficulties to find employees when economic activity expands again and "partial unemployment" or "temporary unemployment benefits".[5]

Table 1: Gross Domestic Product and Employment in the EU

	percentage change on preceding year									
	Gross domestic product, volume					Employment				
	2002-2006	2007	2008	2009	2010	2002-2006	2007	2008	2009	2010
Belgium	2.0	2.9	1.0	-2.9	0.6	0.7	1.6	1.9	-0.8	-1.4
Germany	1.0	2.5	1.3	-5.0	1.2	-0.7	1.5	1.4	-0.5	-1.9
Ireland	5.4	6.0	-3.0	-7.5	-1.4	3.2	3.6	-0.8	-7.8	-3.9
Greece	4.1	4.5	2.0	-1.1	-0.3	1.7	1.4	0.1	-0.9	-0.8
Spain	3.3	3.6	0.9	-3.7	-0.8	2.8	2.8	-0.6	-6.6	-2.3
France	1.7	2.3	0.4	-2.2	1.2	0.5	1.5	0.6	-1.8	-0.9
Italy	0.9	1.6	-1.0	-4.7	0.7	0.8	1.0	-0.1	-2.6	-0.4
Cyprus	3.3	4.4	3.7	-0.7	0.1	3.0	3.2	2.6	-0.4	-0.1
Luxembourg	4.2	6.5	0.0	-3.6	1.1	2.8	4.4	4.7	1.1	-1.3

Source: European Commission, Economic Forecasts, Autumn 2009

5 "Chomage partiel" in French meaning "temporarily out of work/temporary layoff", when employees stop working for a defined period of time for lack of production needs but without breaking the work contracts with their enterprise. See G. Carone, Gert Jan Koopman, Karl Pichelmann, "Labour market prospects and policies to soften the impact of the financial crisis", *ECOFIN Economic Briefs*, Brussels, May 2009.

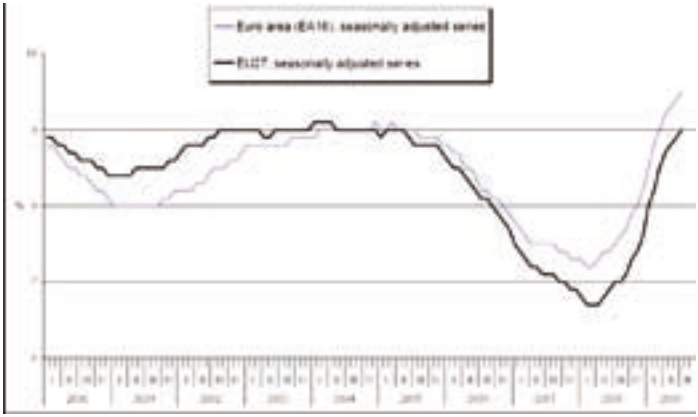
Table 1: Gross Domestic Product and Employment in the EU										
Malta	2.1	3.7	2.1	-2.2	0.7	0.7	3.2	2.4	-0.6	-0.3
Netherlands	1.6	3.6	2.0	-4.5	0.3	-0.2	2.3	1.2	-0.1	-2.1
Austria	2.2	3.5	2.0	-3.7	1.1	0.5	1.6	1.8	-1.5	-0.7
Portugal	0.7	1.9	0.0	-2.9	0.3	0.0	0.0	0.4	-2.3	-0.4
Slovenia	4.3	6.8	3.5	-7.4	1.3	0.6	3.0	2.9	-2.6	-2.0
Slovakia	5.9	10.4	6.4	-5.8	1.9	0.9	2.1	2.9	-2.0	0.0
Finland	2.9	4.2	1.0	-6.9	0.9	0.9	2.2	1.6	-2.9	-2.5
Eurozone	1.7	2.8	0.6	-4.0	0.7	0.6	1.7	0.6	-2.3	-1.3
Bulgaria	6.0	6.2	6.0	-5.9	-1.1	2.4	2.8	3.3	-2.0	-1.3
Czech Rep.	4.6	6.1	2.5	-4.8	0.8	0.5	2.7	1.5	-2.0	-1.4
Denmark	1.8	1.6	-1.2	-4.5	1.5	0.3	2.7	0.8	-2.6	-2.1
Estonia	8.4	7.2	-3.6	-13.7	-0.1	1.9	0.8	0.2	-9.0	-2.5
Latvia	9.0	10.0	-4.6	-18.0	-4.0	2.2	3.6	0.7	-11.9	-5.6
Lithuania	8.0	9.8	2.8	-18.1	-3.9	2.0	2.8	-0.5	-8.3	-2.4
Hungary	4.2	1.0	0.6	-6.5	-0.5	0.3	-0.1	-1.2	-3.0	-0.8
Poland	4.1	6.8	5.0	1.2	1.8	0.5	4.4	3.8	-0.7	-1.1
Romania	6.2	6.3	6.2	-8.0	0.5	-1.1	0.4	0.3	-3.3	0.8
Sweden	3.2	2.6	-0.2	-4.6	1.4	0.1	2.2	0.9	-2.2	-1.8
UK	2.6	2.6	0.6	-4.6	0.9	0.9	0.7	0.7	-2.0	-0.9
EU	2.0	2.9	0.8	-4.1	0.7	0.6	1.7	0.9	-2.3	-1.2
USA	2.7	2.1	0.4	-2.5	2.2	0.6	1.1	-0.5	-3.5	-0.5
Japan	1.7	22.3	-0.7	-5.9	1.1	-0.2	0.4	-0.4	-3	-1.2

Source: European Commission, Economic Forecasts, Autumn 2009

Figure 1 shows that the level of unemployment was high even before the crisis (between 2000-2006 unemployment it remained between 8-9%) and has since risen. According to Eurostat, in August 2009 there were 21.8 million unemployed in the EU27 (9.1% of the working population), and 15.2 million in the Eurozone (9.6%). Compared with August 2008, this was an increase of 5.0 million in the EU27 and 3.2 million in the euro area. Despite indications that GDP registered a small increase in the second half of 2009, unemployment is expected to continue rising. According to one recent study: "unemployment rates in most EU countries are set to soar to double digit rates in 2010 and the

return to pre-crisis levels of unemployment is likely to take several years".[6] Some estimates indicate unemployment could reach 11.5% by 2011.[7]

Figure 1: Euro area and EU27 unemployment rates



Source: Eurostat, News Release, 123/2009, 1 September 2009.

As shown in Figure 2, the highest rates of unemployment were recorded in Latvia and Spain (18.3% and 18.9% respectively). Although unemployment rates have increased in all countries, over the previous 12 months the smallest increases were observed in Belgium (from 7.5% to 7.9%) and Germany (7.2% to 7.7%), while the highest increases were registered in Latvia (7.4% to 18.3%) and Estonia (4.1% to 13.3% between the second quarters of 2008 and 2009). The increase in Spain was not that high because unemployment had already increased rapidly following the collapse of the building sector.

Some groups have been especially affected by unemployment. This includes young people (39.2% in Spain, 26.4% Ireland and 26% Sweden) mature workers and women. There has also been an increase in the long-term unemployed. It is not surprising that an opinion survey conducted by TNS identified unemployment as the top concern for 57% of Europeans, followed by economic growth (45%), insecurity (32%) and the future of pensions (31%) – well ahead of other broad concerns such as climate change, terrorism or inflation.[8] The fight against unemployment looks set to be one of the main preoccupations in most EU countries in 2010.

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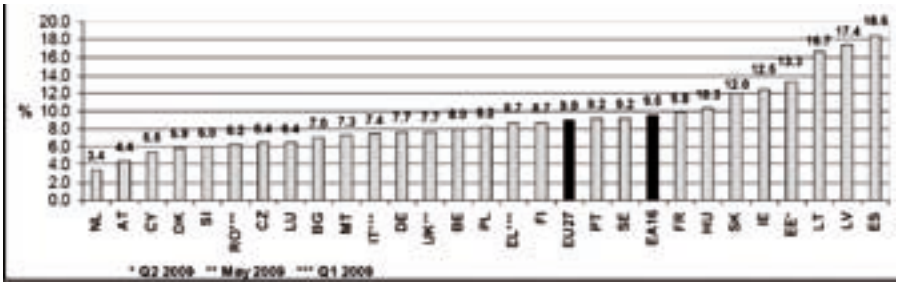
6 See A. Sapir (ed.), *Bruegel Memos to the New Commission 2009*: *Europe´s economic priorities 2010-2015,* Bruegel, Brussels, 2009, p. 72.

7 See Giuseppe Carone, Gert Jan Koopman, Karl Pichelmann, Labour market prospects and policies to soften the impact of the financial crisis, *ECOFIN Economic Briefs*, Brussels, May 2009.

8 See A. Sapir (ed.), *Bruegel Memos to the New Commission 2009*: *Europe´s economic priorities 2010-2015,* Bruegel, Brussels, p. 72.

Figure 2: Unemployment rates in July 2009, seasonally adjusted



Source: Eurostat, News Release, 123/2009, 1 September 2009.

As unemployment has risen, a significant worsening of working conditions can also be observed. Temporary contracts and largely non-desired part-time work are increasing (see Table 2). In 2007 the proportion of employees with a contract of limited duration was almost 15% in the EU27 and about 18% in the Eurozone, and this has since increased. Furthermore, many workers, particularly those with temporary and casual contracts have variable time tables from one week to the next and the number of workers that have to be permanently on call is increasing. There has also been a deterioration in working conditions, with rising pressures on employees, of which the 25 suicides at France-Telecom is a very dramatic example. As a recent report notes: "It is essential to provide a job to everyone who want one, but it is also very important that the job has the necessary quality to sustain a decent life."[9]

With the crisis, attempts by employers to push down wages have become more prevalent and a large number of workers have been affected by wage decreases. There have even been quite a number of cases in which workers have "voluntarily" accepted a decrease in their wages in order to save their jobs. The number of working poor has also increased, particularly among temporary workers and women. Not only does this cause hardship for the workers involved, it also has important macroeconomic consequences, since it will aggravate the decline in aggregate demand and, by making recovery more difficult, increase the likelihood of higher unemployment.

Even though there are indications that output is beginning to recover, the relatively limited increase in unemployment since the onset of the crisis has been reflected in a notable fall in productivity. As a result, even if the recovery does strengthen in 2010, it is likely that firms will attempt to recuperate their position by eliminating more jobs so that unemployment will continue to rise.[10]

The crisis is not the only source of unemployment. The strategies of global enterprises are not conducive to employment either. New technologies, down-sizing

9 See *Alternatives économiques*, Paris, No. 282, p. 32.
10 See *Alternatives économiques*, Paris, No. 284, p. 19.

and especially shifting production to other countries ("delocalisation") have also reduced employment in the richest countries. The EU15 (those countries that had joined the EU by 1995) adopted a strategy of transferring production abroad (in many cases to the new member states) resulting in a process of social dumping that has been facilitated by developments in information and communication technology, and has contributed to increasing unemployment in the richer countries.

Table 2: Insecure Employment in EU27

	2002	2007	Maximum Value 2007	Minimum Value 2007
Temporary employees [1] in % of total employees, 15-64 y.	12.4	14.4	Spain 31.7 Poland 28.2	Romania 1.6 Estonia 2.2
Part-time employment [1] in % of total employment, 15-64y.	15.7	17.6	Netherlands 46.3; Germany 25.4; Sweden, UK 24.2	Bulgaria 1.5; Slovakia 2.5; Hungary 3.9
Involuntary part-time employment [1] in % of total part-time	17.1	22.5	Bulgaria 60.6; Romania 53.1 Greece 45.2	Netherlands 5.1; Luxembourg 5.2; Slovenia 5.8

Main reason for temporary employment 2	Total	Males	Females
Could not find a permanent job	60.2	59.2	61.3
Did not want a permanent job	12.5	11.9	13.1
In education or training	18.6	19.6	17.5
Probationary period	8.7	9.3	8.1
Main reason for part-time employment 2	**Total**	**Males**	**Females**
Could not find a full-time job	22.5	30.6	20.4
Own illness or disability	4.2	8.1	3.2
Other family or personal responsibilities	17.1	8.2	19.5
Looking after children or incapacitated adults	24.5	4.1	30.0
In education or training	12.0	25.3	8.5
Other reasons	19.6	23.6	18.5

Source: Eurostat database (October 2009); 1 = employees aged 15-64 years; 2 = distribution in % in 2007.

The issue of unemployment has so dominated discussions about the labour market since the onset of the crisis that other labour-market concerns have been eclipsed. The crisis has led to a deterioration in many aspects of the work relationship. Because workers are so worried about the likelihood of losing their jobs, they have been prepared to accept a worsening in many aspects of their employment conditions, and

there has been little discussion of the impact, not only on wages, but also on employment stability, working conditions, and the number of hours of work. In fact, for many workers, wages, job security and working conditions have been deteriorating for some three decades. As a result of the ongoing deregulation of labour markets and the introduction of rigid provisions for unemployment benefits if "reasonable" jobs are refused, there has also been an increase in precarious employment.[11] All told, as a result of the increase in unemployment the value of holding a job increases to the point where all other considerations become forgotten.

There is a further category of workers that deserve special mention: that of self-employed workers. They are a new feature of the employment strategy of enterprises because they constitute a cheap and very flexible work force. Many "self-employed" workers are *de facto* employed as wage workers, and many others are dependent on one or very few contracting masters in a way that converts them into *de facto* "waged workers". The crisis has actually forced many unemployed workers to become self-employed. In reality they are "disguised waged workers" in very precarious situations since they do not have any of the rights of waged workers and are considered their own managers. In the 2008 EuroMemorandum data was provided about the very rapid increase of this category of workers – from 36% to 40% – up to 2005 and it seems likely that the number is now higher. Their situation has deteriorated during the last year due to an increase in unemployment.

Workers are also affected by the continuing trend towards privatisation and the weakening of public social services. Although private pension funds have made substantial losses as a result of the financial crisis, workers continue to be encouraged, both individually and collectively, to join such schemes. Expenditure on unemployment benefits has, of course, increased due to the high numbers of jobless workers and, in some countries, due to additional payments to the long term unemployment, but this has been accompanied by a tightening of the conditions that have to be fulfilled to obtain such benefits.

1.4 The social situation: Poverty and inequality on the rise

The social situation in the EU is marked by a deepening polarisation both within as well as between member states. Without any doubt, the European Union is one of the wealthiest regions of the world. Nevertheless almost one fifth of the European population – 79 million EU citizens – cannot afford the basics for a decent living. The poverty rate – i.e. the proportion of people living with an income below 60% of the median income – of the EU 27 has already increased from 16% in 2005/06 to 17% in 2007.[12] In the individual member

11 See EuroMemorandum Group, *EuroMemorandum 2008/09: Democratic transformation of European finance, a full employment regime and ecological restructuring – Alternatives to finance-driven capitalism*, 2008, p. 13.

12 Latest Eurostat data on social indicators, such as poverty-levels, refer to 2007, i.e. the data do not reflect the impact of the financial crisis yet.

states of the EU, the share of poverty varies between 10% and 25%: At one end of the scale are the Netherlands and the Czech Republic with a poverty rate of 10% and Sweden and Slovakia with 11%. At the other end of the scale we see countries such as Romania (25%), Bulgaria (22%) and Latvia (21%) with the highest poverty levels.[13] In the majority of the member states we witness a poverty rate above 15%. Eleven of the 27 member states have a poverty level higher than 17%. Besides this "monetary" poverty, the intensity of material deprivation is increasing, too. The gap within the EU becomes visible when comparing the level of material deprivation of those who dispose of an income above the poverty threshold and those below (see table 3).

While unemployment is one of the most frequent reasons for the shift into poverty, it is often assumed that having a job would reduce the risk of poverty. But in fact, employment and poverty are not mutually-exclusive. Although the poverty rate for the unemployed (43%) is more than five times higher than for people in employment (8%), the absolute number of people being employed and poor – about 14 million so-called "working poor" – is twice as high as the number of unemployed poor (about 7 million). This is mainly the result of changes on the labour markets, such as the expansion of low paid jobs in the services sector and the increase of precarious, involuntary part-time and short-time employment (see part 1.3 of this EuroMemorandum). In addition to the "working poor" and the unemployed, several other parts of the population are also particularly hit by poverty (see table 4): The fact that elderly people are more exposed to poverty (females 22% and males 17%) reveals that pension entitlements in many European countries do not suffice to prevent poverty amongst the elderly. In countries with old-age pension systems that are substantially based on private, capital funded pillars, the current financial crisis might even lead to a severe deterioration of the living conditions of retired people, if private pension savings vanish as a result of the collapse of financial markets and the failure of pension funds. Ireland and Poland are warning examples: With real losses of 37.5% in 2008, Ireland's private pension funds have been hit severely by the financial crisis.[14] Since private pensions and other investments account for a third or retirement incomes in Ireland, this will increase the old-age poverty rate, which was already one of the highest in the EU even before the crisis (29% in 2007). In 2008, Poland's private mandatory Open Pension Funds declined in value by almost as much as they had increased during the whole previous nine years.

13 It is important to note that the poverty rates are based on *national* income relations, so that similar poverty rates may actually reflect very different standards of living: Poverty thresholds range from €592 in Bulgaria up to €11.952 in Luxembourg (in 2007).

14 See OECD, *Pensions at a Glance*, Organisation for Economic Co-operation and Development, Paris, 2009.

Table 3: Material deprivation in the EU 27, share in % of the income group, 2007		
	Income above poverty threshold*	Income below poverty threshold*
Economic Strain: Inability to ...		
... keep home safely warm	8	21
... to afford paying for one week annual holiday away from home	31	65
... afford a meal with meat, chicken, fish (or vegetarian equivalent) every second day	7	22
... face unexpected financial expenses	29	62
Durables: Enforced lack of ...		
... a telephone	1	6
... a computer	7	21
... a personal car	7	22
Housing		
Leaking roof, damp walls, floors or foundations, or rot in the window frames of floor	16	28
Lack of bath or shower in dwelling	2	10
Dwelling too dark	7	12
Environment of the dwelling		
Noise from neighbours or from the street	23	26
Pollution, grime or other environmental problems	17	18
Crime, violence or vandalism in the area	15	19

Source: Eurostat-Database (as of November 2009). * = 60% of median equivalised income (EU 27 averages are weighted average based on national data).

A particularly scandalous feature of poverty in the EU is the extent of child poverty: Every fifth child in the EU27 is poor. In Italy, Spain, Greece, Poland and the United Kingdom almost every fourth child lives in poverty and in Romania and Bulgaria every third. As a consequence, households with children are much more threatened by poverty than households without children (18% compared to 16%). Single parents are particularly hit by poverty, especially in Malta (54%), Luxembourg (45%), the United Kingdom (44%) and Estonia (44%). The fact that child poverty is on the rise is all the more concerning, since children growing up in poverty are more prone to

health problems and have a lower life expectancy, reach low educational levels and school graduation and face a higher risk of becoming unemployed. Since economic disadvantages are often passed on from parents to children, poverty is reproduced within families and social groups. Therefore, the increase in child poverty in the EU might lead to a self-reinforcing spiral of poverty across generations.[15]

At the same time, the EU witnesses enormous wealth at the very top of the income scale, even though financial assets diminished in the course of the financial crisis: The crisis seems to have severely hit the "high net worth individuals" in Europe – those people who are dollar-millionaires in terms of financial wealth (investable assets excluding primary residence, collectibles, consumables and consumer durables). After several years of steady increases, in 2008 the number of dollar-millionaires declined by 14.4%. In 2008, the number of dollar millionaires in the EU was 2.6 million, which is lower than 2005, while their wealth fell by 21.9% from $10.7 trillion to $8.3 trillion.[16] Even though slightly diminished in the course of the financial crisis, the concentration of wealth at the very top of the income scale scandalously contrasts with the growing number of poor people in the EU – especially since official EU data on poverty does not even include the socially excluded people living in the middle of European society, such as the homeless, victims of people trafficking or illegal immigrants.

Table 4: Poverty rates of different groups of the population, in %

	2003		2007	
	EU15	EU25	EU15	EU27
Total	15	15	17	17
Women	17	16	17	18
Men	14	14	15	16
Adults 25-54 years	15	15	17	17
Children <16 years	19	19	19	20
Juveniles 16-24 years	20	19	20	20
Elderly people >65 years	19	17	21	20
Households without children	14	14	16	16
Households with children	16	16	17	18
Households with two adults and three or more children	22	24	22	25
Single Parent with children	36	33	34	34

Source: Eurostat-Database (as of November 2009).

15 See Miles Corak (ed.), *Generational Income Mobility in North America and Europe*, Cambridge, 2004.

16 See Capgemini and Merrill Lynch Global Wealth Management, *World Wealth Report 2009,* 2009.

Table 4: Poverty rates of different groups of the population, in %				
	2005		2007	
	EU15	EU25	EU15	EU27
In-Work-Poverty	7	8	8	8
With permanent contract	4	4	5	5
With temporary contract	11	11	13	13
Full-time employment	6	7	7	7
Part-time employment	10	10	12	12
Unemployed 16-64 years	37	40	41	43
Retired >65 years	18	17	19	19

Source: Eurostat-Database (as of November 2009).

In sum and contrary to all rhetoric concerning "social inclusion" on the European level, the inequality of income distribution has increased: For the EU27, the average Gini-coefficient increased from 30% in 2006 to 31% in 2007. The total income received by the 20% of the population with the highest income (top quintile) in EU27 was five times higher than the total income received by the 20% of the population with the lowest income (lowest quintile) in 2007. For the EU25 the average figure rose from 4.7 in 2006 to 4.8 in 2007.

The consequences of the financial crisis of 2007-09 on the already existing inequalities are not as clear cut as one might think. For example, in one sense, the inequality of the distribution of wealth may even have diminished in the course of the crisis, since people with little or no financial wealth have not lost much, whereas the financial wealth of the wealthiest has shrunk.[17] The same might be true for the impact of the recession on the relative income distribution, since some of the formerly high earnings – e.g. in the banking sector – may have declined. Current Eurostat statistics do not yet display the impact of the financial crisis on the distribution of income and wealth. Nevertheless, the increase in unemployment and the massive government support for the financial sector in most European countries will affect income distribution, and the socialisation of the cost of the bailouts of the private financial sector has resulted in substantial increases in the ratio of the budget deficit to GDP (see table 5 below).

In countries with an Anglo-Saxon model of finance, which were pioneers of financial deregulation and privatisation in the later decades of the 20th century, the budget deficits are forecast to reach 13.2% of GDP in the UK and 11.2% in the US. If governments seek to cut deficits, this could lead to a shortage of public money for essential public services and spending. There is already talk of impending cuts in public expenditure across the EU member states, although

17 See Capgemini and Merrill Lynch Global Wealth Management, *World Wealth Report 2009,* 2009.

there are promises that the spending on the front line services (health and education) will be maintained. Nevertheless, similar promises were made during the liberal market oriented reforms and restructuring of the 1980s and 1990s, yet at the turn of the last century public services were seriously undermined and hardship increased for the unemployed and the poor.

Table 5: General Government Balance to GDP (in %)

	2006	2007	2008	2009	2010*
EU	-1.5	-0.9	-2.3	-6.9	-7.5
Eurozone	-1.2	-0.6	-1.8	-6.2	-6.6
New member states+	-3.2	-1.8	-2.8	-5.9	-6.0
Czech Republic	-2.6	-0.6	-1.4	-6.0	-7.0
Denmark	5.0	4.5	3.4	-1.3	-3.5
France	-2.3	-2.7	-3.4	-7.0	-7.1
Germany	-1.5	-0.5	-0.1	-4.2	-4.6
Greece	-2.8	-3.6	-5.0	-6.4	-7.1
Ireland	2.9	0.1	-7.3	-12.1	-13.3
Italy	-3.3	-1.5	-2.7	-5.6	-5.6
Latvia	-0.9	0.7	-3.4	-13.0	-12.0
Lithuania	-0.4	-1.0	-3.3	-10.3	-7.6
Poland	-3.9	-2.0	-3.1	-5.8	-6.5
Portugal	-3.9	-2.6	-2.6	-6.9	-7.3
Spain	2.0	2.2	-3.8	-12.3	-12.5
Sweden	2.4	3.8	2.5	-3.5	-3.9
UK	-2.6	-2.6	-5.1	-11.6	-13.2

* = forecast; + = Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania.
Source: IMF, *Regional Economic Outlook*, *Europe*, International Monetary Fund, Washington, October 2009.

1.5 The ecological situation: Global threats to the environment

The ecological situation continues to be critical on a global scale. It will have a highly negative impact on the living conditions of many people, especially the socially weak. Although public attention has been diverted by the financial crisis and subsequent recession, the importance of environmental sustainability has not been entirely eclipsed, but there is a strong tendency to

see it as a long-term goal which can be pursued when the economic situation allows. This completely ignores the real urgency of the situation, as expressed in the call by the Intergovernmental Panel on Climate Change (IPCC) for global emissions to begin falling by 2015 (recent updates even indicate a narrower window of opportunity) if global warming is to kept below the agreed threshold of 2°C. Failure to turn round the growth of emissions by 2015 will make the task of preventing irreversible climate change immeasurably more difficult in the future. The crisis should be used as an opportunity to address long term aims, of which environmental sustainability is one of the most important.

The urgency of the situation is illustrated by the data from the International Energy Agency which show that the emission of greenhouse gases (GHG), which are at the centre of the climate crisis, have increased by 38% since 1990. The countries with the largest emissions, the US until 2008 and China since then, have demonstrated some promising initiatives at lower levels (US) or a sizeable voluntary emission reduction (China), but they have not yet committed themselves to the GHG emission reductions that are urgently required. In addition, the fact that developing countries have defined emission reductions not in absolute numbers, but in relation to GDP, will lead to a further increase in GHG emissions.

Is the EU moving towards environmental sustainability? The answer is clearly no. Even though real efforts are being made, especially in the areas of eco-efficiency, first generation pollutants, and nature protection, and attempts are being made to control industrial pollution, a turn towards effective environmental sustainability is not in sight. Rebound effects[18] and the negative impact of the EU's major policy areas – agriculture, competition, and trade policy – still clearly exceed the limited positive effects of the environmental policy of the EU and its member states.

This is the more problematic as the EU is faced with a global constellation of crises – already clearly visible in the areas of finance and economic development, with a clear counterpart in the fields of the ecology of the global biosphere and of the availability of natural resources (especially oil, gas, soil, and water) and as they seem to be less clearly visible, but emerging, in other areas such as democracy and peace. Particularly with regard to oil and gas, any further postponement of action is a safe recipe for disaster also in economic terms: the next bubbles and crises are looming.

The EU does not now pursue an integrated policy corresponding to the comprehensive problem situation; instead it relies unilaterally on the supposed "unifying effect" of market instruments, while neglecting and downplaying other instruments of economic regulation (norms, indicative planning, interdictions and licences, public investment and procurement). Recent research has shown that while it is possible to change market and consumer behaviour

18 Rebound effects refer to responses that tend to offset the initial positive effect of measures to reduce resource use.

by information and labelling, such measures tend to need a decade or more to be effective, while legislation could have similar effects within months. Given the narrow window for a turnaround, the importance of this time aspect should no longer be ignored in the choice of policy instruments.

Recent developments in market instruments for coping with the climate crisis have in the meantime taken on an economic importance of their own: The market in carbon emission permits doubled in size each year from 2005 to 2008 to reach an annual value of over $100 billion. Some pundits expect it to become the "world's biggest commodity market" and prospectively "the world's biggest market overall" with "volumes comparable to credit derivatives inside of a decade." These markets have attracted hedge funds, energy traders, private equity funds and large global investment banks such as Barclays, Citigroup, Goldman Sachs, Credit Suisse, BNP Paribas and Merrill Lynch, as well as index providers and European exchange-traded commodity sponsors. The basis for a new bubble is being sown while the regulatory effect of the EU Emission Trading System (ETS), like that of other ETSs, is highly doubtful.

2 The failure of the EU to respond

2.1 From European integration back to the nation state

The European response to the crisis has been characterised by a significant step back for the process of integration. Although the EU claims that initiatives have been coordinated, the reality is that this has been very limited and the major responses have been instituted at a national level. Governments have jealously guarded their national prerogatives when it came to injecting tax-payers money into the banking system, and the size of the EU's existing budget is so small – around just 1% of GDP – as to leave it powerless and marginalised.

European government leaders frequently argue that the US alone is to blame for the crisis. In particular, finance ministers have argued that US interest rates were held too low for too long after the collapse of the stock-market bubble in 2000. But this overlooks the fact that, following the introduction of the Euro in 1999, the EU's Financial Services Action Plan, a package of 42 wide-ranging measures, sought to promote an integrated European financial system, very much along the lines of the US model. This encouraged a more market-based approach to finance with greater competition, and served to promote investments by European financial institutions in US securities which appeared to offer high returns, but which have since registered major losses. Furthermore, European leaders, such as Mrs Merkel, do not appear to recognise that the success of Europe's (and especially Germany's) export-led growth model was also highly dependent on the expansionary credit regime that drove the US economy until the crisis broke out.

The European Central Bank has, of course, been conducting monetary policy for the whole of the Eurozone. In July 2008 – a full year after the onset of the crisis – the ECB had, amazingly, actually *raised* interest rates in response to high global commodity prices. However, in October 2008, as the crisis deepened following the collapse of Lehman Brothers, it finally began to lower the lead rate, and by May 2009 this had been cut to 1%. Furthermore, the ECB shifted back to employing fixed-interest rate tenders, and announced that it would meet banks' demands for reserves in full, initially acting through its main 7-day facility, and then in June 2009 offering unlimited 12-month loans – an offer which attracted an unprecedented demand for €442 billion.[19] However, while the total supply of reserves has increased dramatically, banks have been protecting themselves against further adverse developments by simply depositing much of this back at the ECB, and net lending to non-financial corporations has actually been negative.[20] Furthermore, despite the cuts in interest rates, at 1% the ECB rate is significantly above the Federal Reserve's range of 0-0.25%, and this has been reflected in the value of the Euro. When the global financial system seemed on the edge of collapse after the failure of Lehman's, there was a rush to the safety of the dollar; but once the threat had abated, the Euro steadily increased in value, rising from $1.25 in March to $1.50 in October, which amounts to a more restrictive monetary stance for export dependent economies.

European governments responded to the threat of financial collapse by injecting large amounts of capital into major banks, and by providing government guarantees for inter-bank lending.[21] As a result, governments are now major share holders in a number of large banks, including ING (Netherlands), BNP Paribas and Societé Géneralé (France), Unicredit (Italy), Swedbank (Sweden), Alpha (Greece), Lloyds and RBS (Britain) and Commerzbank (Germany). In addition, governments have fully nationalised several banks, such as Northern Rock (Britain), Hypo Real Estate (Germany), Anglo-Irish (Ireland) and Fortis (Belgium). However, despite being a major owner, governments have, for the most part, insisted that they will not intervene in banks' management and lending remains weak. A key problem is that many of the big banks still hold large quantities of toxic assets. Banks are unwilling to bear the cost of writing these off, and governments are – rightly – reluctant to use tax-payers' money (as with the public-private scheme in the US). The Swedish government's outright nationalisation of its problem banks in the early 1990s allowed it to successfully hive off problem assets to a "bad bank". In Germany the government has proposed that each bank should set up its own "bad bank", which would be

19 In 2000, the ECB had shifted from fixed-interest rate tenders, where the total supply of reserves was rationed, to a competitive system where banks bid for the available reserves in an auction based on interest-rates.

20 See ECB, *Monthly Bulletin*, September 2009, Table 2.4.

21 According to European Commission estimates in July 2009, EU governments had provided €300 billion in bank recapitalisations and €2,500 billion in guarantees.

allowed to carry the assets at their full value for up to 20 years – but this non-solution has, predictably, had little response. Ireland is the one country where the government has moved decisively, but it is carrying most of the cost, using €54 billion of tax-payers' money to buy up problem assets at only a small loss for the banks.

Perhaps the most deleterious aspect of European governments' response to the crisis has been the way they have dealt with the situation in Eastern European and the Baltic region. The worst hit countries have been forced to turn to the IMF for emergency support and, while the EU authorities have collaborated in financing the lending, this has been subject to strict conditions. The IMF claims that its approach to imposing conditions on countries has changed but it has retained its central focus on cutting public expenditure. While the West European states have responded to the crisis by increasing public spending, Hungary and Latvia have been obliged to adopt programmes involving cuts in public sector wages and in pensions. At an EU summit in March 2009, Hungary called for a special fund of up to €190 billion to protect the EU's weaker member states, but this was rejected by Germany and was also not supported by Poland and the Czech Republic, which had weathered the crisis better than some of their neighbours. The new member states have been especially vulnerable because only Slovenia and Slovakia have benefited from the protection afforded by being a member of the Eurozone, leaving some small countries exposed to the risk of a currency crisis. But while most members of the Eurozone are expected to run a public expenditure deficit of well over 3% this year, the European authorities insist that rules cannot be relaxed to allow new members to join more quickly. There has also been a problem in the case of Iceland. Following the collapse of virtually its entire banking system at the end of September 2008, it indicated that it would like to join the EU and the Eurozone as quickly as possible. Nevertheless, urgently needed IMF assistance was held up until the country responded to pressure from the British and Dutch governments to compensate their citizens for €3.8 billion they had lost in Icelandic banks.

When the crisis was in full flight after the collapse of Lehman Brothers, there was a fairly widespread sense, even in official circles, that major reforms to the financial system were necessary, and the EU set up a high-level group chaired by Jacques de Larosière to make proposals. The de Larosière Report was published in February 2009, and although it makes numerous proposals, these largely involve refining the details of how the financial system operates rather than fundamental reform. The most significant proposal, since adopted, involves the creation of a European Systemic Risk Council, a collegiate body to be led by the ECB, with responsibility for overseeing macro-level financial risks. Similarly three collegiate bodies will be formed with member states' supervisors responsible for banking, insurance and securities markets. The collegiate structure reflects the fact that, despite the EU's policy of promoting an integrated financial system in Europe, member states are not willing to create

fully fledged European supervisory boards. One area where the de Larosière Report proposed tighter regulation concerned hedge funds, but the initial proposal has already been watered down following opposition from the British government and more recently the ECB. More generally, since the threat of a financial breakdown has receded, financial institutions have been lobbying forcefully against tighter controls. In what the Financial Times described as the start of a concerted fightback against regulation, Josef Ackerman, chairman of the Institute of International Finance, the global bankers' association, criticised governments for not paying sufficient attention to the aggregate impact of the proposed reforms, arguing that there is a trade-off between regulation and economic growth.[22]

At an international level, EU governments have been major players in the G20. The first meeting was held in Washington in October 2009 at the height of the crisis, and it was agreed that proposals for international reform would be prepared for a second meeting, which was held in London in April 2009. However, by the time this second meeting was held, the panic that followed the collapse of Lehman Brothers had subsided, and the proposals that emerged were also quite limited. The main outcome was an agreement to transform the Financial Stability Forum (set up in 1999 in the aftermath of the Asian financial crisis) into a Financial Stability Board with responsibility for monitoring global systemic risk. It was also agreed to triple the IMF's resources by raising some $500 billion, of which the EU agreed to provide $75 billion. This was motivated by a concern that the greatest risk to international financial stability stemmed from the possible failure of a middle-income country. By contrast the meeting proposed to raise a mere $6 billion to expand lending to the very poorest countries.

2.2 Macroeconomic policies: Deadlock on an integrated policy mix

The initiators of the European monetary unification project placed large hopes in the single currency. Monetary unification was expected to favour not only the consolidation of the single market and the boosting of European growth but also more appropriate monetary and budgetary policies. Within national economies, financial globalisation and exchange rate constraints had seriously narrowed the scope for effective macroeconomic policies. The single currency was supposed to lead – according to the "creative imbalance theory" that inspired the European monetary unification project – to a better coordination and increased centralisation of the other branches of economic policy thereby enabling – in the final phase of the process – substantial progress

22 Krishna Guha, "Top bankers launch fightback against feared regulatory overkill", *Financial Times,* 3/4 October 2009.

towards political integration as well.[23] The hope was that the necessary moves towards a more coherent macroeconomic regime would be made in response to the very fact that the initial form of the monetary union was unbalanced.

Ten years after the introduction of the single currency such hopes have been largely disappointed. Rules on monetary and budgetary policies introduced by the Maastricht and Amsterdam treaties undermine employment growth and economic development in Europe. Most importantly, the progress which was supposed to emerge through a gradually integrated macroeconomic policy has not taken place. The consequence is the hybrid nature of the current European policy mix. Monetary policy is centralised in the hands of an independent central bank. Budgetary policies remain the responsibility of the member states but subject to severe restrictions under the 3% limit set by the Stability and Growth Pact, in the framework of a very limited development of budgetary federalism.

This deadlock in European integration of the macroeconomic policy mix favours the resort to non-cooperative strategies among member countries. These strategies consist among other things of competitive wage reductions, social dumping and fiscal competition. They constitute new forms of "competitive disinflation". Such strategies are analogous to the "competitive devaluations" that occurred in Europe before monetary union. However, unlike "competitive devaluations" which were used by countries with weak currencies, today's non-cooperative policies are deployed by all the countries in the Eurozone. The non-cooperative strategy of "structural" reforms carried out in Germany since 2003 is the most important because it has a significant impact on the orientation of macroeconomic policies throughout Europe. The use of non-cooperative strategies by the most important EU countries aggravates the unemployment problem in Europe and undermines the European social models. Today it is even beginning to threaten the viability of the single currency by accentuating disparities among member countries

Current developments throw a harsh light on these structural weaknesses of the European monetary union. Although they are well known and have been clear since the design of the monetary union was laid down at the time of the Maastricht Treaty, EU leaderships have proceeded as though these design flaws could be neglected.

There is, firstly, the narrow mandate of the ECB, giving absolute priority to controlling inflation together with the fact that the ECB is not subject to political control by the democratic instances of the Union. Almost since its inception, the ECB has imposed relatively high interest rates in spite of very subdued rates of inflation and sluggish rates of growth. In fact the ECB did respond to the deepening financial crisis, but it did so late and to a lesser degree than the

23 The creative imbalance theory argues that the imbalances generated by one reform project make it necessary to initiate further reform projects which, in turn, will generate further imbalances that must be responded to.

US Federal Reserve, which started to cut interest rates early in 2007. The ECB only began to relax policy a year later even though banks in the Eurozone, with leverage ratios higher than their US counterparts, were even more exposed to the sub-prime crisis. The rapid increase in this exposure over the previous period is further evidence that the narrow mandate of the ECB, which excludes primary responsibility for financial stability, is dangerous and dysfunctional.

However, it is the absence of any coherent budgetary policy which has become the most serious obstacle to an effective macroeconomic response to the recession. In the long term, it could even be a threat to the monetary union itself. For a monetary union to function well it must have some means of dealing with divergent developments among its member states; some coordinated or centralised budgetary powers are indispensable in this respect. This necessity was ignored in the design of the monetary union because EU leaders adopted the extreme and dogmatic doctrine that market economies were automatically stabilising and that all that was necessary to preserve stability was to avoid excessive budget deficits.

Because the initial exchange rates among Eurozone countries were well chosen or because they left room for slightly higher inflation rates in some of the weaker economies, sharp divergences took some time to develop. The absence of any political will to control financial speculation led to asset price bubbles which disguised the problem to some extent, because countries with widening disequilibria could finance them with speculative inflows of capital. With the bursting of these asset price bubbles countries with big current account deficits are being forced to correct them very rapidly and with no outside support.

However, the main source of divergence has been the absence of any coherent budgetary policy for the monetary union as a whole. There is neither a central budget able to respond to problems in the Eurozone nor any effective mechanism to coordinate tax and expenditure policies of the member states. In their absence the budgetary policies of the largest and strongest economy, that of Germany, become extremely important. German policy has been extremely dysfunctional for the Eurozone as a whole: the growth of domestic incomes, especially wage incomes, has been suppressed and exports have been used as the key source of demand. The outcome was a serious polarisation of payments positions mentioned above with a very large surplus for Germany (together with Austria and the Netherlands) against wide deficits in, for example, Ireland, Greece, Spain and Portugal. In the last two years, German budgetary policy has been significantly relaxed in response to the recession but the measures taken so far are a long way from correcting this polarisation.

Inflation has been well under control throughout the Eurozone. It was persistently a little (usually less than half a percentage point) above target from monetary union in 1999 to about 2007. In 2008 there was a sharp rise due to higher energy prices (and the ECB raised interest rates in response) but there is in fact little danger of such episodes leading to consistently higher inflation

because wage-earners are not in a position to seek prompt and complete compensation for price rises. In 2009, inflation fell back below the 2% target and, from May 2009 to date, there has been deflation in the Eurozone.

However, in Germany economic policies have led to inflation rates well below the ECB's norm of 2% so that several of Germany's partners have suffered a serious loss of competitiveness. Unable to devalue, and with German inflation now close to zero, these countries can only restore their competitiveness through non-cooperative strategies: beggar-my-neighbour tax cuts and now actual deflation. The brutal process involved can be illustrated by the case of Ireland. A large current account deficit (5.3% of GDP) in 2007 has indeed been corrected – but the mechanism by which this was brought about was simply the deep recession following financial crisis: unemployment has risen from 4.6% in 2007 to 11.7% in 2009 and is predicted to go up to 14.0% in 2010. There has been a cumulative decline in GDP of about 15% and falling prices threaten further pressure on the level of output.

In these circumstances, where a coordinated response to the crisis is essential, the Commission merely repeats the rules of the absurd and anachronistic Stability Pact. In October 2009 it launched "excessive deficit" procedures for supposedly imprudent budgetary policies against nine countries, including Germany, thus bringing the total number of countries subject to these procedures to 18. The Commission argues that narrower deficits are required for "EMU to work smoothly" but it cannot conceivably work smoothly when the largest economy is exercising continuous pressure on its partners.

Table 6: Consumer Price Inflation, Early Eurozone Members

Average Annual Rise in Consumer Prices 2001-10	
Belgium	2.2
Germany	1.4
Ireland	2.3
Greece	3.0
Spain	2.9
France	1.6
Italy	2.4
Luxembourg	2.1
Netherlands	2.1
Austria	1.7
Portugal	2.4
Finland	1.6

In the discussion of macroeconomic policies it should be taken into account that the growing power of European multinationals has contributed to the current deadlock. These corporations favour intense competition among member states, and especially competitive reductions in corporate taxation. Because they now pursue global strategies they are less interested in a buoyant home market and more inclined to compress wage costs in their home countries. In both respects, the European multinationals benefit from the current situation and have become an obstacle to effective European integration. It is significant that acquisitions by European firms since the nineties mainly target international and not European countries. Moreover, the vast majority of strategic alliances involving European firms concern partners outside Europe.

The imbalances in the Eurozone hold back an effective response to both internal and external challenges. To combat rising unemployment within the EU a major expansion of demand is required but such an expansion requires a correction of the main imbalances between Germany and its trading partners. This in turn requires a switch in Germany from net exports to domestic demand and the best basis for such a switch would be a substantial rise in the lowest incomes and the abandonment of the drive to introduce a low-wage sector in Germany – a strategy that has proved both socially and economically disastrous.[24]

For the EU to contribute effectively to recovery and reform on a global scale it is desirable for the Eurozone to run a significant current account deficit in the medium term. This would provide a supportive environment in which the unsustainable US deficit could be narrowed with minimal damage to the volume of international trade. However, the polarisation of payments positions within the Eurozone and the heavy pressure of German exports on domestic demand in other member states prevents at present such a contribution to global stability.

24 Two other countries in the EU have large surpluses relative to GDP. These are Sweden and the Netherlands, but in neither case is the absolute surplus a major source of international imbalances. Nor are the surpluses in these two countries related to an adverse distribution of income.

Box 1: Beyond GDP – Towards new indicators

How can policies be defined and assessed if the official indicators provide bad information? Although *GDP* is not a welfare indicator, it has long been (and it is still) considered as such. It is then a key (but often bad) reference for guiding public policy. However, *GDP* does not take into account (or insufficiently) many types of activities, especially non-market goods such as domestic work and leisure. It does not care about inequalities or about environmental concerns. It does not really help us to foresee and prevent crises, whether economic, social or environmental. These limits of *GDP* have not been discussed much in the national statistics institutions until recently. A growing debate is now rising about the necessity to build new indicators instead of (or to complement) *GDP*. International institutions have started to work on that issue: the United Nations Development Programme developed its *Human Development Index (HDI)*, in the early 1990's; the World Bank proposed the *Adjusted Net Savings (ANS)* in order to capture in one indicator economic, social and environmental (stock) dimensions; the EU organised a recent conference ("Beyond GDP", www.beyond-gdp.eu) in order to discuss and promote new possible indicators. In France, a Commission chaired by J. Stiglitz and A. Sen has recently provided a report on this topic (www.stiglitz-sen-fitoussi.fr). Many researchers have previously developed these approaches. Regions, in France as well as in other parts of the World (major examples are from South America) have already developed new indicators to promote a better governance. Replacing *GDP* by *net disposable income* appears to be a minimal change in order to catch better the national welfare (since it takes into account revenue flows between the nation and abroad). However, this is far from being sufficient, as it keeps economics at the heart of what would be regarded as "welfare". New indicators should be built and new data collected (on household time allocation, for instance). But the main drawbacks and traps of such an approach have to be kept in mind:

1) Choosing indicators means defining good and bad directions of social progress (reduction of inequalities? protection of the environment?). This choice is mainly a political one. It thus cannot be delegated to experts; their role, rather, should be to highlight all the possible options and be facilitators of a deep and strong democratic debate, as proposed by the French forum for other indicators of wealth (www.idies.org/index.php?category/FAIR): all stakeholders (trade unions, associations from civil society, citizens, elected people, firms) should participate in the debate and decisions. Towards this end, regions should be involved in this process and "community conferences" should be organised. The outcome could then be an "annual report on the nation's sustainable human development", of which the nation's economic accounts would form one part, and would certainly not be the centre.

2) Parts of the new indicators should be specific to each region but parts of them should be universal ones: The latter might include dimensions such as production but also others, such as the respect for human rights, social cohesion, individual development and environmental care. But, contrary to what a few economists promote, these dimensions should not be (or just partly) "monetised". The main example of such a monetisation is the indicators derived from Adjusted Net Savings (ANS, developed by the World Bank): This indicator is poorly suited to its task, lacking in transparency and impossible for non-specialists to understand. It repeats many of the problems we should be seeking to correct. Indeed, *ANS* is the sum of three measures which deal respectively with economic, human and environmental capital, as if these dimensions were substitutes. Moreover, it does not take into account social and democratic dimensions which are fundamental parts of a truly sustainable development. Instead of monetised indicators, we should try to build indicators that will help us to avoid crossing dangerous and/or irreversible thresholds (in particular concerning environmental concerns – see, for instance, the *ecological footprint* indicator – and social concerns).

3) Finally, in order to challenge *GDP*, new indicators should not be a large and complex dashboard. If we want them to be efficient in guiding public policies as well as in involving citizens and stakeholders in the debate, the new indicators should be clear, limited in number, and maybe synthetic.

As we pointed out above, it is now urgent to redefine the meaning of social progress and how it can be measured. The new indicators will both have to reflect the common values shared by the society and to provide relevant and timely alerts about the most important risks the society is facing. Building new indicators is a fundamental challenge for countries, for Europe and for the world. This can also be an opportunity for Europe to lead the way.

2.3 Labour and employment policies: Much rhetoric, little substance

Labour, employment and social policy continue to be left almost entirely to the member states,[25] and even the crisis has not induced the Union to assume a larger responsibility for the problems generated in its territory. This can be seen in the proposals put forward in the EU's Recovery Plan, which was published in late 2008: out of €200 billion devoted to face the crisis €170 billion corresponded to spending by the member states and only €30 billion by the Union. In the areas of labour and employment policy, the main proposals continue to consist in guidelines for national action, and these follow the same lines that the Union has always recommended for National Plans for Labour, an approach that has been criticised

25 One exception corresponds to the Structural funds, particularly the European Social Fund created in the 1970s.

for its neoliberal character in previous EuroMemoranda.[26] One of the few concrete measures in the Plan is a proposal to bring forward the payments due under the structural, social, cohesion funds as well as the European Globalisation Adjustment Fund (EGAF) "to contribute to protecting and creating jobs".[27]

Among the Union recommendations to create demand for labour, the Plan calls on the European Council to adopt, before the 2009 Spring European Council, a proposed directive to make permanent reduced VAT rates for labour-intensive services, to boost clean technologies, and – as usual – to invest in education and training and to help small enterprises. But even here the Union's neoliberal bias is evident: in order to improve employment it recommends still more flexibility (temporary lay-offs, flexible working time arrangements, flexible working hours), an increase in the retirement age, a reduction in employers' social contributions for those on lower incomes, and a recommendation that governments should not become directly involved in job creation. All of this, of course, is to be implemented while maintaining strict financial discipline: "The stimulus is foreseen for a limited period after which EU member states should reverse the budgetary deterioration. They will be asked to spell out how they intend to do this and ensure long-term sustainability in updated Stability or Convergence Programmes to be presented by the end of 2008" (*ibid*).

The Recovery Plan does state a desire to act together "in a closely co-ordinated way". Nevertheless, reading this and other documents concerned with labour policy,[28] it is impossible to avoid a sense of *déjà vu* – that the Union's policy on labour issues is just a repetition of rhetoric that is already many years old. A similar criticism can be made of the EU's Guidelines for Growth and Jobs. It makes no proposals for concrete measures of any kind to face the crisis but, instead, makes repeated recommendations about what the member states should do. As usual the main emphasis is placed on the convenience of facilitating education and training for workers so as to make them employable.[29] The striking feature of all these recommendations is that they are written as if the problem of unemployment results from the inadequacy of workers for the jobs as if there were plenty of jobs available while totally ignoring the fact that the main problem is that *there are no jobs available.* This is very clear in the case of the recommendation for "active ageing" when the reality is that many enterprises are encouraging early retirement and virtually no enterprise engages anyone older than 45, or with the benchmark about offering jobs or apprenticeships to youngsters.

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26 See Commission of the European Communities, *Integrated Guidelines for Growth and Jobs*, Brussels, 11.12.2007, COM(2007) 803 final.

27 See Commission of the European Communities, *A European Economic Recovery Plan*, Brussels, 26.11.2008, COM(2008) 800 final.

28 See, for example, Council of the European Union, *Joint Report on Social Protection and Social Inclusion*, Brussels, 13.3.2009, (7503/09).

29 The largest share of expenditure on active labour market policy measures in the EU27 went on training (41.1%) to improve the employability of the unemployed and other target groups. See Eurostat, *Europe in figures – Eurostat yearbook 2009*, Brussels, 2009, p. 292.

Integrated Guidelines for Growth and Jobs (2008-2010)

Recommendations of the European Commission for policy regarding labour

The integrated employment guidelines for 2008-2010 encouraged member states to:

- work with renewed endeavour to build employment pathways for young people and reduce youth unemployment, in particular, through adapting education and training systems in order to raise quality, broaden supply, diversify access, ensure flexibility, respond to new occupational needs and skills requirements;
- take action to increase female participation and reduce gender gaps in employment, unemployment and pay, through better reconciliation of work and private life and the provision of accessible and affordable childcare facilities and care for other dependants;
- give support to active ageing, including initiatives for appropriate working conditions, improved health and incentives to work and discouragement of early retirement;
- develop modern social protection systems, including pensions and healthcare, ensuring their social adequacy, financial sustainability and responsiveness to changing needs, so as to support participation, better retention in employment and longer working lives.
- The guidelines also set a number of additional benchmarks, whereby member states were encouraged:
- to ensure that by 2010 every unemployed person was offered a job, apprenticeship, additional training or another employability measure (for young persons leaving school within 4 months, and for adults within no more than 12 months);
- to work towards 25 % of the long-term unemployed participating in training, retraining, work practice, or other employability measures by 2010;
- to guarantee that job seekers throughout the EU are able to consult all job vacancies advertised in the national employment services of each member state.

As one critic has noted, the EU's ability to act is very restricted: "With the present budget of the Union it is difficult to envisage any willingness to have active policy positions: Although Employment and Social Affairs has the third highest budget within the European Commission (11.5 billion in 2008, almost 10% of the EU annual budget, after agriculture and regional policy) the total amount is very low to deal with the present dimension of employment problems, and the more so if the fact that almost all expenditures relate to the Eu-

ropean Social Fund is considered.[30] Within these limits the Union is not in a position to propose many energetic policies."[31] Compared to policy areas such as competition, trade and the single market, the scope for action in the area of employment and social protection is much more limited.

The Union proposes to continue promoting one of its main existing approaches to labour policy, that of flexicurity. It states its aim as follows: "Within flexicurity strategies, rapidly reinforce activation schemes, in particular for the low-skilled, involving personalised counselling, intensive (re-)training and upskilling of workers, apprenticeships, subsidised employment as well as grants for self-employment, business start-up's".[32] However, in the face of the crisis this is largely irrelevant and could even have a negative impact. Flexicurity is supposed to balance flexibility and security and, in theory, such a strategy could help to relocated workers from sectors of low activity to those with high activity. However, the crisis has led to a decline in activity throughout the economy and hardly anybody is willing to hire. The alleged benefits of flexibility may therefore be called into question since "flexibility in the short run will merely mean that people will loose their jobs more quickly".[33]

Turning to EU policy more generally, there is a quite widespread public impression that, as a result of the crisis, there has been a return to more interventionist policies. Administrations have devoted enormous quantities of funds to sustain financial institutions and even some sectors of industrial capital have benefited from substantial public support. "We are all Keynesians now" is repeated in numerous and relevant quarters (entrepreneurs, politicians and even economists). However, even allowing for the passage of time, this public support has to be clearly differentiated from public intervention in the years after the Second World War. Keynes himself had been highly preoccupied with unemployment and the balance of social forces after the War led to a major extension of the welfare state. By contrast, it seems that responses to the current crisis accept that an "exit" will not imply the recovery of employment and that it will take several years to recover past employment levels. The fact that in many quarters it is accepted that "recovery has started" at the same time that projections indicate that unemployment will continue to grow shows how little importance is assigned to labour among policy makers. It appears that the Keynesian notion of a low level equilibrium (at least as far as employment is concerned) is accepted by the decision makers. In the member states concrete policies directed to create employment are also

30 There are some suggestions that the function of this fund should be revised but, although this may be a sensible idea, given the present path of the community in labour issues it is perhaps better not to change any positive policy that already exists.

31 See *Alternatives économiques*, Horsserie, Paris, No. 81, p. 31.

32 See Commission of the European Communities, *A European Economic Recovery Plan*, Brussels, 26.11.2008, COM(2008) 800 final..

33 See A. Sapir (ed.), *Bruegel Memos to the New Commission 2009*: *Europe´s economic priorities 2010-2015.* Bruegel, Brussels, 2009, p. 74.

rather weak. Some measures have been introduced to improve employment by directing resources to public works or to resuming growth. However, these have for the most part been rather limited while many other measures are being taken in line with "supply economics". There is strong pressure to cheapen labour: in some areas wages are declining, unstable and precarious employment is increasing, informal work is expanding, while conditions of work are deteriorating. We could speak of "asymmetric Keynesianism" considering the huge difference in the resources allocated to ensuring financial stability as compared with those assigned to promoting full employment.

Many commentaries on the crisis and the EU, as well as official EU documents, refer to the need for coordination. It is recognised as essential if policy is to be most effective, and its absence is said to risk serious consequences. In the words of one official publication: "A stronger more co-ordinated response would help to soften the impact of much higher unemployment levels on Europe's potential rate of growth."[34] However, despite the rhetorical importance attached to the coordination of policies, it is not occurring. Rather each member state is trying to solve its problems with little regard for the consequences of their policies for other countries (including, despite frequent criticism, the use of protectionist policies). This is having a negative impact on employment in countries where important industries depend on developments in richer EU countries. The car industry is a clear case, where proposals to provide public support for the national industries in the rich countries, such as Germany and France, will have negative consequences in other, second rank countries, such as Spain and Portugal, where the industries are foreign owned.

2.4 The fight against poverty: Lip-service without action and without impact

Although the EU made a decisive step by putting the issue of social inclusion on its political agenda, in practice not much progress has been achieved yet. In principle, the introduction of the process of learning from each other among the member states in several policy areas such as employment, social protection and social inclusion can be appreciated: The framework of the Open Method of Coordination (OMC) enables both the member states and the European Commission to formulate political positions and to develop proposals for policy areas even without formal European competencies. Furthermore, political and public discourse can be fostered by this means, too. But, since the OMC was introduced as a soft-policy instrument without legally binding mechanisms, it is

34 See Giuseppe Carone, Gert Jan Koopman, Karl Pichelmann, "Labour market prospects and policies to soften the impact of the financial crisis", *ECOFIN Economic Briefs,* Brussels, May 2009.

doomed to result in a purely rhetorical and theoretical discourse, while it lacks the implementation of effective policy instruments in these areas.

Ambitious improvements by the means of the OMC – provided that there is the political will to foster changes even if they are based on a non-binding process of learning among member states – are doomed to fail, if the Commission and the member states are not even willing to fix non-binding targets, as happened in the area of combating poverty: The latest documents and speeches of European officials and institutions claim that the fight against poverty is one of the most urgent tasks of the EU. The European Commission seems finally to have recognised that poverty threatens the internal cohesion of the European Union. As a consequence, lip service is paid to the issue by European institutions, the Open Method of Coordination has been applied in this field since 2000 and the year 2010 has been denoted as the "European year for Combating Poverty and Social Exclusion". However, while the European Parliament calls for ambitious objectives in this area, no specific targets have been fixed yet, either for reducing the overall level of poverty in the EU or for lowering poverty rates among specific groups of the population. But specific targets are of major importance – even though the OMC is a non-binding, soft-policy instrument – and a prerequisite for any serous anti-poverty strategy: By fixing specific targets, the anti-poverty measures and policies at the European level as well as those of the individual member states could be assessed by the means of these self-set targets. Without concrete objectives, however, the fight against poverty will continue to be purely rhetorical and will produce nothing but a further load of conference papers and nice sounding general statements. As long as no effective anti-poverty policies are applied, the gap between those who benefit from European economic integration and those who suffer from deteriorating working and living conditions as a result of applying rules of competition to all economic and social spheres in the member states will continue to threaten social coherence within the EU.

Taken together, although poverty and social exclusion are on the rise in the EU – and will most probably continue to increase as a result of the economic crisis – practical and efficient political actions at the European level have been rare.. As a result, nine years after social inclusion was introduced as one of the new strategic aims of the EU in 2000, poverty levels have increased rather than decreased. These developments clearly demonstrate that the dominance of economic policies and the subordination of social policies at the European level aggravate – instead of improve – the social situation in Europe. The dismantling of European welfare systems, in order to meet the fiscal requirements of the EU and to improve "competitiveness" both within the EU and abroad, contributes to a downward convergence of social standards and living conditions.

2.5 The ecological dimension of EU policies: Insufficient, fragile and subordinate

The environmental situation in Europe is worsening dramatically.[35] The key question is why there is no adequate political response, neither on the European nor on the member state level.

The knowledge base for the ecological dimension of economic policy is still insufficient, fragile and not adequately taken on board – although the level of expertise available within the EU (and complementary spaces, as defined by the European Economic Area and the European Neighbourhood Policy) is relatively high by international comparison and has certainly improved since the 1980s. Alongside the Commission Services, and the environmental reporting on indicators defined by the EEA and by Eurostat, there is also EU funded research, the European Environmental Advisory Council (EEAC) network, and alternative expertise offered by the Green 10 group of European environmental NGOs, or by the Spring Alliance.[36] The problem, however, is that these sources of expertise have little impact on decision making processes.

There is little disagreement about what needs to be done. The top priority is to cut the absolute amount of energy emissions, which means reducing the energy intensity of production and consumption processes. New energy-saving technologies and new sources of energy must be implemented urgently. The major obstacle is a lack of political will to shoulder the scale of investment needed for such a transition, something which has a basis in voters' and consumers' behaviour. Such measures are also not widely supported by business, as was the case with the large bailouts for financial institutions

A major impediment to pursuing environmentally sustainable economic policies is the assumption that such policies involve long-term goals that conflict with the pursuit of social cohesion and economic viability in the short run. This is an argument that is eagerly taken up by those sectors of private business which will loose out from major changes. In reality, however, in the medium to long term, unsustainable economic gains will always backfire, producing additional costs acting as a burden on economic prosperity. It is therefore essential that the strategy of sustainable development should be fully incorporated into all areas of policy (competition, agriculture, trade, fishing, energy security). There should also be a coordinated process that links the EU's annual environmental review with the review processes which have grown out of the Amsterdam agreements on employment policy, the Cardiff agreements for integrating environmental concerns into all policy areas of the EU, the Lisbon agreement on the Lisbon strategy for European competitiveness, and

35 See http://www.green10.org for the balance sheet for the last EU legislative period drawn up by the Green 10.

36 Concerning the important dimension of biodiversity we may refer to the critical, yet balanced assessment of the EU situation and its policy alternatives produced by the G10 (http://www.green10.org).

the Gothenburg agreements on a comprehensive EU Sustainable Development Strategy (SDS). The lack of coordination has led to a tendency for the council of ministers to concentrate in a rather one sided way on issues of technology induced environmental efficiency, while NGOs and social movements have tended to concentrate on issues of nature protection. As a result, key areas, such as industrial conversion or a change of consumption patterns have been somewhat marginal to the concerns of both groups.

The EU Sustainable Development Strategy has failed to initiate the broad array of policies required to deal with the current challenges, much as has been the case with its global counterparts – the Rio-commitments, the Millennium Development Goals, and the G20 agreements. In the face of the imminent scarcity of fossil fuels, rather than taking decisive action, the EU is still squandering resources on dead issues, like bio-fuels or nuclear energy.[37]

In the context of the current crisis, when the content of the fiscal stimulus programmes and their economic efficacy is a subject of debate, there is an important opportunity to raise the issue of sustainability. This could be pursued by taking up recent theoretical advances in the debate on economic growth vs. sustainable development which have highlighted the problems of pursuing an adequate relation between stimulating economic growth in selected areas and achieving the required reductions in the use of resources and in emissions.

The major issue at the centre of public attention is undoubtedly the climate crisis and, in the run-op to the Copenhagen conference on a post-Kyoto agreement, the question of anthropogenic climate determinants which is, in turn, indissolubly connected to questions of energy production and use. Here, the EU seems to be in the process of losing the leadership it had claimed in Johannesburg.

The EU's position is based on promoting a cap-and-trade system. This appears simple because it relies on freely-adjusting market prices which seem to avoid the need for extensive political deliberation and decision making. Whereas a carbon tax would require making political decisions about how it should be implemented at a sectoral, regional or national level, an Emission Trading System (ETS) seems to offer a self-adjusting system that will respond flexibly to all eventualities – possibly even reaching beyond the EU's borders. Such a system could raise as much revenue as competing instruments like taxes or licenses, but it will not provide the push that is needed to ensure a rapid and significant change in emission behaviour by private business enterprise in the industrialised countries. It could also lead to a diversion of emission to developing countries. A major weakness of emissions trading was demonstrated with

37 Sober economic analysis shows that nuclear energy is not a rational option from the point of view of the energy users (cf. the recent realistic balance sheet about the present "development" of nuclear energy and its cost development produced by Lutz Mez ("The econoics of nuclear power – Is there any nuclear renaissance?", Forschungsstelle für Umweltpolitk, Freie Universität Berlin, 2009). Whatever nuclear energy could contribute to reduce greenhouse gas emissions would be too little, come too late and would be too expensive (but it could well succeed in depriving alternatives of policy support and investments).

the onset of the most recent recession. As a result of the decline in demand for emissions certificates, the price fell from over €60 per ton down to just above €20, largely eliminating any incentive to invest in energy saving or in alternative energy sources. As this market was created as a policy instrument, political decision makers should have ensured its effectiveness, for example by lowering the cap or by buying up certificates to stabilise prices. However, the prevalent view of markets as efficient regulatory instruments meant that there was a reluctance to intervene – especially in the middle of a crisis! At the same time, the EU's emissions trading system has turned out to be a source of considerable profit for financial investors as well as for coal and nuclear energy generators, as most emission permits have been allotted to the biggest emitters at no cost.

In the last round of internal bargaining, the EU's richer member states accepted that they should take on a larger share of emissions reduction than poorer members states (predominantly the new member states from Central and Eastern Europe). In some respects this was exemplary. However, poorer member states had called for larger transfers of money and technology from the richer member states in order to begin dealing with their emissions, and instead they were obliged to accept a deal that will make the Copenhagen negotiations even more complicated: The new EU member states will be allowed additional carbon allowance auctions for their own power companies – so that there will be even less auction revenue available.

The EU summit in preparation for the Copenhagen conference did not produced any significant positive results. The refusal of the German government to concretise the financing proposals of the EU (as proposed by the Swedish presidency), and by not following the suggestion of the Environment Council to specify the financial support promised to developing countries for a technological conversion of their energy systems, the chance of success has been reduced in the next round of the global negotiation process (which will most certainly extend well beyond the Copenhagen meeting).

The main weaknesses of the EU ETS as they have been brought to light by past experience tend to become hindrances for a further advance in global policy. This is visible in the following dimensions:

- the openness of the EU ETS for speculative developments makes it susceptible to price bubbles;
- the dependency of the emission prices on the ups and downs of the business cycle may turn the EU ETS into an ineffective instrument for accelerating emission reductions by targeted investment;
- the unilateral reliance of ETS systems on pricing mechanism which presuppose an expanding commodification of natural resources, marginalises attempts to deal with climate and ecology challenges in qualitative terms – reaching from indigenous and traditional knowledge to a qualitative analysis of the interaction between human beings and biospherical conditions and resources;

- the lack of a clear quantitative planning framework makes the aims of emission reduction uncertain, even in the longer run;
- the loopholes inherent in the system, especially the possibility of investing in sinks, of reducing abatement obligations by transferring them to partners in the global South (Joint Implementation, Clean Development Mechanism), takes too much of the pressure away from reducing emissions in one's own enterprise;
- the pressure for an effective reduction of one's own emissions is not strong enough, even if the loopholes could be closed.

The economic instrument created to facilitate emission reductions has turned into an obstacle to realising the needed GHG emission reductions in time. It has been turned into a dogma that politics should not meddle and serves as an excuse for political leaders to avoid their responsibilities.

Box 2: The Lisbon Strategy 2000-2010: A complete failure

At its launch in March 2000, the Lisbon Strategy was presented as a benign concept for promoting the economic, social and ecological renewal of the European Union. Initiated by a majority of more or less centre-left governments of the EU member states in which social democracy exercised some dominant influence, the strategy promised to build a strong "New Economy" in Europe based on the unleashing of financial markets, financial innovation and the Internet – assumedly leading towards an "information society" and a "knowledge based economy". The EU elites were so encouraged by developments in the USA from the mid-1990s onwards that they proclaimed an overarching target for the EU to become the most competitive economic region of the world. This "New Economy", it was hoped, would provide for annual GDP growth of 3 percent and thus pave the way towards achieving "full employment with more and better jobs and greater social cohesion". It was a simple blueprint for emulating the "success story" of the US "jobs miracle" of the late 1990s, but with a promise to maintain a more balanced European "social dimension".

Unfortunately for such hopeful centre-left forces, the seemingly promising US-style "New Economy" had already begun to unravel by 2000. In 2001 the US entered a recession, and the downturn in the EU economy was even larger. What critics such as the EuroMemorandum Group and others across the Atlantic had rightly characterised as the building up of a speculative bubble simply fell to pieces. At that point, the centre-left majority in the European Union had no idea for a "plan B". As a result of the unfolding crisis, centre-left governments were swept away in the majority of EU member states between 2001 and the end of 2002 by conservative and right-wing populist forces.

Finally, the social rhetoric of the initial Lisbon Strategy was abandoned and a realignment of Tony Blair's and Gerhard Schröder's governments with the right-wing governments of José Maria Aznar (Spain), Silvio Berlusconi (Italy), Jacques Chirac (France), Anders Fogh Rasmussen (Denmark), Jan Peter Balkenende (Netherlands) and José Manuel Barroso (Portugal) was launched. Under their joint auspices, the Lisbon Strategy was conclusively adjusted towards anti-social ends: tax cuts supported the creation of a huge low wage sector in Europe, a further flexibilisation of labour markets weakened protection against dismissals, "activate" labour market policies cut the amounts and durations of social benefits and tightened eligibility criteria ("make work pay"), overall wage growth was moderated, the "actual retirement age" was curtailed by 5 years and "reforms" were implemented to cut costs for health systems and pensions.

In 2005, a "mid-term" review of the Lisbon Strategy under the auspices of an expert group headed by Wim Kok concluded that the Strategy had not been able to deliver on the agreed targets. As a consequence the strategy was "re-launched" with José Manuel Barroso as the new President of the European Commission. Its sole focus was on "Growth and Jobs", along a programme of further financial market liberalisation and more "structural reforms" concerning goods, services (the "Services Directive") and labour markets. The EU "Sustainability Strategy" (Stockholm and Gothenburg Councils in 2001 for environmental and health dimensions) and the EU "Social Strategy" (Social Protection and Social Inclusion) were pushed into the background, although both were already conceptionalised along market imperatives and as tools for re-gaining "international competitiveness".

From 2004 to the end of 2007, the EU benefited to some extent from a modest global upswing. But this occurred against a background of a major redistribution of income and wealth (an explosion of profits together with a continuing decline of labour's share in national income) and of a pattern of job growth mainly centred on low income, casualised labour. Against the background of a pattern of growth in which the benefits were distributed more unequally, hopes were again raised that growth could be shaped so as to better combine "flexibility with (social) security". In a way that was quite similar to the early days of the Lisbon Strategy, the EU elites now found it safe to promise a new age of "flexicurity" in which those who were ready to work hard would find "stepping stones" provided by employment and social policy to enable them to climb up the social ladder from insecure to regular forms of employment. This did not even materialise during the short recovery period, as numerous empirical studies have demonstrated.

Finally, from the end of 2007 until the present, the global economy has experienced the shocks of the financial crisis and subsequent economic crisis, with a sharp decline of worldwide trade and a severe global recession. As

we are approaching the official end of the Lisbon Strategy, all its assumed "achievements" between 2004 and 2008 have been totally erased. The central rationale of the Lisbon Strategy was that the European Union must regain some sort of "international competitiveness" vis-à-vis its strongest competitors on a global scale – initially the United States, and later also the so-called BRIC-states (China, India, Russia and Brazil.). This perception has turned out to have been completely flawed from the start.

In the early period of the strategy, when the US was seen as the main competitor, it was already clear that some of the EU member states – most prominently the Nordic countries and the Netherlands – were able to generate jobs and achieve employment rates well above those in the US model. Also, in terms of avoiding poverty and social exclusion these countries were more successful than the US, while performing in global rankings of economic "competitiveness" at above or the same level as the US (and also China and India). Their ranking on "ecological sustainability" was also much better than the US and other competitors.

From these results, it would have been only logical to promote the more egalitarian, social and ecological values, policies and instruments that – despite changes induced by neoliberal reforms from within – were still enshrined in the "Nordic Models", as a benchmark in order for the European Union to also become more "competitive" on a global scale. But the EU elites promoted the opposite, making demands on Sweden and other Nordic countries from 2001, for example to flexibilise their labour markets further because they were perceived as being "too rigid". All this happened despite these countries sustaining top rankings within the EU as concerns the Lisbon Strategy's targets on "employment rates" (for general rates, for women, for elderly workers etc.) as well as for the other targets of the strategy.

But even more damaging for the EU elite's general mantra of "competitiveness" is the obvious fact that the emergence of the global financial and economic crisis had nothing to do with an assumed failure of the EU to compete with the US, China, India and whomever. The crisis first emerged in the economy of the major competitor, the US, which pulled down the global economy with severe repercussions for the EU. Japan was immediately affected very negatively. But the impact on China (and through its policies, the rest of Asia) was less harsh. One reason for this is that China never exposed itself so openly to financial market liberalisation as the US or the European Union, and quickly launched a policy with other Asian countries to counteract the effects of the economic crisis, sidestepping the usual "structural adjustment programmes" of the IMF by organising alternative funds without such conditionalities in Asia.

The final upshot is that the decades of neoliberal reform worldwide since the beginning of the 1980s, which were subsequently accommodated and

supported by the EU's Lisbon Strategy – financial market liberalisation, market opening and liberalisation of goods and services, wage depression/moderation and re-distribution of incomes and wealth from the bottom to the top – created the very conditions for the financial and economic crisis to unfold. Without these European and US policies of liberalisation policies and re-distribution, speculative bubbles might not have occurred on such an unprecedented scale. At the core of the crisis, there is a deep seated problem of distributional justice.

The EuroMemorandum Group is one of the strands among heterodox economists that long warned against these developments. We are happy to see that more voices formerly associated with the economic mainstream now share at least part of this analysis. But we take note that EU policymakers at large are strongly committed to pursuing the very obsolete conceptions enshrined in the "old" Lisbon Strategy – calling for a pre-mature "exit-strategy" from debt-financed recovery programmes, blocking any systemic European policy response to the crisis, and promoting ever deeper "structural reforms" along the old lines of de-regulating labour markets, privatising social security systems and the like. Clumsy rhetoric about "greening the economy" has had little impact, and is not reflected in member states' economic recovery programmes ("green" incentives currently amount to 0.5% or less of the major national programmes).

Trade unions, social movements, heterodox economists and the like should therefore stand up against any sham reshuffle of the "Lisbon Agenda", call for a thoroughgoing examination of its complete failure and mobilise for an alternative, integrated EU-Strategy for Social Justice, Sustainability and Solidarity.

3. Proposals for alternatives

The EU's neoliberal growth and competitiveness-based Lisbon Strategy has not delivered on quality jobs, equality, prosperity or environmental and social sustainability. Its social strategy "the European Social Agenda" and its external economic strategy "Global Europe" have also failed to promote such goals. We therefore think that a new Strategy is needed which promotes economically, socially and environmentally sound sustainable development throughout the European Union and which guides the EU's contribution to dealing with global problems. For this, we need an integrated strategy based on mutually supportive economic, social and environmental pillars which must be steered by a democratic and participatory process of socio-economic governance. A truly integrated strategy must finish with the present set of separate and uncoordinated

strategies. It will have to avoid the contradictions between the aims and goals of the EU Sustainable Development Strategy (EU-SDS), the Social Protection and Social Inclusion Strategy and the Jobs and Growth Strategy. An integrated EU-Strategy for Social Justice, Sustainability and Solidarity will have to focus on the interaction of its economic, social and environmental components, so that they all contribute to achieving social and ecological objectives.

At its core there needs to be a transformative programme, reshaping and strengthening the economic recovery programmes of the member states and co-ordinating them with a systemic European Recovery Initiative. This should aim for equity, full employment with "good work", greening the economy, social welfare, the eradication of poverty and social exclusion and promotion of improved social and territorial cohesion across the EU. To overcome the crisis, it will need to have a strong alternative macro-economic foundation.

The integrated Strategy will not only need an internal dimension (EU and member states), but also an external one (foreign policy, trade, neighbourhood policy) streamlined along the same goals as its internal dimension. The neoliberal "Global Europe" agenda must be abandoned.

An integrated EU-Strategy for Social Justice, Sustainability and Solidarity will of course need to set ambitious targets, benchmarks and indicators for its different components. It will need indicators that go beyond GDP, including multiple indicators on well-being, the eradication of poverty and social exclusion, gender equality, equity and equality for all (including between the regions and on overcoming of inequality based on income and wealth), and energy, natural resource use and ecosystem pressures. But such a Strategy can not deliver on sustainable development if it is only a voluntary process in the style of the EU´s Open Method of Co-ordination (OMC). The strategy will need to have a strong legislative foundation, using the legislative capacities of the EU to promote its ends while re-shaping and re-focusing many of its instruments, such as financial regulation or structural funds..

Along these lines, what follows is an initial contribution to the discussion of what could be the major components for such an EU-Strategy for Social Justice, Sustainability and Solidarity 2010-2020.

3.1 Towards a democratisation of finance

The expansion of the financial sector through the process of innovation and deregulation has enabled a tiny elite to appropriate an ever large share of national income, both in the US and in Europe. At the same time, the financial system has provided a means by which that elite sought to obtain an ever rising return on their wealth. This resulted in highly mobile capital, shifting from one form of investment to another in response to the highest short-term yields; the development of ever more impenetrable instruments, frequently designed with

the aim of obscuring the risks involved; and to a rising degree of instability that eventually obliged governments to intervene with huge sums of capital to avoid a complete financial collapse.

Although the state now has a direct stake in many financial institutions, the restriction of credit has been a major factor in determining the steep downturn in output and the rise in unemployment in Europe. As an immediate measure, governments should therefore use their influence, especially where the state is part of full owner, to promote the provision of financing for socially and ecologically desirable investment projects.

More general proposals should be based on achieving a fundamental shift in the functioning of the financial system. For the great majority of citizens, the key features that are required of the financial sector are:

- a reliable payments system
- a safe repository for deposits
- a means of mobilising monetary resources for large household purchases, and for investments that promote social and ecological goals

In order to promote these functions while reducing the pressures that have led to the current crisis, a strict separation should be introduced between commercial banking and investment banking. The main features of the system should be as follows:

Commercial banks

- restricted to accepting deposits and making loans to households and firms
- public, co-operative and other non-profit forms should be promoted
- all assets should be held on banks' own books with no off-balance sheet assets
- capital requirements should rise during business-cycle expansions in order to discourage over-lending and to build up a cushion for the subsequent downturn
- in the event that loans are packaged and securitised, banks must continue to hold a significant proportion of the securities themselves
- banks should be allowed to fail with protection for depositors but not for shareholders
- systemically important banks should be subject to effective public control.

Investment banks, hedge funds and private equity funds

- all trading positions to be fully disclosed
- no off-balance sheet activities
- capital requirements to be at least as high as those for commercial banks
- leverage to be tightly restricted

Financial markets

- all new instruments to be approved by regulatory authorities to avoid excessive complexity
- all securities should be cleared on central platforms
- a public European ratings agency should be created
- a generalised financial transactions tax should be introduced in Europe, possibly with differential rates
- public pay-as-you-go pension schemes should be strengthened because of their cost effectiveness for employees and so as to avoid contributing to the creation of asset-price bubbles

Salaries

- any bonuses should be limited to a small part of salaries and linked to long-term performance criteria defined in terms of social & ecological goals
- all very high incomes (say over €500,000 a year), and not just those in the financial sector, should be taxed at an high marginal rate of tax (perhaps 75%) in the interests of social equity and to discourage such salaries

The European Monetary and Financial System

- The process by which new member states can join the Euro should be revised to allow rapid admission
- The responsibility of the ECB for systemic stability should be strengthened, and not simply as part of a collegiate, non-binding system
- A strong European Financial Supervisory Structure should be created
- Conducting financial transactions through non-regulated financial centres should be tightly restricted
- The restriction on conducting financial transactions through unregulated centres should apply to London so long as it does not participate in the process of joint European regulation

International Regulation

- The EU should support the creation of a Global Economic Council under the aegis of the United Nations in place of the G20
- European countries should accept a common international representation that is commensurate with the EU's weight in the world
- The EU should support developing the reserve role of Special Drawing Rights
- The EU should support the development of international mechanisms designed to encourage countries with persistent large current account surpluses to eliminate those surpluses

The assertion of social control over the financial system, although it will be a difficult process, is a necessary precondition for the success of any democratic

economic strategy. The difficulties stem in part from the powerful vested interests which will resist reform and in part from the complexity of the financial system today and the fact that it operates on an international scale. To some extent, trial and error will be needed in the process of transformation because the most effective measures cannot be completely satisfied in advance. A new and more restrictive regulatory regime is certainly necessary but is far from sufficient. It will be necessary to change the balance of power between regulators and the banks and other financial institutions in favour of the regulators. But beyond regulatory issues, a broad aim of financial strategy must be to transform the goals of the sector so that, instead of being driven by profit maximisation, the financial sector works, within the constraints of solvency and liquidity, to further social justice, sustainability, and economic development in the poorest regions of the world.

3.2 Towards improved macroeconomic performance

A fundamental condition for improved macroeconomic performance in the medium term is an increase in the number of macroeconomic instruments and a reassignment of these policy instruments. The assignment of monetary policy to the target of price stability is increasingly dysfunctional. The control of inflation should rather be secured by an incomes policy which, by acting with differentiated force on different types and levels of income, can also support a fairer distribution of income. Monetary policy should support sustainable economic development by maintaining low interest rates and a liquid financial sector, dedicated not to maximum profits but, within a rational constraint on rates of return, to promoting the most important environmental, social and employment objectives. Budgetary policy can be used to influence both the overall level and the structure of employment. Financial stability should be secured not through high interest rates but through improved regulation of the financial sector together with a bigger role for the public sector in savings, pensions and housing.

A necessary condition for such developments in the Eurozone is a deep and comprehensive reform of the monetary union. The main lines of this reform are well known: the assertion of democratic political control over the ECB and a reform of its mandate to emphasise financial stability, full employment, international cooperation and sustainable investment. The illogical and damaging Stability Pact must go, to be replaced by a coherent budgetary policy based both on genuine coordination of member state budgetary policies and a significant expansion of the central EU budget with a redistributive dimension to reinforce solidarity among member states.[38]

A key objective of European policy should be to contribute to a more stable world economy. This requires agreement among the main economic groupings

38 At the same time those new member states which wish to adopt the Euro should be permitted to do so without further delay.

to limit movements in exchange rates and to be ready to alter their own macroeconomic policies in the common interest. On the basis of reduced tensions in the Eurozone, the EU would be ideally placed to support a correction of the main imbalances in the world economy by an expansion which is also necessary to reduce unemployment in Europe itself.

The financial crisis led to a recession which would have reached catastrophic dimensions without a significant budgetary stimulus in most economies. Groupings of corporations and "free-market" fundamentalists are now making the resulting public sector deficits an excuse for an attack on public services and on social security systems. This is absurd since the crisis is the result of a cumulative loss of social control over economic life in general and financial processes in particular and the only way to build a stable, sustainable and more equitable economy is through a stronger public sector and a much greater emphasis on public goods and social solidarity.

A precondition for improving the fiscal health of European states is to establish, through regional and international agreement, clear principles of fair taxation. Such an agreement would involve the elimination of so-called "tax havens", the prevention of destructive tax competition through the setting of minimum rates of personal income tax and corporation tax within the EU27, the reestablishment of effective systems of progressive taxation, a standardised tax base for corporations and non-incorporated companies and the exchange of information between the tax authorities of individual states. Such an agreement would help to reverse the dramatic redistribution of income from wages to profits in the last quarter of a century which contributed in no small way to the speculative bubbles that ended in the calamity of 2008. It would also ensure that state authorities throughout Europe – but in particular in the new member states – were provided with the necessary resources both for maintaining the vital provision of public goods and social welfare and for responding to future cyclical crises.

These measures would ensure that, when budgetary deficits are narrowed, this is done in a fair and efficient way which also contributes to solidarity within the EU. In fact, budgetary deficits today in many member states are being financed on relatively easy terms because of the preference of investors, after the crisis, for low-risk placements, although this certainly does not apply to the countries most seriously hit by the crisis such as Latvia, Lithuania or Hungary. The EU and its wealthiest member states must guarantee the public sector borrowing of these countries.

It is critical that deficits are not narrowed too fast or too far because this could prolong and deepen the recession. If there is, in the future, an excessive burden of public debt then public liabilities should be cancelled against private assets – especially the immense fortunes gained through the dysfunctional, destabilising and parasitic activities of the banks and financial corporations. This would be best achieved through a special wealth tax but, if necessary,

governments must not hesitate to drive the nominal yield on public debt below the rate of inflation or simply to monetise the public debt. The last two years have seen a vast socialisation of the losses incurred by the mismanagement of financial and corporate elites. For ordinary citizens, the necessary compensation for these huge bail-outs is a certain socialisation of the ill-gotten gains of the same elites.

3.3 Alleviating the effects of financial crisis on the labour market

The crisis should have led to an emergency plan to deal with the worst consequences of the crisis for ordinary citizens and workers. A plan should have been devised and rapidly implemented in the same way as the emergency plans to rescue the financial system. Given the extent and duration of unemployment, emergency measures should be contemplated. For instance, unemployment benefits could be extended to cover the whole period of unemployment or a minimum guaranteed income could be introduced for the duration of the unemployed period. A minimum guaranteed income should also be introduced for people in employment so as to ensure them a decent life. It is completely unjust that people who cannot find work or, still worse, that people who are fully employed should suffer economic hardship due to causes that are completely remote from how they earn their living – and that in some of the richest countries of the world. In addition to avoiding hardship, such measures will also contribute to strengthening consumption demand, and so to promoting a resumption of growth. A significant part of the funds necessary to finance that Plan could be raised at the EU level even if that implies creating special Funds or incurring a European Public Debt.

Emergency measures should also be enacted to ensure that households are not threatened with losing their homes through evictions, especially if this is a result of unemployment. The problem facing households who loose their homes is not taken seriously enough, especially in view of the difficulty of obtaining alternative housing given the level of house prices and rents in most countries. Banks have received large amounts of public money while households find it difficult to meet their mortgage payments. It should not be difficult to devise ways of ensuring that people with payment difficulties can stay in their homes, especially since a failure to pay will only exacerbate the problems faced by the banks. Such ways could include extending repayment periods with preferential interest rates or allowing a payment-free period.

There is also a need for measures to protect "self-employed" workers, many of whom have not chosen this position. A special legal status should be established so as to ensure they are protected at work and that their contracts are respected. This should protect workers from risks and accidents, and periods without work – and therefore income – as well as periods of training paid for

by the contractors might also be contemplated.[39] Self-employed workers should have the right to strike and to a system of collective agreements which deal with minimum payments, working and leisure time and the procedures for when contracts are broken.

But labour policy should not be confined to providing assistance to the unemployed and other groups of people who are faced with difficulties in the labour market. It is also necessary to reintroduce the idea of an active industrial policy. It is now abundantly clear that deregulated markets do not result in sustainable growth. While many responses to the crisis have referred to the need for "green production", in fact a broader approach is required which integrates a sustainable approach to the design, production, consumption and recycling of commodities. An industrial policy (which embraces not only manufacturing industry but also agriculture and services) can play a major role in improving the employment situation. A serious employment policy needs to place job creation at the centre of economic and social objectives and not to rely on the trickle down effect of growth to provide new jobs.

As proposed in the EuroMemoranda 2007 and 2008, the future European Employment Strategy (EES) shall be re-oriented towards the "good work" agenda. The "good work" agenda encompasses the ILO core labour standards and the ILO and UN concept of "decent work", to which the European Union has already committed itself. Going beyond this, the "good work" agenda aims at social sustainability in all its aspects. It demands shaping working conditions in a way that the quality of employment is improved and that preventive and participation-oriented health and safety regulations at work create an environment which enables workers to stay fit and healthy up to and beyond their retirement age. The "good work" agenda furthermore aims at enhanced participation rights of employees and guaranteed rights to education, further education, training and lifelong learning, also by way of strengthening collective co-determination rights. It aims at defending and renewing the standard employment relationship, based on equal workers rights, a high level of job and employment protection, the right to strike, to collective action and collective bargaining, a high level of social protection and decent remuneration, and full-time employment as the norm.

The question of working time should also be taken up again. It is very striking that the countries with longer working hours are not the most competitive. A policy of reducing working time will allow for the creation of more jobs, and is a measure that will improve the situation of both workers with jobs and those without. To this end there is a need for a new European working time standard aimed at shorter full-time employment for all. In addition, the EU must establish a clear limitation on the maximum working week at EU level, which should be reduced from the present norm of 48 hours per week to 40 hours as a

39 See Alternatives économiques, Paris, 276, 61.

first step, and it should abolish all derogations and loopholes in the existing EU working-time directive. There is also a need to establish norms for part-time employment so that workers who wish to work part-time (15-25 hours a week) will be provided with job protection and full social benefits.

Social protection systems must be re-oriented so as to provide better support for changes in the work-life cycle of a person. This should ensure that career breaks (e.g. while caring for children or dependents, or for education, training, lifelong learning etc.) and employment transitions (e.g. from education to employment, from full-time to part-time and vice versa, from self-employment to employment and vice versa, job rotation schemes etc.) are accompanied by measures that provide for the acquisition of decent pension entitlements, protection against health and other life risks, and adequate incomes during periods of transitions.

Direct job creation by the public sector in specific priority fields should also be contemplated, most notably in the social services. An expansion of the social services is very much needed, and provides an obvious means of increasing employment. A further advantage is that this is a sector that can provide more employment for women. The massive support provided by the state to the financial sector has shown that the necessary resources can be mobilised if there is sufficient political will.

3.4 Effective policies for social inclusion beyond rhetorical discourse

The symbolic initiative by the EU to denote the year 2010 as the "European Year for Combating Poverty and Social Exclusion" is to be welcomed. However, political initiatives to fight poverty have to go far beyond the current concepts. What is needed is a reorientation of the political agenda of the Community to strengthen the social dimension of the integration process, something which has so far been largely neglected and subordinated to economic "necessities". Given the political will, the existing competencies at the Community level do already offer perspectives within which such a social model could be realised. The fight against poverty, deprivation and social exclusion in Europe should move beyond rhetoric and become a top priority for political action on the European agenda. Moreover, it is imperative that the cost of the financial bail-out must not fall on the poor and the most vulnerable sections of the EU population.

Therefore, we fully support the demands of the European Parliament put forward in its resolution of 9 October 2008 to strengthen the EU strategy on Social Protection and Social Inclusion by improving its visibility and working methods and its interaction with other policies. The Parliament sent a strong message to the Commission and the Council to set clear targets within that social strategy, inter alia:

- targets for the *reduction of poverty* (in general, and for child poverty, in-work poverty and persistent long-term poverty), for a minimum level of income provided through pensions and for access to and the quality of health care (reducing infant mortality, improving health and increasing life expectancy, etc.), all of which should be differentiated by gender;
- a target to *reduce child poverty by 50% by 2012* and to enhance progress in meeting the existing "Barcelona" target on the provision of childcare facilities across the Union for 90% of children from birth until mandatory school age and a sufficient level of care provision for other dependent persons by 2015;
- a target to *end homelessness* (of children and adults alike) by 2015;
- new targets on sufficient income to prevent poverty and social exclusion, such as an EU target for minimum income schemes and contributory replacement income schemes providing income support of at least 60% of national median equalised income and an EU target for minimum wages (statutory, collective agreements at national, regional or sectoral level) to provide for remuneration of at least 60% of the relevant (national, sectoral, etc.) average wage.

We also support the Parliament's demand that the member states should provide targeted additional benefits for disadvantaged groups (such as people with disabilities or chronic diseases, single parents, households with many children). These should cover extra costs in connection, inter alia, with personal support, the use of specific facilities and medical and social care with affordable price levels for medicines for less-favoured social groups and ensure decent invalidity and retirement pension levels. Lower income individuals furthermore need to be especially supported as regards access to essential services. Therefore, member states should provide for social default tariffs for vulnerable groups for example in the fields of energy and public transport, as well as free healthcare and education for people having difficulties of a material nature.

Furthermore and in addition to the already existing programs, the activities of the Community should be developed from its present level and be extended beyond the pure exchange of information and research on poverty. To this purpose, all member states should prepare, implement and evaluate national anti-poverty strategies. Most of the competencies and tools in social policy could remain in the hands of the member states, but the Community should promote the development of binding differentiated minimum standards in this area. These minimum standards should be geared towards those which prevail in the most advanced systems while the already existing standards of social provision must not be lowered in order to avoid downward convergence.

Financial Crisis and Poverty in Old Age

There is a serious risk of poverty increasing for many elderly people in the EU. As noted in part 1.4 of this EuroMemorandum, it is likely that, as a result of the massive budget deficits arising from the socialisation of the cost of bail-out, there will be less public money available to support old-age income and to increase real expenditure on public pension systems. Besides, other types of support for old age, like discounts on public transport, electricity and heating subsidies, may well be withdrawn or subject to means testing. Private pensions and in general all kinds of savings for old age have also been seriously affected by the financial crisis. The decline in asset prices, including those of shares and housing, has reduced the real value of savings. Another equally serious problem is the decline in interest rates that has reduced the return on financial savings that will also negatively impact returns on annuities.

There is an urgent need to develop long-term objectives and concepts at the European level to fight old-age poverty. In order to actually achieve improvements beyond the exchange of information, specific minimum standards for pension schemes have to be determined. In the face of the financial crisis, which has proven that relying on financial markets for old-age security is a costly and risky strategy, the Community would be able to counter the trend towards the privatisation of the public pay-as-you-go systems and help to stabilise and restore the public pension systems. In fact the current need for the use of public money to stabilise the financial market should be used to bring back the socialised support of the elderly based on a universal pension scheme and inter-generational support. For example, budget deficits could be financed by selling government bonds to pension funds that would guarantee a return to pensioners. This is a return to the pre-liberalisation investment rules for pension fund, according to which they had to keep a large proportion of their assets in government bonds in return for a secure and guaranteed, albeit low, return in the future, hence the "gold plated" pensions. In this way, the financial crisis can be used to return to an approach based on the socialisation of support, egalitarianism and inter-generational solidarity to tackle poverty in old age.

3.5 Sustainable Development as a main guiding principle of the integration process

An alternative to the present mould of policies in the ecological dimension becomes visible if we look at the ideas and practices underlying the broad array of "Green New Deal" proposals that have been developed since 2007. Such an alternative will have be centred upon making significant first steps in integrating environmental sustainability into economic policy by an ecological

conversion of the energy system, housing, and transport, which are the main sources of greenhouse gases.

A reform of the EU Sustainable Development Strategy (SDS) will not provide a magical solution: There will be a broad array of policy problems that have to be solved once it is recognised that "market instruments" are not able to cope with complex qualitative problems, and that these will require a clear political framework for decision making and indicative planning. Nevertheless, the EU SDS should be reformed so that it can contribute to the implementation of a negotiated emission reduction plan. Such reforms should concentrate on closing the loopholes indicated above, by introducing minimum prices at auctions, defining rapidly declining carbon values for all permits issued, and by initiating a review process capable of adjusting the mechanism to specific national, regional or business cycle situations. Such a review should ensure that emissions are reduced but that the economic stability of poorer countries is not threatened.

The main weight of the effort to reduce greenhouse gas emissions and energy use should involve the conversion of the systems of energy and resource use, in consumption as well as in productions. A first step in this direction could be an EU-wide process of "climate-mainstreaming", systematically using all the instruments of regulation and policy available to achieve a strategic change, i.e. by giving priority to climate crisis mitigation and adaptation in all policy areas of the EU. For example, in the area of regional policy or the public procurement policy of the EU and the member states, the current priority given to competition could be superseded by a new priority involving environmental damage prevention and rehabilitation. In this context, it should be possible to define meaningful criteria of sustainable development that is qualitatively targeted and sectorally defined as a binding parameter for the EU's Broad Economic Policy Guidelines.

Conclusion and Outlook

In this EuroMemorandum we have highlighted the most urgent economic, social and ecological problems faced by the European Union. Furthermore, we have criticised the European Union for failing to react adequately to the current financial and economic crisis as well as to the developing social and ecological crisis. Finally, we have elaborated proposals for a thoroughgoing turnaround of economic, labour, social and environmental policies.

This is a critical time for heterodox voices to make themselves heard and to contribute to a fundamental reorientation of policy. Our proposals for alternative policies for financial regulation, macroeconomic stimulation, poverty eradication and sustainability are fundamentally different from the views of the European Commission as well as of most governments within the EU. We see

this EuroMemorandum as a contribution to the critical scholarly and political discussion of European economic, social and environmental policies. At the same time, this document is intended to support the political forces and social movements which are engaged in the fight against the subordination of social life to the neoliberal imperatives of unbridled competition and unlimited profits. Even though finance-driven capitalism has been seriously discredited in the course of the current crisis, neoliberalism has not been defeated. The current political reactions to the crisis indicate that neoliberal ideas look set to continue shaping the direction of future policies, both within the European Union as well as on a global scale, even if in a modified form. Strong social movements and active political pressure are therefore necessary in order to fight for a democratisation of the economy and to counter the ravages of neoliberalism – deregulation, privatisation and the redistribution of income to those at the very top – in all social, ecological and economic spheres.

The implementation of the alternatives we have developed in this EuroMemorandum will be difficult: Firstly they are of a complex nature and need to be developed and elaborated through a co-operative process that draws in a wide range of experience. Secondly they will be met by strong resistance from the powerful forces of financial capital and the large-scale corporations who have driven forward – and benefited from – the most recent phase of capitalism. The elaboration of recommendations for economic policy alternatives should, therefore, not only be regarded as a scholarly exercise but also as a contribution to the mobilisation of a social movement that will fight for a better Europe for all.

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

Europe in Crisis: A Critique of the EU's Failure to Respond

– EuroMemorandum 2009/2010 –

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