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– EuroMemo Group –
European Economists for Alternative Economic Policy in Europe

Addressing Europe's Multiple Crises: An agenda for economic transformation, solidarity and democracy

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Content

This EuroMemorandum draws on discussions and papers presented at the 21st Workshop on Alternative Economic Policy in Europe, organised by the EuroMemo Group, from 24-26 September 2015 in Roskilde, Denmark. The text is based on written contributions from Marija Bartl, Predrag Bejaković, Marcella Corsi, Gary Dymski, Kyriakos Filinis, Marica Frangakis, John Grahl, Peter Herrmann, Agustín José Menéndez, Mahmood Messkoub, Ronan O'Brien, Owen Parker, Oliver Prausmüller, Robbie Pye, Magnus Ryner, Malcolm Sawyer, Catherine Sifakis, Jean-Claude Simon, Nicos Theocarakis, and Achim Truger.

Summary

1. Recent macroeconomic developments, policies and alternatives for economic growth and employment

The economic recovery in Europe is still weak and fragile and Europe is still faced with the prospect of protracted slow growth and high unemployment. Although output in most countries is growing again, it remains well below the level in 2007 in Southern and many Eastern member states. What is needed is a strong macroeconomic stimulus that boosts growth and employment. Monetary policy has increased its efforts by amplifying quantitative easing, however, in the current macroeconomic environment with low expectations and weak demand this will not spark off the recovery. The so-called Juncker Plan will, for the same reasons, not provide the necessary stimulus and, while the clarification of the application of the Stability and Growth Pact constitutes some progress, it will only dampen the fiscal pressure on the crisis countries instead of providing a substantial positive fiscal boost.

A coordinated fiscal expansion is required. This should focus on boosting employment through the promotion of environmentally desirable and gender-sensitive investments and the attack on social spending should end. The single currency must be complemented by an effective federal level fiscal policy which is able to cushion downturns at the federal, national and regional level and to provide for effective transfers between the richer and poorer regions. This should be based on a strongly progressive tax system and complemented by the development of a European wide system of unemployment insurance which would provide an important automatic stabiliser. The regional and structural policies of the EU should be strengthened and expanded, in particular through a major programme of public and private investment, funded by the European Investment Bank, focussed above all on deficit countries and, more generally, on lower income states.

2. The democratic challenge

In January 2015, following repeated austerity programmes which have had a devastating impact on output and employment, Greek voters elected a new government led by SYRIZA. This sought to achieve an 'honourable compromise' with the European institutions but, as talks progressed, the official position hardened around the highly restrictive terms already stipulated in previous so-called Memoranda. In July, Greek premier Tsipras was forced to agree to especially strict conditions for a new loan and, although many SYRIZA MPs opposed the deal, the party held on to most of its seats in a snap election in September. While the terms of the Memoranda are unlikely to be met, the harsh conditions are intended to warn others from challenging the neoliberal order.

Developments in Greece point to the widening democratic deficit in the EU, and the way in which economic policy is being subjected to constitutional rules which remove it from the realm of democratic deliberation and social choice. The narrative of a 'state of emergency' has been used to promote legal acts which breach the constitutional law of the states of the euro area periphery and to empower the least representative European institutions, the European Central Bank and the twin Euro summit and Eurogroup councils, which operate according to unwritten rules. The proposals contained in the Five Presidents Report claim to promote greater prosperity and solidarity in Europe but will serve to reinforce the technocratic character of EU governance.

The drive to consitutionalise economic policy testifies to the profound fear of democracy on the part of ruling elites in the EU. For the vast majority of citizens, democracy can be not only a political value but a positive economic force. A strong democratic consensus can be a powerful force to reduce economic uncertainty. Public investments are needed to demonstrate political commitment to promoting democratically agreed priorities, and to shape private sector expectations. Two examples of democratic priorities for today could be the transition to a low carbon economy, and economic convergence for the low-income member states to broader EU standards.

3. Migration, labour market and demographic change in the EU

The dramatic pictures of thousands of migrants trying to get into the EU has shocked European citizens and divided EU countries on how to deal with the situation. The current migratory flows have raised questions, once again, on whether migrants are needed economically. The evidence on the impact of migrants strongly suggests a positive impact on the host economy over time, besides benefiting migrants themselves.

Migration policy at EU level is governed mainly by labour market considerations as part of the Single Market project. The principle of 'freedom of movement' in the Maastricht, and later the Schengen treaty became the core policy instruments for the control and management of migration and travel of EU nationals as well as those from third countries. The 'freedom of movement' and the notion of equal treatment go to the core of the important principle of 'Functioning of the European Union,' but EU directives have made it conditional on the EU migrating citizens not becoming a 'burden' on the host country.

The current debate over the right of migrants to social protection anywhere in the EU is about solidarity and the redefining of the borders of a European social community. The currency union project, without a counterpart of fiscal union and fiscal solidarity, revealed the fragility of the union of countries with different economic structures around a single currency – the continuing crisis in Greece is just one example of such contradictions. Fiscal solidarity to offer support to migrating EU citizens could help the EU to overcome its current crisis. A Europe of solidarity (instead of austerity) has a better foundation for extending a hand to the hundreds of thousands fleeing wars in the Middle East and Africa without giving rise to anti-immigration populist stance. The EU has to stand firm on the principle of 'freedom of movement,' for it is perhaps the only area where people of Europe are directly affected and experience the cultural diversity and 'citizenship' of Europe, hopefully an inclusive and integrated one.

4. Youth unemployment in the EU

Although the social crisis in the EU is comprehensive, affecting all forms of social provision and all aspects of employment relations, the EuroMemorandum this year focuses on youth unemployment, one of the most severe problems facing the EU and one which clearly reveals the failure of EU elites to safeguard the future of the Union. Although youth unemployment has increased throughout the EU (with Germany as the only exception) it is most severe in those countries subjected to Troika conditionality. The rapid increase in NEET indicators (young people 'Not in Education, Employment or Training') shows that besides the unemployed there are millions of economically inactive young people with little or no connection to the world of work and that the problem is even more acute for the age group 25-34 than for 16-24 year olds. The introduction of the youth guarantee during the last Commission was a positive, but very exceptional, initiative in EU social policy but its funding is completely inadequate in the worst affected countries. What is needed, both in the case of youth unemployment and across the whole field of social policy, is a reversal of priorities, anchored in social rights, which subordinates competition and public finance rules to social objectives.

5. The challenge of the TTIP, and the Eastern Partnership

The TTIP is essentially not about trade but regulations, involving societal choices and collective preferences. It would affect the system of regulations at all levels, and give special privileges to foreign investors through ISDS. The undemocratic way it is being negotiated, including privileged access for special interests and lack of transparency, has given rise to major opposition. The Commission responded with limited transparency, an apparently revised ISDS but which does not actually deal with its core problems, and a new trade policy paper promising new values, but whose central thrust is to extend further the 'coalition of the willing' approach of the rich countries imposing profound liberalisation and de-regulation. Combined with the Better Regulation Package of 2015, TTIP would much further bias, delay and block regulations before they reached the European Parliament and Council. The approach to regulations is as costs for business rather than their benefits, which are a multiple of those. CETA goes even further than TTIP in key areas and must not be passed. Locking-in public services privatisation and banning public purchasing for local development are among the many damaging features in both. TTIP could be a fatal blow to European integration; the single market would be diluted in a trans-atlantic market and the perspective of deepening European economic integration permanently put into question. Instead, the alternative approach to EU trade policy proposed here would positively contribute to both the EU social model and an international economic order based on mutual respect and cooperation. Relatedly, an alternative 'good regulatory practices' is proposed too.

The Eastern Partnership (EP) is leading to widening asymmetric relations with the EU, de-industrialisation of East European countries, and worsening divisions within Europe and the EU. The association agreements can only hit Russia head-on, triggering reactions with unforeseeable consequences. An alternative EP is urgently needed, thus contributing to socially and ecologically sustainable development while creating strong regional dynamics.

Introduction

The year 2015 was marked on the one hand by the inability of the European Union (EU) to emerge from the crisis which began in the financial sector in 2007/2008 and which shifted into the sphere of public finances in 2009/2010, and on the other by a dramatic rise in the number of people taking flight from their homes and from their homelands, because of wars and terrorist attacks, in many cases caused by the destructive policies of the EU and of its member states.

The continuing low growth rate environment in many countries, stagnation in others and even recession in some, have led not only to a general slow-down, but also to deepening divisions within the EU, both between member states and between regions. Such divergences are reflected in the basic economic and social indicators of the area, as well as in the democratic process on the political level, as certain countries acquire a hegemonic role in the shaping of EU policy, while particular group interests, notably those of financial capital, become dominant across the EU as a whole.

To the extent that these interests and the associated political elites have not only failed to overcome the crisis, but even further exacerbated its impact on large segments of the population across Europe, political and social turmoil cannot be avoided in the future. This is especially the case in view of the Greek experience during the SYRIZA-led government's negotiations with the country's EU partners and lenders in the first half of 2015, during which the undemocratic workings of the European institutions were amply revealed.

In terms of economic developments, the initial shock of the late 2000s was followed by a short-lived small upturn of the economy, which soon moved back into negative or at best uncertain ground in the EU on average. Such averages however hide large and growing divergences within the EU. In particular, in 2009 almost all member states recorded negative growth rates. By 2013 the economy of eleven member states was still shrinking, while by 2014 this was the case for four member states. Even in 2015, thirteen member states – nearly one-half – are estimated to have grown by as little as approximately 1%.

As might be expected, the dispersion in the growth performance within the EU is reflected in the dispersion of the – persistently high – rates of unemployment and, even more worryingly, in the rates of long-term unemployment, implying that a large number of unemployed face increasing difficulty in finding a job, while the danger of their sliding into poverty and material deprivation correspondingly increases. This is complemented by a lack of public sector opportunities. On the contrary: cuts in public spending are pushing the trend further in this direction.

Thus unemployment has reached depression levels in certain countries, such as Greece (25% in 2015) and Spain (22% in 2015), while in a small number of countries it is well below the average level of 9.3% in the EU and 11% in the euro area. The same dispersion is noted in relation to other aspects of unemployment, such as long-term unemployment, which has reached the staggering rate of 18.5% in Greece and 13% in Spain, while it is less than 2% in a small number of countries.

The predicament of the EU is best shown in the following table, which gives an indication of the varying living standards across the EU and their tendency prior to and following the crisis. As we can see, the process of convergence in the member states that joined the EU from 2004 onwards – Central and Eastern European countries – either stalled or was reversed. This is also the case of the Southern European states, such as Greece, Portugal and Spain, which joined the EU in the mid-1980s. Further, these tendencies were intensified after 2010, as the economy took a new plunge in most EU member states. By contrast, the living standards of a small number of countries, such as Germany, improved markedly, pointing to the growing divergences across the EU.

The economic and social developments discussed above are reflected in the political process of the EU, whereby the tune is called by the ruling elites of Germany, as a hegemonic power centre, and a number of other countries mainly in Northern Europe who are allied with it. This tune is based on austerity as an unquestionable dogma, ignoring its deleterious effects on the economy and on society.

The negotiations between the left-wing SYRIZA-led government, which emerged from the January 2015 elections, and Greece's euro area creditors is indicative of the secrecy and the bias on which EU policy rests. Thus, the ECB was exposed as being anything but 'independent,' applying pressure on the Greek government through restrictions on the provision of liquidity, while the Eurogroup – an 'officially unofficial' body according to Protocol 14 of the EU Treaty – issued increasingly offensive statements against the Greek negotiators. After six months of intense negotiations, the Greek government was made to bow down and to accept the onerous terms of yet another loan agreement conditional on further austerity and deregulation measures. As with the previous two loan agreements, more than 90% of the new loan (€86 billion) will benefit the financial sector, i.e. the Greek banks and the country's creditors.

The Greek experience revealed the connecting links between politics and economics in the EU, i.e. the power imbalance between the ruling elites and society at large. Furthermore, it raises serious issues of constitutionalism: namely, the tendency of the EU institutions to restrict the area of democratic decision making by democratically elected governments, focusing instead on technocratic rules imposed by undemocratic decision bodies. In this sense, a discussion of alternative proposals to

DP per capita in Purchasing Power Standards (PPS) (EU28=100)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EU (28)	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Euro area (19)	**109**	**108**	**108**	**108**	**108**	**108**	**108**	**108**	**108**	**107**	**107**	**107**
Belgium	123	121	119	117	115	115	117	120	120	120	119	119
Bulgaria	33	34	36	37	40	43	44	43	44	45	45	45
Czech Republic	77	79	80	81	84	82	83	81	83	82	82	84
Denmark	124	125	123	124	122	123	123	126	126	125	124	124
Germany	116	116	116	115	116	116	115	119	122	123	122	124
Estonia	52	55	60	64	69	68	62	63	68	71	73	73
Ireland	141	143	145	146	147	132	128	129	130	130	130	132
Greece	93	95	91	93	91	93	94	87	77	74	73	72
Spain	100	100	101	103	103	102	101	98	95	94	94	93
France	111	110	110	108	107	106	108	108	108	107	107	107
Croatia	56	57	58	58	61	64	62	59	60	61	61	59
Italy	112	108	107	106	105	106	105	104	103	101	99	97
Cyprus	94	97	99	99	100	105	105	102	96	94	89	85
Latvia	45	48	51	55	60	60	53	53	57	60	64	64
Lithuania	48	50	53	56	61	63	57	60	65	69	73	74
Luxembourg	240	246	242	257	254	256	247	254	265	264	258	263
Hungary	62	62	62	62	61	63	64	65	65	65	66	68
Malta	82	81	81	79	78	81	84	86	84	85	86	85
Netherlands	133	133	133	135	136	139	137	135	135	133	131	130
Austria	127	128	125	125	123	124	126	126	128	129	128	128
Poland	48	49	50	50	53	55	59	62	64	66	67	68
Portugal	78	77	80	80	79	79	81	81	78	76	78	78
Romania	31	34	35	38	42	48	49	50	51	53	54	54
Slovenia	83	86	86	86	87	89	85	83	83	82	82	83
Slovakia	55	57	60	63	67	71	71	73	73	74	75	76
Finland	114	117	116	115	118	120	116	115	117	116	113	110
Sweden	127	129	124	125	128	127	123	126	127	126	127	124
United Kingdom	123	125	125	123	118	114	112	108	106	107	109	108

Note: PPS is the technical term used by Eurostat for the common currency in which national accounts aggregates are expressed when adjusted for price level differences; PPS per capita is used as an indicator of the relative standard of living of the inhabitants of each country. Source: Eurostat Database.

the current EU economic and social policy needs to take into account the underlying political process and the squeezing out of democracy.

The democratic deficit that is inherent in the construction of the executive-led EU has been amplified by the crisis and the response of the ruling elites to it. Redressing the power balance in the EU through the broadening of the democratic process thus becomes imperative for any progressive and far-reaching proposals to take root. It is on this premise that the present Memorandum of the EuroMemo Group takes a critical look at economic and social policy developments in the EU in the past year and proposes alternatives for discussion by the progressive community of social actors.

1 Recent macroeconomic developments, policies and alternatives for economic growth and employment

1.1 Weak, fragile and uneven recovery continues in 2015

Eight years after the subprime crisis crippled financial markets and institutions throughout the global economy, Europe entered 2015 perched on the precipice. Global economic growth was slowing, especially in emerging-market countries, which had been growing far faster than developed countries. The International Monetary Fund (IMF) revised global growth estimates downward. This slowdown was especially dangerous for Europe's economies, which held much more public debt as a share of GDP than did other economies. In a number of European countries, investment spending and exports were trending upward, even while government and consumer expenditures remained broadly stagnant.

As the New Year began, the euro area registered deflation for the first time since October 2009. This, combined with the prospect of declining world economic growth, broke a logjam between President of the European Central Bank (ECB) Mario Draghi and ECB board member and Bundesbank President Jens Weidmann: the former, who had pledged in July 2012 to do 'whatever it takes' to avoid euro area collapse, advocated quantitative easing (QE); the latter stood firmly against it, arguing that QE would blur the line between the sovereign nations of the European Economic and Monetary Union (EMU) and these nations' sole responsibility for their own debts. Draghi did not explicitly advocate mutualisation of risk, but did want to undertake more aggressive QE so as to rouse European investment spending from its sleep. In the end, the ECB's QE program was limited to purchases of government bonds over a defined time-period. Despite widespread scepticism that this would be enough (much less 'whatever it takes'), a modest euro area recovery emerged, and it seemed that 2015 might be the year in which overall EMU recovery (if not recovery in every member nation of the EMU) would finally begin.

There were gains, but they were timid: for example, employment rose for the euro area as a whole through 2015, but at a slowing rate, and this growth was not shared by all countries. Mid-year data released by the IMF showed that the economies of Spain and Ireland, both hard-hit by the European crisis, were growing again, just days after news that euro area borrowing had hit all-time highs.

Table 1.1 provides an assessment of the overall economic situation in Europe at the end of 2015. The average real GDP growth rate among the 28 nations of the European Union (EU) was 1.9% – the highest since GDP growth hit 2.1% in 2010 during the recovery from the 2008-2009 downturn. But 3 of the 12 countries with growth higher than 2% and 11 countries in total have still not returned to the 2007 levels of real GDP. Further, investment (gross fixed capital formation) remains below 2007 levels in 21 of 28 countries. On top of this, unemployment remains high, and as Table 1.1 demonstrates, youth unemployment remains catastrophically high in numerous countries, with the EU average registering 20.0%.

Table 1.1: Indicators of EU output, unemployment and wage growth

		Real GDP growth 2015, % (1)	Real GDP 2015 compared with 2007, % (1)	Real gross fixed capital formation 2015 compared with 2007, % (1)	Unem-ployment October 2015, % (2)	Female unem-ployment October 2015, % (2)	Male unem-ployment October 2015, % (2)	Youth unem-ployment August 2015, % (2)
	Euro area (18)	**1.9**	**100.7.**	**87.1**	**10.7**	**10.8**	**10.7**	**22.3**
	European Union (28)	**1.6**	**102.8**	**90.2**	**9.3**	**9.3**	**9.2**	**20.0**
Euro area core	Austria	0.6	104.5	99.0	5.6	5.0	6.1	10.4
	Belgium	1.3	105.8	105.8	8.7	7.7	9.6	24.3
	Finland	0.3	95.1	81.0	9.5	9.2	9.9	22.0
	France	1.1	103.4	92.9	10.8	10.2	11.4	24.7
	Germany	1.7	107.1	107.6	4.5	4.0	4.9	7.1
	Luxembourg	3.1	112.9	112.1	5.8	6.6	5.1	16.9
	Netherlands	2.0	102.4	94.1	6.9	7.3	6.5	11.6
Euro area periphery	Greece	-1.4	73.0	31.0	24.6*	28.9*	21.2*	49.5*
	Ireland	6.0	107.8	86.9	8.9	7.3	10.2	19.7
	Italy	0.9	91.7	70.4	11.5	12.2	11.1	39.8
	Portugal	1.7	94.7	69.1	12.4	12.7	12.0	31.8
	Spain	3.1	96.6	70.5	21.6	22.8	20.5	47.7

New euro area	Cyprus	1.2	93.6	45.7	15.1	15.1	15.1	32.5*
	Estonia	1.9	99.6	73.8	6.0*	5.9*	6.0*	15.1*
	Latvia	2.4	95.2	65.3	9.9	8.5	11.4	17.1
	Malta	4.3	121.1	109.7	5.1	4.8	5.3	13.1
	Slovakia	3.2	117.5	99.7	10.7	12.4	9.3	23.2
	Slovenia	2.6	98.8	67.0	9.1	10.2	8.2	16.2*
	Lithuania	1.7	106.1	88.1	8.9	7.8	10.0	15.6
Northern non-euro	Denmark	1.9	98.3	84.9	6.0	6.5	5.6	10.9
	Sweden	2.8	109.2	109.9	7.2	7.2	7.2	19.9
	United Kingdom	2.4	107.7	101.2	5.2**	5.0**	5.4*	13.7*
Eastern non-euro	Bulgaria	1.7	107.9	83.6	9.5	8.5	10.4	21.5
	Croatia	1.1	90.4	71.5	15.8	16.1	15.5	43.1*
	Czech Republic	4.3	106.9	97.6	4.7	5.7	4.0	12.3
	Hungary	2.9	103.2	96.5	6.5*	6.7*	6.4*	15.7*
	Poland	3.5	127.8	122.9	7.0	7.1	7.0	19.2
	Romania	3.5	112.0	65.7	6.8	5.7	7.6	22.3***

* September 2015; ** August 2015; *** June 2015.
Source: (1) European Commission Annual Macroeconomic Database, November 2015; (2) Eurostat December 2015.

Table 1.1 divides the countries of the EU into different groups – core and periphery within the established euro area, the 'new' euro area, and then the northern and eastern non-euro parts of the Union. Note that in each area there are two or more countries that in 2015 were still afflicted by below-2007 GDP, high unemployment, or low investment. One area stands out, however, for its systematically weak economic performance. Of the six countries with GDP and investment levels below 2007 levels, with overall unemployment of more than 10%, and with 2015 youth unemployment rates above the European average, four are in the euro area periphery. In addition, Cyprus and Croatia, two new euro adaptors which demonstrate similar characteristics, are within the same geographical region. Only Germany, Luxembourg, Malta, Sweden and Poland have succeeded in boosting both GDP and investment above 2007 levels while maintaining overall unemployment below 10% and youth unemployment under the EU average. The spectre of stagnation still hangs over even the countries that can be judged relative success stories.

The EU has also repeatedly failed to meet its goal of lowering the public debt ratio: The public debt of the EU member states has increased significantly since the onset of the financial crisis in 2007. By 2014, it was well past the Maastricht threshold of 60% of GDP in both the euro area (94.5%) and in the EU (88.6%). In many instances, it has increased dramatically, reaching or exceeding 100% of GDP. As a result, interest payments tend to absorb a high and sometimes increasing share of GDP despite the extremely low level of interest rates. In the event of future interest rate increases this will mean a further futile austerity drive.

Interest rates are especially low at present due to the accommodative stance of the ECB. However, unless the growth rate of the indebted countries exceeds the interest rate which they pay on their debt, their prospects of lowering the public debt ratio are very weak. Greece, for example, pays an average interest rate on its debt of 2.2%, which is lower than that paid by other indebted countries, such as Italy (3.6%) and Portugal (3.8%). However, Greece's growth rate is expected to be equal to -1% in 2015. The country is therefore faced with unstable debt dynamics as a result of the combination of its high public debt (177% of GDP) and the continuing, harsh policy of austerity.

1.2 Recent official policies and proposals: Little progress, old errors and new dangers

As in the previous year, weak economic growth in 2015 led to policy tensions between euro area states: Germany insisted on strict adherence to fiscal and budgetary-deficit rules; Italy and France, while implementing pro-business policies, called for greater budgetary flexibility. EU policies involved imposing discipline on Greece and extremely timid efforts to provide fiscal stimulus. This left the over-constrained ECB as the de facto leader of European economic policy. But having already cut its lead interest rates to an all-time low in September 2014, and then agreed to the QE compromise discussed above, the ECB's role is reduced to that of cheerleader and policy advisor.

The uneven economic performance of European countries has, however, been accompanied by ambivalent ECB policy guidance. In mid-2015, an ECB study argued that austerity policies focused on reducing debt were working.[1] On 3 September, however, the ECB cut both its inflation and growth targets for 2015, 2016, and 2017. On 14 September, the ECB reported that European housing markets appeared to be stabilising, with house prices registering gains in several countries. On 22 September, Mr Draghi indicated that, while the euro area recovery was slower than anticipated, and the danger of deflation remained, he did not foresee the need to extend

1 T. Warmedinger, C. Checherita-Westphal and P. H. de Cos, 'Fiscal Multipliers and Beyond', *ECB Occasional Papers Series*. No. 162, June 2015.

the ECB's quantitative-easing programme beyond its September 2016 expiration date. But weak developments soon forced a reassessment. In mid-October, Draghi reasserted that the ECB stood ready to expand the 'size, composition, and duration' of its €1.1 trillion quantitative-easing programme, and to cut its deposit rate, if the slowdown in emerging markets threatened the nascent euro area economic recovery.

The new EU commission has, in fact, made some progress with respect to fiscal policies. Whereas the previous EU Commission made only timid announcements about the need to enhance growth within the EU's existing fiscal framework, the new Commission has launched two initiatives which substantially enlarge on its predecessor's efforts. First, it announced an Investment Plan for Europe (the 'Juncker Plan'), a European Fund for Strategic Investments (EFSI) to finance investment on a large scale. Second, it clarified the interpretation of the Stability and Growth Pact (SGP) with the aim of providing more fiscal leeway for member states facing adverse economic conditions and/or implementing structural reforms.

The Juncker Plan – according to the Commission's hopes – aims at a European-wide total investment impact of €315 billion from 2015 to 2017. This is supposed to be achieved without additional public debt at either the national or European level and without any additional EU expenditure by the creation of the EFSI. This is guaranteed by €21 billion which is made up of €16 billion reallocated from existing resources in the EU budget and €5 billion from the European Investment Bank's reserves. The fund is to mobilise finance for investments in key areas such as infrastructure, education, research and innovation. For this purpose, an investment pipeline of strategic projects supported by a specialist investment hub of technical assistance will be provided. The use of financial instruments by the EIB is expected to achieve a 15-fold leverage, so that the €21 billion will deliver the overall investment volume of €315 billion.

There are, however, many open questions and the likelihood that the Plan will deliver is small. The volume of the plan is actually rather limited and, given the long-term character of many of the large-scale investment projects, it will probably take quite a long time for many of them to be realised. Perhaps most seriously, it is highly improbable that private investment will be stimulated in the current situation which is characterised by high uncertainty and low expectations. If the fund is to induce Public-Private-Partnership projects, the danger of inefficiencies will be large as private investors' returns will have to be paid for, either directly by the public contributors involved or indirectly through charges to the private sector that might otherwise have been avoided. Finally, if the fund is to stimulate public investment by circumventing the fiscal constraints of the SGP an obvious alternative would be to remove or loosen those constraints. All in all, the probability is therefore high that the Investment Plan for Europe will deliver disappointingly little too late.

The clarification of the interpretation of the Stability and Growth Pact does constitute some progress with regard to counter-cyclical fiscal policy. It may partially relieve the pressure to promote fiscal consolidation and thereby slow the pace at which consolidation occurs. But this will only permit a slightly less restrictive fiscal stance. It will not provide the positive fiscal stimulus which is urgently necessary.

The Commission's proposal for a Capital Market Union is evidence of growing anxiety about the persistent economic slowdown and its possible political consequences.[2] As a policy centred on security markets it also testifies to growing alarm about the state of the euro area banks which have still not rebuilt their balance sheets in the wake of the global financial crisis and which are trying to meet tougher regulations by limiting their loans and investments rather than by raising more capital. There is an obvious danger that the emphasis on expanding security trading will promote the interests of banks, fund managers and security traders at the expense of both savers and users of funds. A statement signed by trade unions, consumer groups and environment and development NGOs makes the point that 'arguably, the EU's too-big-to-fail banks stand to benefit more than the 90% of SMEs [small and medium enterprises] for which capital market-based financing is largely irrelevant.'[3]

It is very doubtful that the Capital Markets Union can contribute to economic recovery in the way envisaged by the Commission. There is first of all the basic point that the key obstacle to recovery is not the lack of finance but the weakness of aggregate demand. Second, both banking systems and organised security markets function badly in the absence of a sufficient supply of safe assets in the form of government or government-guaranteed debt. Such assets improve the liquidity position of the banks, facilitate the pricing of more risky placements, provide an indispensable basis for the portfolios of institutional investors and supply collateral in the most useful form for inter-bank and other credit markets. The German debt-brake drastically reduces the issue of German government bonds, the only ones with a triple-A rating, while the simultaneous refusal of the German government to countenance bond issues by EU-level institutions means that the functioning of euro area banks and security markets are fundamentally impaired.

Finally, the so called 'Five Presidents Report' does propose or mention some potentially helpful macroeconomic instruments like a fiscal capacity for the euro area. However, the introduction of those instruments is proposed at a later stage and would therefore be too late to provide the necessary positive stimulus. What is more, the whole report both exemplifies and reproduces the ills that have led to the

2 European Commission, *Green Paper: Building a Capital Markets Union*, COM (2015) 63 final, Brussels, 2015.

3 See Finance Watch, *Who will benefit from the Capital Markets Union?*, 29 September 2015, http://www.finance-watch.org/hot-topics/blog/1148-who-will-benefit-from-cmu

current, largely illegitimate, EU economic governance structure. It concentrates on transforming EU economic governance by further reinforcing its technocratic character, leaving references to democracy for the appendix at the end.

1.3 Alternative macroeconomic policies

The present macroeconomic policy approach is based on the drive for an ill-defined 'structural budget balance' in the 'fiscal compact' and a belief that neo-liberal 'structural reforms' will conjure up jobs growth. An alternative requires the replacement of balanced budget requirements by a balanced economy requirement including the objective of high and sustainable levels of employment, and fiscal policy should be used as one of the instruments to aid the achievement of that objective. Whilst fiscal policy can aid the achievement of high levels of employment it has to be accompanied by a range of other policies. These include labour market and employment policies which are supportive of employment to replace the drive for 'structural reforms' which reduce wages, increase inequality and are often harmful for employment.

National fiscal policies should be re-focused on the jobs deficit through enhanced public expenditure, including the promotion of environmentally friendly 'green investment,' and an end to the attack on the social welfare spending. Co-ordinated reflation rather than co-ordinated austerity must become the policy. It is important that the ECB (and, for non-euro area countries, the national central banks) gives their full support to fiscal policies for prosperity and not to persist with its continual calls for fiscal consolidation. Policies for recovery and rebalancing must not be gender-blind. Instead all fiscal measures undertaken should be done within the framework of gender budgeting so as to ensure that they do not have a male bias and/or tend to strengthen the traditional male bread-winner model.

The European Investment Bank (EIB) is one EU institution whose borrowing activities are not constrained by the 'fiscal compact.' The EIB web-site states their 'support [for] projects that make a significant contribution to growth and employment in Europe' with their counter-cyclical approach focused on innovation and skills, access to finance for smaller businesses, environment and infrastructure.[4] At a time of low interest rates, the EIB and similar organisations should be utilised for a further expansion of their activities.

A Federal level budget with substantial tax raising powers and an ability to run deficits and surpluses has long been recognized as a necessary complement to a single currency. Federal fiscal policy can be used to cushion economic downturns and would provide for fiscal transfers between the richer regions and the poorer

4 European Investment Bank, *EIB at a glance*, 2015, http://www.eib.org/about/index.htm

regions. At the present time the EU budget is around 1% of EU GDP and has to be balanced. To have an impact for stabilisation purposes the budget would have to be substantially increased (to the order of at least 5% of EU GDP), have to be capable of running deficits or surpluses as required by the economic conditions and designed in a progressive manner. Federal level taxes and public expenditure would replace some parts of national taxes and expenditure. The construction of a Federal fiscal policy is a very long term project, and would bring elements of de facto political union. It is though a policy which is necessary for the successful functioning of a single currency.

There are numerous changes that could be proposed in tax policy, which could provide tax revenue for a Federal budget and which would aid other desirable objectives. Two suggestions are especially important. Firstly, a financial transaction tax should be applied in all the member states which can serve to diminish the scale of financial markets. Secondly, a uniform corporate profits tax should be introduced: in the context of a currency union with labour and capital mobility, this would help to address the bidding down of corporate tax rates between countries and limits the use of corporate tax rates to attract inward investment at the expense of other member countries.

A fruitful area for development would be an EU wide social security system that would enhance social protection and labour mobility as well as aiding stabilisation. A first step in that direction and one which has received some attention is the development of an EU (or EMU) wide unemployment insurance scheme.[5] 'A basic European unemployment insurance scheme would provide a limited and predictable short-term fiscal stimulus to economies undergoing a downturn in the economic cycle – something that every country is going to experience sooner or later. With its automatic and countercyclical character, a basic European unemployment insurance scheme could boost market confidence in the EMU and thus help to avoid repeating vicious circles of downgrades, austerity and internal devaluation in the euro area. It would help to uphold domestic demand and therefore economic growth in Europe as a whole' (former European Commissioner for Employment and Social Affairs, László Andor).[6]

Prior to the financial crisis there had been a general widening of the disparity in current account positions and the growth of deficits in many EMU member countries. Since the crisis there has been some narrowing of the disparities but the driver of those declines in national current account deficits has been the decrease in imports due to the fall in domestic demand in the crisis countries; any significant

5 See, for example, L. Andor, S. Dullien, H. X. Jara, H. Sutherland, and D. Gros, 'Designing a European unemployment insurance scheme' Forum, *Intereconomics,* Vol. 49, No. 4, 2015, pp. 184-203.

6 Ibid., p. 185.

growth in these countries will soon lead to a renewed increase in the deficits as imports rise. The monetary union must put in place policies which will resolve the underlying weaknesses in productive structures which have given rise to the current account imbalances. These policies should start from the mutual recognition that surplus countries have as much responsibility as the deficit countries to resolve the imbalances, and that surplus countries can aid that resolution through policies of internal reflation. This will help expand export demand for the deficit countries and, through faster wage increases, reduce their export competitiveness.

Policies are required to rebuild productive capacity and to improve the competitiveness of the deficit countries. The regional and structural policies of the EU should be strengthened and expanded, and a new industrial policy based on a major programme of public and private investment is required. These programmes should not only focus on traditional 'productive' industries, but also on investment in social infrastructure and employment intensive areas. Green investments in order to improve ecological sustainability are also to be actively pursued. Programmes from the EU to support and fund private investment in the deficit countries (and more generally in EU states with lower levels of income) are also required. These policies would facilitate the reduction of current account deficits without resorting to deflation. Through the stimulation of investment and net exports they would also ease the reduction of budget deficits without austerity.

2 The democratic challenge

2.1 Making an example of Greece

Political developments in Greece in 2015 were an eye-opener for the true nature of the European Union (EU). After years of fiscal consolidation that had led to an unheard of austerity that reduced GDP by more than 25% and raised unemployment to more than a quarter of the labour force (one half for young workers), Greek voters decided that they had had enough of an austerity policy that did not work and voted for SYRIZA, a party that for most of its political life barely managed to hover above the 3% of the votes required to enter Parliament.

The government of SYRIZA that was formed after the elections on 25 January 2015 with Alexis Tsipras at its helm and Yanis Varoufakis as its Finance Minister had a fresh and clear electoral mandate. They went to Europe to discuss new terms with the Troika since it was crystal clear that the austerity imposed by the Memoranda of Understanding could not work. What transpired demonstrated the utterly undemocratic nature of the EU and the way that Germany's government and its allies had used the European institutions to impose their will on economically subordinated countries.

In February 2015 the Greek government came out of discussions with the Eurogroup with a decision pregnant with 'creative vagueness,' in the expression used by Varoufakis. For the Greek Government, the Eurogroup decision meant that they could renegotiate terms outside the Memoranda that could lead to an 'honourable compromise' accepting some – or even most – of the requirements of the Troika but also replacing some of the measures required by the creditors with more palatable arrangements. The EU seemed to go along with this scenario, even though the reactions of Christine Lagarde and Mario Draghi were unclear on this point.

Another part of the arrangement was that the negotiations between Greece and her creditors would take place at parallel levels: Greek civil servants would talk to the technical teams of the Troika in specific hotels, not government buildings; Troika mission chiefs would hold talks with political personnel from the Greek Government in Brussels – the so-called 'Brussels Group;' ministers would talk to ministers and the heads of the Troika institutions while, at a higher level, there would be talks at a head of government level, most importantly between Tsipras and Angela Merkel. At a later stage, another intermediary level – the 'Frankfurt Group' comprising the deputies of the heads of the Troika institutions and a minister designated by Tsipras – would facilitate the talks at the other levels. This arrangement was despised by the mission chiefs who were used to roaming the streets of Athens in motorcades and entering ministries for talks with ministers, secretaries general and civil servants in long sessions.

As the talks progressed it became clear that – even though it seemed there was some progress at the higher (ministerial, prime ministerial and head of institutions) level, the 'Institutions' – the new name for the Troika – had no intention of giving an inch on the requirements stipulated in the Memoranda. On the contrary, the more the talks were prolonged, the more they said that there was 'backtracking' and hence that the differences separating the two sides were widened so that new harsher measures would have to be taken by the Greek Government in order to fulfil its obligations.

The Greek Government from the very beginning declared its commitment to stay in the euro area, relinquishing thus an important bargaining weapon. The Institutions used this commitment to bleed Greece dry: As the payment of the instalments of the Troika loans was getting more difficult, and the Greek State was practically in default on her obligations domestically, the Greek Government was cutting most of its expenditure and managed barely to meet pension payments and public-sector salaries. The institutions, on the other hand, became more imaginative in finding ways to 'help' the Greek government to meet these obligations to the point that all the available liquidity of the Greek state had vanished.

Three crucial milestones led to the total surrender of Greece to the requirements of her creditors. The first was the meeting of the Eurogroup held at Riga, in Latvia in late April 2015. There was a concerted attack on Yanis Varoufakis who was presented as the stumbling block to achieving a deal with the Greek Government. In a display of utterly undemocratic behaviour the Eurogroup convened a meeting excluding Varoufakis in order to discuss the situation in Greece. When Varoufakis questioned the legality of such a move, he was told that the Eurogroup had no legal basis, and hence they could do as they pleased. Even though Tsipras did not grant the wish of the Eurogroup's president Jeroen Dijsselbloem to replace Varoufakis, the Greek Finance Minister was sidelined in subsequent negotiations. Other members of the government subsequently represented Greece in the discussions.

By June the time for a review of the implementation of the Memorandum had expired and the Greek Government entered new discussions with the Institutions. When the discussions led to a stalemate – and this was the second milestone –instead of accepting or rejecting the Institutions' proposals, Tsipras decided to go to the people and hold a referendum on 5 July 2015 on whether to accept the proposals. This was possible only after the Greek Government was forced to impose capital controls on 29 June. Despite the hard conditions under which the referendum took place the Greek people vote with a resounding NO (OXI) to the bailout proposal (61% in favour of OXI).

One would have imagined that this vote would have provided Tsipras with the ammunition necessary to bargain from a stronger position. Instead – and this is the third milestone – in a Summit Meeting on 12 July, after a gruelling meeting that lasted for 17 hours, Tsipras surrendered to the demands of the Institutions, despite strong resistance from within his own party, and despite having to rely in Parliament on the votes of the pro-memorandum parties of the opposition. Varoufakis resigned on the spot, to be replaced by Euclid Tsakalotos. In order, to implement the new memorandum, Tsipras decided to take a political gamble by asking the President of the Republic to dissolve the Parliament and hold new elections on the 20 September. Despite the polls, Tsipras suffered only minor losses, while his intraparty opposition – who formed a new anti-memorandum party – did not manage to get enough votes to be represented in the new Parliament.

It is impossible to anticipate the outcome. The Greek government is in new negotiations with the Institutions, with its wings clipped, and forced to 'own' the new programme. It is certain that the new Memorandum will not pull the Greek economy out of its predicament. The Institutions are not concerned with what will happen to Greece, but rather with providing a lesson in docility to those who might even think of challenging the logic of the neoliberal order.

2.2 The EU's democratic deficit

The case of the Greek referendum and Memorandum of Understanding is an object lesson in the extent and nature of the democratic deficit in the EU. First, the primary objective is not to restore macroeconomic balance. Rather, debt is used as leverage to extend the scope for unrestricted activities on the part of the big corporations. In particular, privatisation is 'opening up public services to predation from profit seeking companies.'[7] The method for doing so is through the constitutionalisation of market-making economic policy, removing it from the realm of representative-democratic deliberation and social choice.

Informed by so-called ordo-liberal doctrine, such 'new constitutionalism' has a long lineage in European governance. Already when the Common Market was being established in the 1960s, competition policy and attendant jurisprudence was designed to keep state intervention and industrial policy within certain limits.[8] However, at this time there were also countervailing checks and balances to this 'market making' mechanism in the form of various exemptions. By contrast, with the completion of the Single Market a competition only regime has gradually been

7 EuroMemo Group, *EuroMemorandum 2015 'What future for the European Union – Stagnation and polarisation or new foundations?*, 2015, p. 12.

8 Werner Bonefeld, 'European integration: the market, the political and class', *Capital & Class* 77, 2002, pp. 117–42.

instituted.[9] Apart from competition policy, the European Economic and Monetary Union (EMU) and before that, the European Monetary System (EMS), served as a constitution-like disciplinary device compelling structural reforms of tax regimes, of corporate governance, and of product and labour markets through the imposition of macroeconomic austerity.[10] In the case of EMU, this took the form of explicit treaty provisions (e.g. the Growth and Stability Pact, which also served as a template for the macroeconomic aspects of the 1993 Copenhagen Criteria for Eastern enlargement) whereas in the EMS discipline was exerted through interest rate differentials generated by financial capital movements.

The EU's New Economic Governance, as instituted by the so-called Six Pack (2011), the Two Pack (2013), and the Fiscal Compact (2014), represents both continuity with, and a radicalisation of European new constitutionalism. First, the scope and level of intrusions into national sovereignty have been greatly enhanced. Structural economic policy now explicitly falls within the domain of the Memorandums of Understanding. In other words, states can no longer choose their competitiveness strategy. Ironically, the structural policies now being imposed rule out corporatist wage determination although that was a cornerstone of German export success. Second, although in the past the new constitutionalism conformed to certain minimum definitions of the rule of law, the New Economic Governance has taken on an increasingly authoritarian form.[11]

The growth and stability criteria have been redefined so as to make it almost impossible to conform to them, creating an almost 'permanent state of exception' and hence vastly increasing the executive power of the Directorate General for Economic and Financial Affairs, the European Central Bank (ECB), the International Monetary Fund (IMF) and creditor member states. The introduction of Reverse Majority Voting has vastly reduced the capacity of elected governments to check that power in the Council of Ministers. In addition, within this domain the European Parliament has virtually no co-decision rights. Furthermore, the legality of the measures in EU treaties (such as Article 121 of the Treaty on European Union and Article 136 in Treaty on the Functioning of the European Union) is highly questionable. The absence of any formal legal status or procedures for the Eurogroup is a particularly telling case

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9 Hubert Buch-Hansen and Angela Wigger, *The Politics of European Competition Regulation*, Routledge, London, 2011.

10 Stephen Gill, 'The Emerging World Order and European Change,' Ralph Miliband and Leo Panitch (eds.), *The Socialist Register*, Meerlin Press, London, 1992, pp. 157-96; 'European Governance and New Constitutionalism: Economic and Monetary Union and Disciplinary Neoliberalism in Europe', *New Political Economy*, Vol. 3, No. 1, 1998, pp. 5-26.

11 Lukas Oberndorfer, 'From New Constitutionalism to Authoritarian Constitutionalism: New Economic Governance and the State of European Democracy', in Johannes Jaeger and Elisabeth Springler (eds), *Asymmetric Crisis in Europe and Possible Futures*, Routledge, London, 2015, pp. 186-207.

in point. Finally, there are double standards in the application of market-disciplinary criteria. These range from the very limited deployment of haircuts in making banks face the implications of bad business decisions to the selective application of quantitative easing, for instance, through the Long Term Refinancing Operation (which provided support to banks but not to public welfare programmes).

The EU's New Economic Governance, therefore, though ostensibly in the service of the general economic good, in fact serves above all powerful vested interests. The structural, agenda-setting, and even direct power of transnational corporations on EU regulation is well documented as is their receding social market commitments in favour of Anglo-American business models.[12] These interests have also been well served by the projection onto Europe of German state power, first through the EMS and then through the EMU. German current account surpluses have been crucial for avoiding or mitigating financial turbulence in European states after the collapse of the Bretton Woods. Therein lay a compelling incentive to take part in EU-wide monetary arrangements such as the EMS and the EMU.[13] However, Germany has since 1978 and with ever less equivocation insisted that the condition for doing so is to conform to new constitutionalist governance.[14]

State of emergency

The fiscal crisis of the periphery of the euro area has been turned into an opportunity to attack both the substantive content of post-war constitutions and the very openness and socio-economic neutrality of constitutional law.

Legal arguments have played a key role in transforming the crisis into an outright assault on the Social and Democratic Rechtsstaat. The narrative of the 'state of emergency' has been used again and again to peddle as legal acts and decisions that constituted plain breaches of the constitutional law of the states of the euro area periphery. Fundamental socio-economic rights, including the right to health and the right to housing, have been repeatedly violated in the name of budgetary balance. Internal devaluations have turned upside down the constitutional mandate which requires public authorities to remove obstacles to effective equality. In the name of enhancing external competitiveness, public authorities have carried out diverse forms of reverse redistribution: from the worse off (workers, pensioners, sick and ill citizens, public employees) to the better off (top managers and wealth owners).

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12 Bastiaan van Apeldoorn, *Transnational Capitalism and the Struggle over European Integration,* Routledge, London, 2002.

13 Randall Henning, 'Systemic conflict and regional monetary intetgration: the case of Europe', *International Organization*, Vol. 52, No. 3, 1992, pp. 537–74.

14 Magnus Ryner, 'Europe's Ordoliberal Iron Cage: Critical Political Economy, the Euro-Area Crisis and its Management', *Journal of European Public Policy*, Vol. 22, No. 2, 2015, pp. 275-94.

The same state of emergency has justified the development of constitutional practices at the supranational level resulting in the further empowerment of the least representative of the European institutions (the ECB and the twin Euro summit and Eurogroup councils, which operate according to unwritten and opaque rules only fitting a creditors' club). Perhaps the outstanding example in that regard is the new understanding of the breadth and scope of the powers of the ECB. If pre-crisis the narrow legitimacy basis of the ECB was taken as a reason to stick to an correspondingly narrow interpretation of its powers (and consequently of what was to be understood as falling within the remit of monetary policy), post-crisis the ECB has claimed that it could take any decision, no matter how much it would impinge upon national fiscal competence, as long as the ECB deems action necessary to ensure the effectiveness of monetary policy, a position which was upheld by the Court of Justice of the EU.

Using the law as an assault weapon, however, has changed the very nature of the law. There have been several attempts at locking into European and national constitutional law the specific blend of neoliberalism that underpins both the financial assistance programmes and the policies favoured by the Eurogroup, the ECB and the Commissioner of Economic and Financial Affairs. Writing in the constitutional marble the new rules of the game implies outlawing any policies contrary to present policies. This entails turning the constitution from a roadmap into a straitjacket. Formally the law of the straitjacket is still 'law,' but in its deep structure (and in its substantive content) it cannot any longer be said to be compatible with democracy.

The success of this double subversion (substantive and structural) of the law has been so far limited. Tellingly, the key document containing the new constitutional law (the Fiscal Compact) is not formally part of EU law. Similarly, less than a handful of Member States have enshrined a golden fiscal rule into their fundamental law. The only three to do so (Spain, Italy and Slovenia) did it reluctantly and literally on the fiscal brink. National constitutional law remains (for now) a normative source which can be used as a lever against the emerging brave new European constitutionalism.

Strengthening technocracy

The Five Presidents Report claims to be motivated by concerns to promote greater prosperity and solidarity in Europe but, in reality, it exemplifies and reproduces the ills that have led to the current, largely illegitimate, EU economic governance structure. The Report concentrates on transforming EU economic governance by further reinforcing its technocratic character, leaving democracy as the appendix at the end.

First, the document strengthens the role of the European Commission in the revamped European Semester, to extend its control over both the European and national stages. While the European and national parliaments can engage in 'dialogue' about the Annual Growth Survey (European stage) or Specific recommendations (national stage), their 'oversight' comes with little formal powers and too late in the process to be able to shape the political foundations of these documents. With respect to so called 'Specific recommendations' issued yearly by the Commission in the context of the European Semester, the space for democratic politics at the national level is symptomatically reduced to a 'degree of freedom concerning exact measures to be implemented' (p. 9).

Second, the report proposes new institutions such as national competitiveness authorities or a European Fiscal Board which would provide advice ranging from EU and national fiscal policies to the setting of wages in collective bargaining process, interfering thus not only with democratic politics but also with the role of social partners. Often linked to the call for a more forceful use of the Macroeconomic Imbalance Procedure, the advice, benchmarks and best practices guidelines produced by various technocratic bodies could acquire quasi-binding power. Strengthening technocracy instead of democracy, the Five Presidents Report does not present a viable path to create a more democratically legitimate – and thus also (in the words of the report) more resilient– Europe.

2.3 A shift to democratic priorities

The drive to constitutionalise neoliberal economic doctrines and to lock in austerity policies testifies to a profound fear of democracy on the part of ruling elites in the EU. If all the moves in this direction were accepted then the electoral process and the alternation of different parties in office would lose a great deal of their meaning.

The privileged groups who have benefited greatly from rising inequality and from the rising share of profits and rents in the distribution of income may have good reason to fear democratic pressures. However, for the vast majority, democracy can be not only a primary political value but also a positive economic force.

It has been clear at least since the work of Keynes that system-wide uncertainty can paralyse private sector investment and lead wealth-holders to adopt defensive positions centred on the search for liquidity rather than on economic development. Potential investors have to deal not only with the risks specific to their own commitments but with the danger of general disturbances which would invalidate their attempts to calculate probable risks and returns.

This kind of uncertainty is intensified in periods of rapid structural change. Today, geo-political upheavals, rapid technological advance, ecological dangers and many other forces obscure the attempt to assess investment prospects.

A strong democratic consensus, defining clear priorities for social and economic development, and legitimising the institutions within which compromises are reached among different interest groups, can be a powerful force to reduce system-wide uncertainty and thus to promote private investment. This was the case, for example, in postwar Europe where a clear political determination to pursue social reform and to improve the position of working people worked to stabilise expectations and encourage investments linked to increasing mass consumption and rising educational standards.

It will nearly always be the case that public investments are needed to demonstrate political commitment to the priorities in question and to build up economic momentum in the right directions. Far from 'crowding out' private sector investment, this kind of commitment can encourage it by shaping private sector expectations and reducing risks.

Today for example two such democratic priorities could be transition to a low carbon economy and economic convergence of the low-income member states towards the level of the more economically advanced ones. In the first case a strong political lead would encourage enterprises to invest in clean products and production processes; in the second, it could promote confidence that markets would expand with rising incomes in the countries concerned.

On the other hand, both examples illustrate the costs of the undemocratic structures which constrain decision-making today. Without legitimacy, adopting a defensive posture, and unable to mobilise resources for such priorities, EU leaderships preside over an investment slump and an increasing threat of long-term stagnation.

3 Migration, labour market and demographic change in the EU

3.1 Current developments

The dramatic pictures of thousands of migrants trying to get into the European Union (EU) has shocked European citizens and divided EU countries on how to deal with the situation. Large as the latest migration flows are, they are dwarfed by those of the 20th century. In the aftermath of the Second World War peace settlement, by 1950 West Germany had received 7.8 million and East Germany 3.5 million refugees of ethnic Germans residing in Eastern Europe and the former USSR. A second major migratory movement was associated with the post-war reconstruction of Europe. Countries like West Germany, Britain, the Netherlands, France and Belgium encouraged people from Southern European countries, the former colonies of European powers as well as countries on the periphery of Europe, like Turkey, to migrate to Europe.[15]

The creation and expansion of the EU also led to large migratory flows. The principle of 'freedom of movement' under the Single Market has gradually increased the flow of migration within the EU. For example in 2013, about half the immigrant (by place of birth) population of EU states were born in another EU country, with the other half born outside the EU.[16] The migrant population from non-EU countries have a young age structure with a median age of 35 compared with the EU28 median age of 43. Migrant women comprise 40% to 50% of immigrants depending on the EU country.

Migration contributes to population growth and matters economically and socially for the structure of the population of the host nation. Current and future migration flows should therefore be put in the context of the long-term demographic changes in the EU. According to the latest projections, the EU population is ageing fast due to a low fertility rate and rising life expectancy. As a result the working age population is going to decline, increasing the dependency ratio of those aged 65 and over to those aged 15 to 65.

Part of the decline in the working-age population will be compensated by the inflow of migrants from outside the EU. By 2060 it is estimated that 55 million people, or 10% of the then EU population, will be migrants, and that 40 million of these will

15 See S. Castle, H. de Haas, and M.J. Miller, *The Age of Migration: International Population Movements in the Modern World*, Palgrave, Basingstoke, 2013; C. Dustmann and T. Frattini, 'Immigration: The European Experience.' *NORFACE MIGRATION Discussion Paper* No. 2012-01, 2012.

16 See Eurostat, *Migration and migrant population statistics, 2012*. http://ec.europa.eu/eurostat/statistics-explained/index.php/Migration_and_migrant_population_statistics#Database

be residing in the euro area, predominantly in a few countries – Italy (15.5 million), Britain (9.2 million), Germany (7.0 million) and Spain (6.5 million). Migration will be a vital source of labour for these countries because of their low long-term fertility rates, especially in Italy, Spain and Germany which have some of the lowest fertility rates in the EU.

Migration from outside the EU will not be able to solve the long-term challenge of aging and rising dependency ratios in the EU since the sending regions are also ageing and are likely to catch up with EU dependency rates in a few decades. In the next 10 to 15 years, however, migration will make a positive contribution to the overall labour market in the EU, both directly by working in the labour intensive care and service industry and indirectly by complementing the native workers in these areas.[17]

Current migratory flows have again raised questions about whether migrants are needed economically, whether they are a drain on public finances, and whether they are 'integrated' into host societies. The evidence suggests a positive impact of migrants on the host economy, particularly if migration is viewed as a 'merit,' or in some respect a 'common' good in the sense of providing benefits for all, in addition to the benefits for the migrants themselves.[18] It is sometimes stated that 'immigrants take jobs from the natives' and that 'they depress the wages' of the natives. Neither of these claims is borne out by evidence over the medium to long run.

The negative impact of migrants on native wages are usually sector specific, temporary, and on the low end of the wage scale.[19] Wages are only partially set by forces of supply and demand and the role of trade unions and the government's regulatory framework are also important. Much of the downward pressure on wages in Europe has come from the deregulation of the labour market with the aim of bringing flexibility to the labour market. Guarascio shows that in Italy legislation in the 1990s liberalised the labour market, promoting flexible contracts and reduced protection and thereby increasing precarity.[20] The impact of the financial crisis in 2008 and the subsequent recession led to a decline in the demand for labour that put real wages on a downward trajectory in Italy in 2000 to 2014 period. The stagnating if not declining real wages across most EU member states during the period from 2009 to 2014

17 Eurofound, *Labour mobility in the EU: Recent trends and policies*, European Union, Luxemburg, 2015. http://www.eurofound.europa.eu/printpdf/labour-mobility-in-the-eu-recent-trends-and-policies-0

18 C. Giannone, 'Some economics of migration in the EU', Paper presented at the 21st Conference on Alternative Economic Policy in Europe, Roskilde, Denmark, 2015, http://www.euromemo.eu/annual_workshops/ 2015_roskilde/roskilde_workshops_papers/index.html.

19 See C. Dustmann and T. Frattini, 'Immigration: The European Experience.' *NORFACE MIGRATION Discussion Paper* No. 2012-01, 2012.

20 D. Guarascio, 'Italy's labour market reform: jobs act versus workers act.' Paper presented at the 21st Conference on Alternative Economic Policy in Europe, Roskilde, Denmark, 2015, http://www.euromemo.eu/ annual_workshops/2015_roskilde/roskilde_workshops_papers/index.html.

is further evidence that the crisis and recession have had a much more important impact on wages than EU and non-EU migration.[21]

Further evidence on the impact of recent intra-EU migration on destination economies has been provided by a recent study by Cancedda *et al* of four cities across the EU (Leeds, Milan, Frankfurt and Rotterdam) which had migration patterns that were similar to those at the national level in each of the countries.[22] The study noted that the employment rate of migrants in Milan was larger than that of the natives in Milan, in Leeds the rates were similar and in Frankfurt they had a slightly lower rate than the natives. More global level data also confirm that migrants have similar employment rates to the natives, especially in the countries that have registered the strongest recoveries since the crisis. By contrast, in countries where the impact of the crisis was more marked (Spain, Italy and Greece) migrant employment rates have fallen more sharply than that of the natives as they work in sectors most affected by the recession.[23]

During periods of growth migrants are not seen as competitors, but during a downturn their presence is perceived as a threat despite the fact that they suffer from higher unemployment than the natives. Cancedda *et al* also note that migrants, on the whole, filled job vacancies that were not filled by locals because of the unfavourable working conditions. They also refer to similar conclusions reached by a study of the lives of Central and Eastern European migrants in Britain.[24] Cancedda *et al* conclude that, where a negative impact on the low or semi-skilled segments of the labour market was observed, it was due to the exploitative practices of employers who used the availability of migrant labour to force the native labour to accept lower pay and poorer conditions.

The same study found that the majority of migrants (over 67% in Frankfurt, Leeds and Rotterdam and 90% in Milan) were not receiving benefits such as family allowances, child subsidies and disability allowances, figures far below the proportion of natives using similar assistance. The use of health care services was also limited due to the insurance based system in Germany and the Netherlands and the delays associated with the referral system in Britain. Migrants mentioned the information gap as one of the factors which discouraged them from using, inter alia, housing services.

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21 See EuroMemo Group, *EuroMemorandum 2015 'What future for the European Union – Stagnation and polarisation or new foundations?* 2015, Table 1.

22 A. Cancedda, M. Curtarelli, S. Hoorens, G. Viertelhauzen and J. Hofman, *Socio-economic inclusion of migrant EU workers in 4 cities: Synthesis Report,* European Commission, DG Employment, Social Affairs and Inclusion, 2015.

23 See OECD, *International Migration Outlook 2015*, OECD Publications, Paris, 2015. http://dx.doi.org/10.1787/migr_outlook-2015-en. OECD. 2015; *Indicators of Immigrant Integration 2015: Settling In*, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264234024-en.

24 See A. Spencer, M. Ruh, B. Anderson, B. Rogaly, *Migrants' lives beyond the workplace: the experience of Central and Eastern European in the UK.* Joseph Rowntree Foundation, 2007.

Whenever specific pressure on local services was attributed to their use by migrants, the native stakeholders referred to the austerity context of cuts in, for example, the supply of health care and public transport.

Migrants' use of social services and public money has raised questions about the costs and benefits to the host economy as measured by the fiscal impact – the relation between migrants' demands on public expenditure and their tax contribution over a life-time. The OECD in the first comparative study of its kind – across the EU, Canada, Australia and the United States – concluded that: 'Depending on the assumptions made and the methodology used, estimates of the fiscal impact of immigration vary, although in most countries it tends to be small in terms of GDP and is around zero on average across OECD countries.'[25]

In a survey of the international literature, Rowthorn concluded that the net contribution of migration lay between +1% or -1% of GDP, depending on the assumptions made.[26] Over a fiscal year the contribution of migrants varied as well and depended crucially on the business cycle, being positive during economic upturns. For example in Britain during the period from 1999 to 2000 the net contribution of migrants to GDP was +0.3%.[27] Similar figures were reported for France.[28] These estimates do not take account of the non-fiscal contributions of migrants to GDP which, in their absence, might well have been lower.

3.2 EU migration policy

Migration policy at EU level is governed mainly by labour market considerations as part of the Single Market project. The principle of 'freedom of movement' in the Maastricht treaty and later the Schengen treaty became the core policy instruments for the control and management of migration and travel by EU nationals as well as people from non-EU countries. It should be noted, however, that migration by non-EU citizens has always been a matter of national policy.

In 2015 the EU had to deal with an important development that brought into sharp focus its asylum policy under the Dublin regulation for asylum seekers. In the

25 OECD, *International Migration Outlook 2013*, Chapter 3, 'The fiscal impact of immigration in OECD countries.' OECD Publishing, Paris, 2013. http://www.oecd-ilibrary.org/social-issues-migration-health/international-migration-outlook-2013/the-fiscal-impact-of-immigration-in-oecd-countries_migr_outlook-2013-6-en.

26 R. Rowthorn, 'The fiscal impact of immigration on the advanced economies.' *Oxford Review of Economic Policy*, Vol. 24, No. 3, 2008, pp. 560–580.

27 OECD, *International Migration Outlook 2013*, Chapter 3 'The fiscal impact of immigration in OECD countries.' OECD Publishing, Paris, 2013. http://www.oecd-ilibrary.org/social-issues-migration-health/international-migration-outlook-2013/the-fiscal-impact-of-immigration-in-oecd-countries_migr_outlook-2013-6-en.

28 X. Chojnicki, C, Defoort, C. Drapier, L. Ragot, *Migrations et protection sociale : étude sur les liens et les impacts de court et long terme*. Rapport pour la Drees-Mire, July 2010.

summer of 2015, there was a sudden increase in number of migrants from the Middle East and North Africa as a result of the continuing war and instability in Syria, Libya and Afghanistan. The main entry points were Italy, Greece, Hungry and Croatia, which came under enormous pressures to deal with the flow of some 800,000 non-EU migrants although, for the EU as a whole, this represented only 0.14% of the population. These countries, which had all been strongly affected by the impact of the recession and subsequent austerity programmes, received only very limited support from other EU member states, although Germany and a few other northern European countries temporarily suspended the Dublin regulation and offered direct asylum to migrants from Syria.

The pressure of migration was compounded by the Commission's decision to impose quotas on EU member states in order to share the burden of refugees. This met with serious objections from some of the Eastern European member states, who argued that they did not have the economic capacity to handle large number of immigrants. They also maintained that the policy was unfair as they themselves had had to face restrictions for as long as seven years on the 'freedom of movement' of their workers after accession to the EU, whilst third-country asylum seekers were being fast tracked to settle in the EU.[29]

The above issues have come at a time when some EU member states have argued against the right of migrants within the EU to 'equal treatment with nationals in access to employment, working conditions and all other social and tax advantages.'[30] The 'freedom of movement' and the notion of equal treatment go to the core of the principle of the 'Functioning of the European Union,' but EU directives have made this conditional on citizens migrating within the EU not becoming a 'burden' on the host country.

There has been little evidence of a large-scale abuse of the welfare system by EU migrants, yet in April 2013 ministers from Austria, Germany, the Netherlands and Britain argued that they should be able to use legal measures to fight 'welfare tourism.' In response the EU Commission noted the lack of evidence for 'welfare tourism;' and reiterated the principle of freedom of movement. It suggested a five point action plan to help local authorities to counter possible abuse of the welfare provisions and

29 Current preoccupation with a Christian EU ignores the centuries old presence and influence of Muslims in Europe (e.g. in Spain and the Balkans) and the more recent history of hundreds of thousand Muslims from Turkey, Morocco, Algeria, Pakistan, Bangladesh, etc., who have been living and working in Europe since the 1950s.

30 A. Cancedda, M. Curtarelli, S. Hoorens, G. Viertelhauzen. and J. Hofman, *Socio-economic inclusion of migrant EU workers in 4 cities: Synthesis Report*. European Commission, DG Employment, Social Affairs and Inclusion, 2015, p. 35. The Conservative British government has been arguing that the 'freedom of movement' has been used for welfare tourism by EU migrants and therefore must be restricted, despite the lack of evidence and objections of EU Commission.

social protection by tackling marriage of convenience, applying social security co-ordination rules, improving social inclusion, promoting exchange of best practices amongst local authorities and ensuring the application of 'freedom of movement'.[31] As part of this plan, the Commission proposed to use 20% of the European Social Fund (ESF) to promote social inclusion and to combat poverty in member states.[32] However, with the shift to the right and the more general anti-immigration stance in some EU countries there is a serious risk of restricting the principle of 'freedom of movement' over time. This not only goes against the democratic principles of freedom to migrate but could also hamper growth in areas where a shortage of skills exits side by side with unemployment.

3.3 The need for a more active and inclusive migration policy

Inclusiveness and solidarity rarely featured in early discussions on the 'freedom of movement' and migration at the official level in the EU, except in the general language of non-discrimination. In the above Five Action plan 'inclusiveness' was put on the agenda in discussions on the challenges of migration with the support of the ESF, but it is doubtful whether this will be enough to meet the social challenges posed by migrants. The ESF is primarily a labour market instrument aimed to improve training and skill development and to promote the flexibility of the labour force. Moreover the social inclusion mandate of the ESF has been more about disadvantaged groups, such as people with disabilities or the low-skilled poor, rather than migrants.[33]

What is needed is a move back to the founding principles of the EU that 'it shall promote economic, social and territorial cohesion, and solidarity among member states … [and] … with the wider world …' (Treaty on European Union, Art. 3). Initially, the EU approached solidarity through the abolition of any discrimination based on the nationality of workers from different member states. In this way, benefits, such as health insurance, were also conferred on the immediate families of workers, irrespective of nationality. This was followed by the granting to economically non-active migrants, such as students, of rights to non-contributory social benefits, such as maintenance grants.

31 European Commission, *Free movement of people: five actions to benefit citizens, growth and employment in the EU,* 2013. http://ec.europa.eu/justice/newsroom/citizen/news/131008_en.htm.

32 European Commission, *European Commission upholds free movement of people.* Brussels, 25 November 2013. Last update: 22-10-2015. http://europa.eu/rapid/press-release_MEMO-13-1041_en.htm.

33 See A. Eydoux, 'Migration and the race to the bottom of the European labour standards', and E. Hartmann, 'The emerging European solidarity: enabling condition and their limits', Papers presented at the 21st Conference on Alternative Economic Policy in Europe, Roskilde, Denmark, 2015. http://www.euromemo.eu/annual_workshops/ 2015_roskilde/roskilde_workshops_papers/index.html.

The first generation of rights was based on the tax contributions of immigrant workers to the host nation, thus entitling them and their families to benefits irrespective of their nationality. The second generation of rights were conferred on migrants irrespective of their employment status and, as such, were non-contributory. This had redistributive implications with the host nation showing solidarity by sharing its resources on a non-discriminatory basis. Finally, and in the context of Maastricht Treaty, the scope of non-contributory benefits increased substantially, extending the notion of financial solidarity.

Most rights, nevertheless, have to be claimed, often in courts in order to establish entitlement, and the socially weakest migrants, such as the Roma and Travellers, have the most difficulty in claiming these rights. It is these non-contributory rights which are most contested by right-wing and Eurosceptic parties, which claim that there is widespread 'welfare tourism' – something for which there is little evidence.

In Europe, migration has long been an important route to escape from unemployment and poverty, as well as a means of fleeing from wars and persecution. Host nations and their people have demonstrated their solidarity by sharing resources, something which was paid back over time with the labour and other contributions of the migrants. The current debate over the right of migrants to social protection in the EU is about solidarity and the redefining of the borders of a European social community. The implementation of a European currency union without a corresponding fiscal union and a policy of fiscal solidarity has revealed the tensions which can arise between the members, as can be observed, for example, in the case of Greece. Fiscal solidarity which provides support to migrating EU citizens could help the EU to overcome its current crisis. A Europe of solidarity (instead of austerity) has a better foundation for extending a hand to the hundreds of thousands fleeing wars in the Middle East and Africa without giving rise to a populist anti-immigration stance.

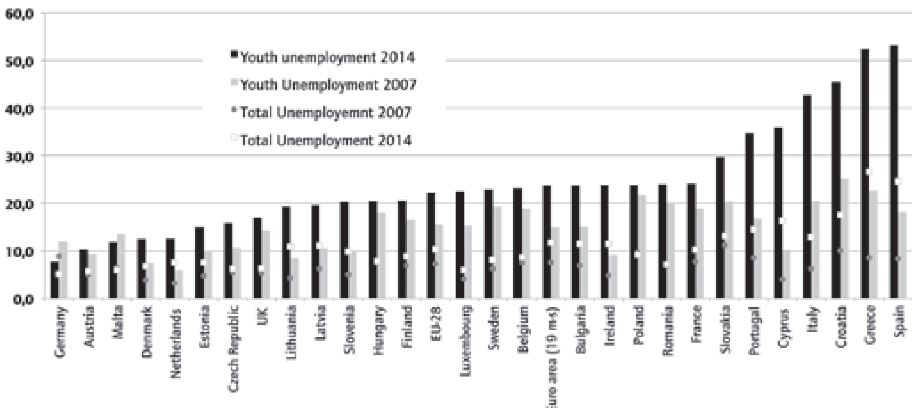
The EU has to stand firm on the principle of 'freedom of movement,' for it is perhaps the only area where the people of Europe are directly affected and experience the cultural diversity and 'citizenship' of Europe, which hopefully will be an inclusive and integrated one.

4 Youth unemployment in the EU

4.1 The extent of the problem

Younger people have suffered very high levels of unemployment as a consequence of the euro area crisis and the attempt to resolve that crisis by 'austerity' and rapid fiscal consolidation. The plight of millions of young unemployed is not only one of the most serious social problems arising in the European Union (EU), it also represents the failure of member state and Commission leaderships to secure the future of the union. For these reasons this edition of the EuroMemorandum concentrates on the issue. This does not mean that other aspects of the social crisis, aggravated every day by austerity policies, are less important.

Figure 4.1: Total unemployment and youth unemployment rates 2007 and 2014



Source: Eurostat.

The figure shows that, although general unemployment has increased in nearly all member states since 2007 (with Germany as the only major exception), the rise in unemployment rates for the youth (defined by Eurostat as those aged 15-24) was much greater, reaching 20% for the EU as a whole and much higher levels in, especially, the countries subjected to Troika constraints and 'reform' programmes.

For a full picture, it is necessary to consider unemployment ratios as well as unemployment rates. The unemployment rate is the number of unemployed people divided by the total number of people of the labour force, i.e. people who are not in full-time education. The unemployment ratio however reflects the number of unemployment people as a proportion of the total population in the relevant age group, i.e. including the very large number of people in the 15-24 age group who are in full-time education and are not counted as either employed or unemployed.[34] (In addition, some 10% of the generation do not appear as unemployed because, although not in education, they are not seeking work. This alarming figure indicates that a very large number of younger people may be threatened by social marginalisation.) The unemployment ratios are much lower than the unemployment rates but they undoubtedly underestimate the problem because many young people who are registered as students are, in reality, unemployed and would quit their course readily given a job opening.

Table 4.1: Unemployment rates and ratios in 2014 for age group 15-24

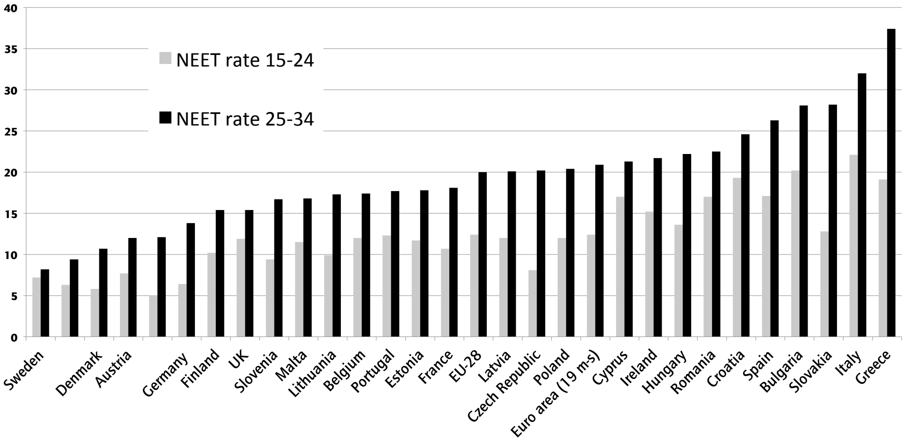
	Unemployment rate	Unemployment ratio
Germany	7.7	3.9
Ireland	23.9	8.9
Greece	52.4	14.7
Spain	53.2	19.0
Croatia	45.5	15.3
Italy	42.7	11.6
Cyprus	36.0	14.5
Slovakia	29.7	9.2
Britain	16.9	9.8
Euro area (19)	**23.8**	**9.5**
EU (28)	**22.2**	**9.2**

Source: Eurostat.

In the EU as a whole some 5.6 million people aged 15-24 are unemployed, with the worst figures in the weakest economies and in those where the most drastic austerity policies have been imposed.

34 For the very youngest, aged 15-19, the vast majority may be in full-time education so that the unemployment rate relates only to a very small number who have left school early.

Figure 4.2: Young people Neither in Employment, Education nor Training (NEET rate 2014)



Sourc e: Eurostat.

It is also necessary to consider the next age group who face similar, and in some ways more severe, problems: it is by no means the case that workers in their late twenties find it much easier to find employment. One of the most used indicators of the marginalisation of young people is the percentage of NEETS, that is, of those neither in employment, education or training. In all EU member-states the NEET rate for the age group 25-34 is higher than the one for the age group 15-24. Consequently, we could argue that the problem of unemployment and inactivity is stronger for the age group 25-34 rather than for the age group 15-24.[35] NEET indicators are higher for women than for men (17.2% against 13.6% for the EU as a whole) and this may reflect continuing pressure to subordinate young women to domestic responsibilities within many households. Here there will only be a brief account of some of the socio-economic problems associated with youth unemployment. Firstly, the lack of employment opportunities is reflected not only in unemployment but in worse forms of employment, with young people in particular often able to find only precarious and badly paid jobs. A related problem is that of unused skills and abilities: young people with strong educational or vocational qualifications who can only find unskilled or low-skilled work. Increasing numbers of younger people also find that

35 For more a more detailed view of the data on youth unemployment see K. Filinis, 'Redefining the youth unemployment in Europe', Paper presented at the 21st Conference on Alternative Economic Policy in Europe, Roskilde, Denmark, 2015. http://www.euromemo.eu/annual_workshops/2015_roskilde/roskilde_workshops_papers/ index.html.

they can only find work by emigrating, taking with them the knowledge and skills with which social investment in their home countries has endowed them, so that a brain drain is added to the disadvantages of the weaker economies.[36]

The problems consequent on youth unemployment are not confined to the sphere of employment itself. Families are put under pressure as their younger members are unable to leave home and establish new households, as phenomenon which has demographic as well as domestic and affective aspects. Perhaps the gravest consequence of the lack of opportunities for the young is simply the waste, the loss of potential, not only in the economic field but also in terms of politics, culture, interpersonal relations and associative life.

The unemployment rates for men and women are approximately equal, with the female rate on average a little below the male rate, although, as noted above the percentage of young women not in education, employment or training is substantially higher than for men. This is a general feature of the recent rise in unemployment. It hardly represents social progress but rather the fact that the sectors most badly affected by the early phases of the crisis were those where male employment is concentrated, construction, for example. More recently, however, as the drive for austerity has become more intense, public services such as health care and education have suffered increasingly and, since these sectors employ a disproportionate number of women, women's employment is likely to be most affected.

In the EU as a whole youth (age 15-24) unemployment rates in 2014 were 21.4% and 22.8% for women and men respectively. For the next age group (25-34) the rates were almost equal: 13.7% for women, 13.8% for men. However, in the case of Greece, where youth unemployment has reached extremely high levels, there is some evidence of discrimination against women, either in the labour market or in access to education or in both, with a rate of 58.1% for young (15-24) women as against 47.4% for men of the same age.

4.2 The policy response and the youth guarantee

During the years 2010 to 2015 the Commission's DG for employment and social affairs put forward an exceptionally constructive and emphatic case for EU social policy, in spite of the built-in priority accorded by the Commission as a whole to competition rules and restraints on government spending. Furthermore, in response to the rise in youth unemployment a concrete initiative was launched which impacted positively on social policies in the member states. In both respects there was

36 Thus, between 2009 and 2013, 408 thousand people emigrated from Ireland, supposedly the star pupil in the Troika classroom, as against 270 thousand immigrants. Some 55% of the emigrants were aged 18-30.

a departure, although, regrettably, it may turn out to be only a transitory one, from the practice of the Commission within which social policy objectives normally have an essentially rhetorical significance.

The Youth Guarantee Council Recommendation was formally adopted on 22 April 2013. It calls for Youth Guarantee schemes that ensure that all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education. Since it was clear that some member states with the weakest economies would not have the resources to implement the guarantee, targeted funds were provided: the Youth Employment Initiative, agreed to in February 2013 by the European Council, allocates at least €3.2 billion in specific funding to those countries with regions with particularly high youth unemployment rates (25%) in order to support the implementation of the Youth Guarantee. Some Additional financial support, of €3.2 billion is also to be offered through the European Social Fund. The youth guarantee itself would offer a young person aged 18 to 24 a job, work experience, apprenticeship, training or combined work and training within a defined period of time after leaving school or becoming unemployed. It is recommended by the European Commission that the youth guarantee should be offered to young people within 4 months of becoming unemployed.

It seems highly likely that these resources will be inadequate even in the regions where they are concentrated. They are intended to cover the whole period up to 2020 and the ESF comments that 'Member States will have to complement this assistance with substantial additional ESF and national investments in structural reforms to modernise employment, social and education services for young persons, and by strengthening the capacity of relevant structures and improving education access, quality and links to labour market demand.'[37] Such administrative and educational improvements will not be easy in countries thoroughly disorganised by the attentions of the Troika; the €160 million of specific funding allocated to Greece for the period up to 2020 has to be seen in the context of Troika-imposed spending cuts which have reduced public spending in Greece from €128 billion in 2009 to €89 billion in 2015. Other lower-income countries face difficulties in implementing the guarantee and in monitoring the quality of the support packages offered to the young unemployed.[38] The administrative problems are challenging ass a wide range of stakeholders have to coordinate their activities to render this kind of intervention effective.

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37 European Commission, 'Youth Employment Initiative and the European Social Fund.' *European Social Fund thematic paper,* 2014.

38 For the case of Croatia see Z. Mrnjavac, 'The Implementation and problems of youth guarantee model in Croatia.' Paper presented at the 21st Conference on Alternative Economic Policy in Europe, Roskilde, Denmark, 2015 http://www.euromemo.eu/annual_workshops/2015_roskilde/roskilde_ workshops_papers/ index.html.

It seems unavoidable that the quality of the training and work experience provided to young people will vary widely across member states. In some countries with more developed welfare systems there already exist sophisticated employment services providing the high quality support for young people envisaged in the youth guarantee. A study by Eurofound mentions, for example, Austria, Finland and Sweden as having very effective services which in some respects might act as a model for other countries.[39]

If the Youth Guarantee and the Youth Employment Initiative become more established features of European employment policies, with better funding of services in the weaker member states, they could represent a breakthrough towards more adequate and responsible social provision in the EU. There is a danger, however, that they are seen only as an ad hoc response to a temporary emergency, to be dismantled as soon as the unemployment figures fall. The future of the programmes will indicate whether there is any real will to tackle the EU's social deficit.

4.3 A social rights based approach to social policy

For the EU to restore its social legitimacy, reforms to its approach to the governance of the euro area are vital. The response to the euro area crisis has hitherto seen key areas of labour market and social policy subjugated to neoliberal economic values. Policies in the EU have focused on slashing labour standards by removing employment protection and undermining collective bargaining. Ultimately, this forces European states into a race to the bottom, stalls demand and economic activity, and further undermines attempts to generate employment growth and tackle youth unemployment. By re-embedding social values into labour market policy, these adverse outcomes can be avoided and the economies of the euro area can be re-orientated back towards high domestic standards.

In Europe the premier rights organisation is the Council of Europe, which oversees both the European Convention on Human Rights and the European Social Charter. The European Social Charter in particular has developed strong social and labour standards based on an array of social rights. Improving institutional linkages between the EU and the Council of Europe provides a promising means to re-embed social values at the EU level.

Economic governance in the EU is conducted around the European Semester, in which the European Commission is afforded a key role in developing and coordinating policies. The Commission drafts the Annual Growth Survey and issues Country-specific Recommendations and recommendations as part of the enforcement procedures (Excessive Deficit Procedure and Macroeconomic Imbalance Procedure),

39 Eurofound, *Social Inclusion of Young People, 2015.*

which are backed up by a considerable amount of research conducted by its staff. If the Commission were obliged to mainstream social rights in this process, many of the adverse outcomes that have so far been observed in areas such as labour market policy could be avoided. Such an obligation would involve engaging in rights analyses in the preparatory work for the European Semester, allowing the Commission to identify policies at risk of undermining rights.

Any interference with rights in policy recommendations would then have to be explicitly justified based on the principle of proportionality through which the EU has historically addressed fundamental rights. That is, any interference with rights would have to be on legitimate grounds, provided for by law, and proportionate to the aim it wishes to achieve. However, the Commission alone does not have the expertise to ensure rights are upheld. An explicit institutional link to the Council of Europe, whereby the Commission could draw on the expertise of the European Committee of Social Rights (the body tasked with monitoring the European Social Charter), would allow appropriate rights standards to be utilised. In addition to this, opening up the European Semester to involve trade unions and social NGOs would allow an additional level of scrutiny on the social impact of policies in the euro area. This would provide a means through which policies that do not adequately respect rights could be challenged within the institutional framework of the European Semester.

The Council of Europe has a long history of developing high standards for social rights. Several rights are of particular relevance to the labour market policies being promoted by the Commission. The Commission has sought to decentralise collective bargaining and increase flexibility in the labour market by reducing levels of employment protection. These policies have been justified by the claim that they will increase employment levels and address youth unemployment. So what would a rights based analysis look like? Two rights are of particular importance: the right to collective bargaining and the right to fair and just working conditions, both of which are impaired by the Commission's policy proposals aimed at decentralising collective bargaining and increasing flexibility in the labour market.

As mentioned above, the EU has historically utilised a proportionality test in three steps. First, it would have to be established that the policies that seek to interfere with rights are in pursuit of a legitimate aim. If the aim of the Commission is to increase employment levels, this is certainly legitimate. However, the utility of these policies in achieving that aim also has to be taken into account. At this point, it is relevant that in the EuroMemoranda and many other studies there have been significant critiques of the Commission's policies from an economic perspective, arguing that its current policy approach undermines domestic demand and economic activity, thus preventing it from increasing employment levels. These critiques call into question the legitimacy of these policies.

Second, policies that interfere with rights have to be provided for by law. The Country-specific Recommendations and recommendations under the enforcement procedures are in the form of directions, with the actual policy details left to member state governments to work out. Whilst recommendations are usually implemented by legislation, it is relevant here to note that some governments, namely the Spanish and Italian governments, have sought to implement policies required by EU authorities through the use of decree laws. These situations would therefore have to be taken into account when analysing whether interference with rights is provided for by law.

Although the rights-based approach is atractive for both political and economic reasons, it has to take into account the tensions in today's employment agenda. The rights to be asserted – rights to security, to income maintenance, to education, to periods of leave before retirement age – should not be framed in terms of traditional employment patterns: life-long and full-time employment. This is a model that is not feasible anymore (if it ever had been). Neo-liberal "workfare" measures and other individualist policies, increasing the pressure to "earn a living", attempt to disguise the actually increasing socialisation of labour

Two crucially important issues are: (a) taking the question of distribution seriously – inequality is in part the consequence of the externalisation of costs by enterprises, using flexibilisation and precarisation to transfer the costs of restructuring onto its victims; (b) reasserting the responsibilities of public bodies to be the true agents of the socialisation of labour, with education, public services, public enterprises and public employment providing the framework for rights-based opportunities for societally meaningful activities. This has to include alternative forms of employment to which the social economy provides a useful point of orientation. Finally, any interference with the rights must be proportionate to their aim. On this issue, it is necessary to turn to the case-law developed around the European Social Charter by the European Committee of Social Rights, which has directly addressed numerous examples of policies that could be considered proportionate. The European Committee of Social Rights has issued a number of findings of non-conformity in relation to policies adopted at the behest of the Commission. In Spain in particular, the forcible decentralisation of collective bargaining structures and provisions allowing employers to undermine collective agreements has been found to interfere excessively with the right to collective bargaining. Furthermore, excessive probationary periods whereby employees work without any protection against dismissals have been found to interfere excessively with labour rights. There is not sufficient room here to address the full body of case law on social rights. The point is, however, that clear standards for these rights have been established and these standards are currently being undermined by the current approach to the governance of the euro area.

As shown throughout this and previous EuroMemoranda, youth unemployment cannot be properly addressed by neoliberal policies or by undermining labour standards. An alternative strategy can be based on embedding an obligation to respect social rights in the framework for the governance of the euro area and of the EU as a whole.

5 The challenge of the TTIP, and the Eastern Partnership

5.1 Recent developments: protests on the rise, and reform proposals

The Transatlantic Trade and Investment Partnership (TTIP) is not just a free trade agreement (FTA) as the European Commission first presented it. Considered as an in-depth FTA, a third generation trade agreement – even called an economic NATO – it touches upon fields involving societal choices, lifestyles and collective preferences. It would involve notably the removal of 'non-tariff barriers' and Investor State Dispute Settlement (ISDS), a regime of rulings on international investments almost entirely managed by private interests.

The scope of the TTIP affects the content of the conflicts that arise. These conflicts concern the manner of regulating the economy (normative conflicts), whereas the conflicts sparked off by traditional trade agreement have mainly to deal with benefits and compensation costs ensuing between economic sectors (distributive conflicts).[40]

There was some delay before European citizens reacted to this initiative. They were generally taken by surprise, since no preliminary public debate was organised on the Agreement's content, issues or implications. Gradually the opposition movement has been gaining in strength. In October 2015, 250 thousand marched in Berlin to express their hostility against the Treaty. 45% of Germans oppose it compared to 25% in February 2014. A broad range of social forces have declared their hostility to the Treaty, including trade unions, NGOs, consumers associations, among others. A large and increasing number of local authorities claim to be 'outside TTIP'. In September 2015, 54% of French people live in 'outside the TTIP' zones.

European authorities and Member States seem to be taken aback by the extent of the opposition. Rifts having emerged between Member States on ISDS, negotiations on it were suspended in January 2014. Meanwhile the US is adamant that ISDS should be included in any future agreement. The Commission whilst acknowledging the profound scepticism of European citizens refuses to abandon

40 G. Siles-Brügge, and F. de Ville, 'The transatlantic Trade and Investment Partnership and "normative" trade conflict: a Polanyan moment in Trade?' Paper presented at the 21st Conference on Alternative Economic Policy in Europe, Roskilde, Denmark, 2015. http://www.euromemo.eu/annual_workshops/2015_roskilde /roskilde_workshops_papers/index.html .

it. Asked to state its views, the European Parliament declared in July 2015 in a non-binding resolution that it is in favour of the Treaty.

The breadth of the opposition to TTIP is forcing the Commission to modify its communication strategy. The new European trade policy (October 2016) entitled 'Trade for All: Towards a more responsible trade and investment policy' is said to be more transparent and more in tune with European values, safeguarding its social and regulatory model. Nevertheless, in a global context of competitive liberalisation – the agreement in principle on the TPP (Trans Pacific Partnership), TTIP's twin treaty, was signed in October 2015 – the European trade strategy of full liberalisation has been reasserted. Major Asian countries are the prime target of trade agreements: negotiations are underway for an FTA with Japan and an investment agreement with China. Also, the launch of negotiations for new FTAs with e.g. Australia, New Zealand and the Philippines, is in sight. The central policy thrust in the new document is to extend further the 'coalition of the willing' approach of the rich countries imposing profound liberalisation and de-regulation both on themselves and others.

The Commission is proposing a reform of ISDS by substituting for ad hoc private tribunals – as planned for TTIP – a permanent arbitration 'court' including an appellate body made up of nominations from a fixed list drawn up by the United States (US) and European Union (EU).

While these reforms represent a welcome acknowledgement of some of the fundamental flaws of existing panels to resolve disputes, the reform proposal sidesteps the essential problems with ISDS: the ability of corporations to sue governments and in doing so attack rules adopted democratically to protect the public interest. Also, the proposal retains the catch-all clauses of investment protection agreements, giving ample space to corporations to undermine legitimate legislation.

5.2 Official policies under scrutiny

Geopolitical consequences and a potentially fatal blow to European integration

The TTIP is the result of a wholesale bi- and plurilateral trade liberalisation policy initiated – under pressure from multinational business – after the failure of the WTO Doha Round's multilateral negotiations. This policy has been observed by the EU especially since the October 2006 Communication 'Global Europe: Competing in the world'. Numerous industrialised countries, as well as emerging countries, are committing to the process, hoping to preserve their trade interests.

The European crisis is strengthening the trend towards opening up markets as European governments look to exports and the expansion of free trade as a solution. However, the major reasons for the crisis are the European economic institutions' structural failures and the sluggishness of domestic demand, due to the restrictive policies within the euro area.

The TTIP project is the result of these two developments.

TTIP was supposed to kick-start the growth of the European economy, improve European business competitiveness, and institutionalise dominance of EU and US standards over the BRIC countries and particularly China.[41] If it is implemented, the Treaty risks being a failure on all counts, however. According to studies ordered by the Commission to measure its impact, the forecast impact on growth is insignificant.[42] Another study predicts a negative impact.[43] The competitive liberalisation process is likely to benefit more US multinational corporations with their strong specialisations, together with the support of a single power, than the businesses of a fractured Europe in crisis and searching for a way out. Finally, far from getting China to comply with Western standards, the Treaty might provoke the formation of hostile trade blocks which would undermine the US-led globalisation movement. In fact, China is already the privileged partner of South East Asian countries with which it has already entered into numerous FTAs and is involved in a process of reorienting its output towards domestic demand. This is an endeavour which stands a good chance of success given the size of its domestic market, its capacity to mobilise resources and to adapt, enhanced by its heavily administered economy and its concentration of political power. This reinforces its ability to resist external pressures towards an uncontrolled liberalisation of the economy.

As for the consequences of the TTIP on European integration, this could be the fatal blow, bearing in mind that the unification of the markets (Common Market and Single Market) together with monetary unification were the two high points of the process of European construction. With the TTIP, the single European market would be diluted within the big transatlantic market that is the goal of TTIP. Whilst ISDS and the 'regulatory convergence' process would further weaken the power of European states, the driving force for European integration.

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41 P. Defraigne, 'Departing from TTIP and going plurilateral.' *Madariaga Paper,* Vol. 7, No. 9, 2014.

42 W. Raza, J. Grumiller, I. Taylor, B. Tröster, and R. von Arnim, *Assess _TTIP: Assessing the claimed benefits of the transatlantic trade and investment partnership*. Final Report, Austrian Foundation for Development Research, Vienna, 2014.

43 J. Capaldo, 'TTIP: European Disintegration, Unemployment and Instability.' *GDEI*, October 2014.

Constraining key regulations and diminishing their huge benefits

International trade agreements have increasingly targeted domestic regulations as 'trade barriers.' Standard economic impact analyses of trade deals, including the official studies for TTIP and CETA, take regulations as pure costs to business, and differences in regulations between countries only as additional costs for them. The benefits of regulations do not enter into the calculations. Nor do they appear in standard rationales for trade policies.

Yet these benefits to the society and economy as a whole are enormous, in e.g. finance, climate change, pollution, toxic chemicals, food safety, public health, working conditions, innovation for cleaner and safer products, and most businesses benefit as a result. The US regulatory oversight body calculates that the benefits in economic terms of US regulations are seven times greater than the costs, for 2000 to 2014.[44]

In the 1990s the OECD presented a set of 'good regulatory practices,' and its latest statement appears prominently in TTIP.[45] These were to diminish differences in regulations and thus barriers to trade and investment. Importantly, they were based on US regulatory practices.[46] When included in trade agreements, i.e. international treaties, they become obligatory in law. The Commission's new Trade for All says that the WTO should have a central role in enforcing good regulatory practices (p. 28).

The key features according the OECD are: consultations; quantitative impact assessments emphasising cost-benefit analysis and conversion of everything into monetary amounts; regular cost reviews of existing regulations; strong central policing. Choice of the best regulatory option is a technical matter of information and calculation. No indication is given that regulations are political choices and should involve democratic participation or decisions.

The EU regulatory system as developed in the 1980s and 90s has considered regulations as ultimately a political matter, reflected in the way the system was designed, including impact assessments. US-EU regulatory cooperation began in the late 1990s and the EU came to adopt various features of the US system. The new Commission Better Regulation Package, May 2015, went further, with numerous

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44 Office of Information and Regulatory Affairs (OIRA), *2010 Report to Congress on the Benefits and Costs of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities*, Washington D.C., Executive Office of the President, 2010, Tables 1-3 and B-1, https://www.whitehouse.gov/sites/default/files/omb/legislative /reports/2010_Benefit_Cost_Report.pdf ; OIRA, *2015 Draft Report to Congress on the Benefits and Costs of Federal Regulations and Agency Compliance with the Unfunded Mandates Reform Act*, Washington D.C., Executive Office of the President, 2015, Table 1-3, https://www.whitehouse.gov/sites/default/files/omb/inforeg /2015_cb/draft_2015_cost_benefit_report.pdf . In every year the benefits are greater than the costs.

45 OECD. 2012. *Recommendations of the Council on Regulatory Policy and Governance*.

46 P. Mumford, 'Regulatory Coherence: blending trade and regulatory policy,' *Policy Quarterly*, November 2014.

consultations and impact assessments, which the US had been pushing for years, as had business associations.

Domestic regulation has assumed top priority in the new Commission, which has indicated strongly that it will do less regulating. The REFIT programme looks predominantly at regulations' costs and led to many proposals being dropped, including minimum standards for maternity leave, access to environmental justice, soil protection, and supervision of medicines. Many civil society groups became alarmed, and set up a Better Regulation Watchdog in June 2015.

TTIP's stated central aim is to achieve 'regulatory compatibility' between EU and US to increase trade and investment. Especially, it would involve mutually recognising each other's regulations in various areas as having equivalent outcomes. Regulatory systems are to be aligned under 'good regulatory practices.'

TTIP's permanent Regulatory Cooperation Body would be composed of officials dealing with trade and regulatory oversight. In the past the Commission has shown its willingness to change fundamentally certain proposals following discussions with the US trade authorities. Sectoral and other working groups are likely to do most of the work and be dominated by business; no suggestion is made of any transparency for these.[47]

Yet again, there is no proposal for any of these bodies to address the benefits of regulations and how these might be increased or enhanced.

The combination of TTIP and domestic Better Regulation would mean that regulations would face a formidable obstacle path. To the filters and multiple consultations under Better Regulation are added transatlantic regulatory exchanges at any time, and 'stakeholders' (in practice, business from both sides) giving 'inputs.'[48]

All this would take place before legislators, i.e. in Parliament and Council, can engage with the proposal, if it ever emerges.

TTIP adds a large amount of additional consultations and procedures to the increasing burden on regulators' diminishing resources, undermining their ability to regulate in the public interest, as is already happening in the US, at EU level, and in Britain

In a recent statement, the major environmental NGOs called the first year of the new Commission 'a lost year for environmental protection.' 'Overall, we see the Commission pursuing more and more dangerous deregulation.'[49]

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47 European Commission, *TTIP – Initial Provisions for chapter on Regulatory Cooperation*, Textual Proposal, 2015.

48 K. Haar. 'Cooperating to deregulate.' Paper presented at the 21st Conference on Alternative Economic Policy in Europe, Roskilde, Denmark, 2015, http://www2.euromemorandum.eu/uploads/haar_ttip_regulatory_cooperation_and_better_regulation.pdf

49 European Environmental Bureau, 'Environmental organisations deplore 'lost year' for environmental protection.' Press release, 2 November 2015.

The precautionary principle has been a declared target of US trade policy for several years. It has now almost disappeared in the 2015 Better Regulation Guidelines for preparing regulatory options, with the use of impact assessments.

The functioning of these 'good regulatory practices' in the US was recently described by a major US consumer advocacy organization to a Senate committee: 'Unreasonable delay permeates almost all aspects of the rulemaking process … the source of the problem is … a thicket of legislatively mandated process and multiple analyses, along with inappropriate influence exerted by and for regulated parties.'[50]

The obvious question arises: why is this system, better called 'bad regulatory practice,' to be imposed upon the world?[51]

An alternative 'good regulatory practice' is clearly needed. See the proposal below.

For services trade and investment, negotiations on the bilateral TTIP and CETA, and plurilateral TiSA, over the last few years, are within a sharply enhanced agenda for tightening trade rules and increasing investor rights, following breakdown of the multilateral WTO GATS services negotiations, where others would not accede to the rich countries' demands. The new agreements are to advance the 'coalition of the willing' approach as in the new EU document, 'Trade for All.' Others would join later, and a wider WTO agreement would further lock in the liberalisation. They have profound implications for public services.[52]

Locking-in liberalisations through 'standstill' and 'ratchet' effects are explicitly designed to make it impossible for any future government to change direction, whatever its elected mandate, even if a privatisation turns out a clear failure. Currently there are many re-municipalisations in water, transport, energy supply in Europe and elsewhere.

An important new development is the EU's first use of a 'negative list' in CETA and TTIP, i.e. that all services not explicitly excluded are to be fully liberalised. This is especially dangerous since any future new services become liberalised automatically; also, governments have great difficulty in understanding the extent of their commitments. Further, ISDS is particularly dangerous for public services and privatisation, as governments including local governments can in principle be sued for regulatory changes that affect foreign investors' profits; no services are excluded from ISDS's reach.

50 R. Weissman, 'Examining the Federal Regulatory System to Improve Accountability, Transparency and Integrity', Written Testimony before the Senate Judiciary Committee, 10 June 2015, p. 23.

51 Nevertheless certain aspects of the US system are superior to Europe's, e.g. aspects of air pollution and emission regulations.

52 The implications for public services are addressed in T. Fritz, *Public Services under Attack*, published by AITEC, CEO, EPSU, IGO, TNI, AK Vienna and War on Want, October 2015.

5.3 Alternatives: an EU trade agenda centred on democracy and international cooperation, and genuine good regulatory practices

The TTIP outcomes have become even clearer over time. With minimal economic gains in the most optimistic scenario of the official study – equivalent to one cup of coffee per person in Europe per week – it would lead to major and permanent loss of democratic control over regulation of fundamental features of society and environment. TTIP negotiations should be stopped and a fundamental rethink of EU trade policy undertaken. CETA, going even further than TTIP in some areas, e.g. the original crude form of ISDS and an even stronger version of the dangerous 'negative list' in services, should not be accepted by governments or parliaments.

An alternative trade approach should be based on the following principles, to put EU trade policy on a different track, making a positive contribution to both the EU social model and an international economic order based on mutual respect and co-operation, not on domination as in the current 'coalition of the willing' approach.[53]

- Establishing full transparency of negotiating processes and documents.
- Holding regular open consultations with EU and national parliaments during negotiations, with genuine public participation on such crucial questions.
- Safeguarding the policy space to regulate in the public interest.
- Applying an approach to trade that takes account of (i) the collective preferences of citizens on protection of public services from trade agreements; (ii) the lessons of the global financial crisis after wholesale deregulation; (iii) development priorities of partner countries, in particular the least developed countries, including food sovereignty; and (iv) local development preferences.
- Binding provisions on recognition and adherence to basic human rights, especially ILO core labour standards, decent work, women's rights, and international environmental standards.

Public services should be excluded entirely from trade and investment agreements, using a comprehensive unequivocal definition of public services, and respect-

53 For an 'Alternative Trade Mandate' developed by a wide variety of civil society organisations in Europe: http://www.s2bnetwork.org/trade-time-new-vision/. Proposals for potential joint demands by labour movements around the world are given in A. Bieler, 'Contesting 'Free Trade': Proposals for collective demands towards an alternative trade regime.' Paper presented at the 21st Conference on Alternative Economic Policy in Europe, Roskilde, Denmark, 2015, http://www2.euromemorandum.eu/uploads/bieler_contesting_free_trade_proposals_for_collective_demands_towards_an_alternative_trade_regime.pdf.

ing the policy space of democratic bodies from municipal to national levels to decide on their development; this has become even more important in the current crisis.

Secondly, to address compulsory imposition in trade agreements of highly problematic 'good regulatory practices,' the following *alternative good regulatory practices* should be adopted instead:

- As a fundamental orientation, give sufficient emphasis to the benefits of regulation, which on average are far greater than the costs. Create institutional mechanisms to develop their benefits further and not exclusively focus on their costs.
- Assert in an unqualified way in international agreements the domestic right and *ability* to regulate, not burdening regulations excessively with international trade 'disciplines'.
- Because many regulatory decisions, especially more consequential ones, are political issues requiring democratic decisions, use participative approaches and wider democratic debate. Use impact assessment methods that enable the real political choices to emerge, e.g. social multi-criteria analysis.
- Acknowledge the gross deficiencies in US regulatory approaches. Avoid imposing a heavy regulatory burden on public regulators and civil society organisations in overly complex processes, leading to blockages and biased regulation. Give much greater attention to distinguishing between private versus public interests in regulating.
- Pay adequate attention to the precautionary principle in regulating and to when this principle should actually be invoked.

Concerning the Eastern Partnership (EP), an alternative EP is urgently needed, focusing especially on poverty and social exclusion as well as on climate change and biodiversity loss, particularly energy and resource intensity, thus contributing to socially and ecologically sustainable development while creating strong regional dynamics. To this end, access to community funding should be facilitated, the EBRD enabled to take over the parts to be financed by the countries concerned, and support given to NGOs enabling them to take part in development projects.

European Neighbourhood Policy: The Eastern Partnership

The European Neighbourhood Policy (ENP) towards East European countries is indicative of an increasingly neo-mercantilist economic strategy by the EU and of the strong interlocking of trade policy with military and strategic considerations. It is also revealing Europe's ambiguous policy towards Russia.

The European Partnership (EP) is part of the ENP which involves two groups of countries: those of the Southern Rim of the Mediterranean and six East European and Caucasian countries, former Soviet Republics.[54] The EP, taking the form of association agreements, has rapidly taken off since 2009, in a context marked by new frictions with Russia (e.g. the Baltic countries' admission into NATO, the war in Georgia, the Russian-Ukrainian conflicts.

These agreements, which also have a military and strategic dimension,[55] provide for a liberalisation of trade – towards establishing deep and comprehensive free trade areas – and the transposition of European standards and governance structures.

Considering that these agreements – finally signed by only three countries (Ukraine, Moldova and Georgia) – are a first step towards the integration of the EP countries into NATO, Russia has launched the Eurasian Union. At the same time the US is discussing arming the Ukraine and positioning weapons for its troops in the Baltic countries, Poland, Romania and Bulgaria.

The EP policy brings to light the lack of coherence of the EU policy towards Russia. Although the EU always declared itself in favour of fostering a friendly relationship with that country, it is putting into place a policy of association agreements which can only hit Russia head-on, triggering a succession of reactions with unforeseeable consequences.

The EP promotes de-industrialisation of East European countries and widening of asymmetric relations with the EU. It is also worsening divisions in Europe and the EU:[56]

54 Ukraine, Belarus, Moldova, Armenia, Azerbaijan and Georgia.

55 Participation of Ukraine, Georgia and Moldova in a number of military operations organised by the EU in Africa.

56 J. Dellheim, and F.-O. Wolf, 'European Neighbourhood Policy – Eastern Partnership. ' Paper presented at the 21st Conference on Alternative Economic Policy in Europe, Roskilde, Denmark, 2015, http://www.euromemo.eu/annual_workshops/2015_roskilde/roskilde_workshops_papers/index.html .

- Between EU Member States who are in favour of accession of the EP countries and those against;
- Between countries of the EP and those who have joined the Eurasian Union.

These divisions are worsening the fracture of the EU. To the economic split (between 'core' and 'peripheral' EU countries) and the institutional divide (between Britain and the rest) is added a third, of a strategic and military nature, within Eastern Europe.

The Ukrainian crisis which culminated in 2014, has shown signs of abating since early 2015: the Minsk ceasefire agreement (February 2015) and conciliatory statements by the European side after the Riga Summit (May 2015), while Russia is mitigating its opposition to implementation of the EU Association Agreement with the Ukraine which will come into force in January 2016. However the consensus is that this progress remains fragile. It should not deter the EU from reviewing its current EP policy.

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Addressing Europe's Multiple Crises: An agenda for economic transformation, solidarity and democracy – EuroMemorandum 2016 –

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