EuroMemorandum Group

# Full Employment with Good Work, Strong Public Services, and International Cooperation

## *Democratic Alternatives to Poverty and Precariousness in Europe*

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**Summary**



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**Summary**

The adoption of the new „Reform Treaty“ for the EU comes at a time of financial crisis, enhanced economic uncertainty and rising social inequality. Additional risks arise from the precarious situation in the areas of energy use and climate change and from mounting imbalances in the world economy. The new Treaty will not enable the EU to master these problems and challenges. On the contrary it will strengthen the neo-liberal policy framework which has contributed to the critical situation.

***Current problems***. The current economic upswing will certainly be affected by the fall-out from the financial crisis. But it will also be impeded by insufficient wage developments and the weakness of consumption and public expenditure. Redistribution of income and wealth from the poor to the rich occurred in the years of economic slow-down and recession, and it continues in the years of recovery and upswing. Poverty has not decreased but in many cases increased in the last years of overall growth and exploding profits. The alarming problems in the prevailing pattern of energy provision and consumption and their harmful consequences on climate change have been demonstrated in different ways by the monopolistic price policies on liberalised energy markets and by a number of environmental catastrophes.

***Critique of EU policies***. The EU does not respond in any convincing way to these uncertainties and increasing social and ecological problems. Strong declarations are not followed by corresponding concrete measures, and policies go often in the opposite direction:

- With regard to the *financial crisis* current efforts aim not at limiting but at opening further the door for financial speculation. It is alarming that the EU regards member states’ rules to protect pension funds against the entry and strategies of financial investors as an obstacle to the free movement of capital which must be removed – thereby delivering the incomes of pensioners to the risks of financial losses.

- A *macro-economic policy* perspective responding to the current problems is simply absent from the EU conception, and efforts to control the exchange rate are not undertaken.

- The declared respect and high regard for *services of general interest* as an essential pillar of the European Social Model is accompanied by initiatives to undermine the core of these services – health care and social services - by integrating them into the framework of internal market and competition rules. This is an obvious attempt to re-conquer areas which were lost in the discussions about the services directive in that they were – after strong public critique exempted from this directive. Also in the recent initiative for “flexicurity” on the labour market the deregulatory obsession is dominant, while on the other hand migration policy is too restrictive.

- In an attempt to offset the economic problems created by the disregard for internal demand the EU has – under the title of “Global Europe” - started a more *aggressive external strategy* to open markets and conquer market shares in the world. Main instruments for this purpose are bilateral free trade and investment agreements and the neo-liberal shaping of Economic Partnership Agreements with developing countries. Instead of concentrating on the building of an attractive alternative to the aggressive US model the Union is trying to underline its enhanced ambitions in the world through the build-up of military power.

- In *energy and climate policy* the contradiction between words and actions is particularly evident. Neither the strong rhetoric attacks against the price policy of energy monopolies nor the declared commitments to change the pattern of energy consumption in the EU have been followed by concrete measures. Energy policy is still dominated by the theory of free markets and the practice of monopolistic behaviour. To replace the current unsustainable regime of fossil energy provision the EU continues to consider the nuclear option which is another unsustainable regime.

***Proposals for alternatives***

To overcome the ***financial crisis and achieve financial stability*** in the EU immediate measures against financial speculation should be combined with steps to stabilise the financial systems in Europe and to re-embed them into coherent European development strategies.

- Against *financial speculation* transparency requirements should be raised, leverage limited and securitisation and trading of loan packages only be permitted when explicitly approved by supervisory authorities. Also higher taxation of short-term capital gains and taxes on stock exchanges and currency transactions serve this purpose. Investments of pension funds and life insurance in hedge funds or other risky financial instruments must be prohibited.
- To *protect firms and employees against harmful activities of financial investors* voting rights of such investors should be linked to a minimum duration of equity holdings and the rights of employees to veto decisions against their interests should be strengthened. In a still longer-term perspective the trend to redistribute income from bottom to top and to base pension systems on capital markets must be stopped and reversed, because these trends are at the roots of an increasingly finance-led and unstable development.

A ***more active macro-economic policy*** of the EU should promote more and better employment and sustainable development in the EU. Measures in this direction are public investment programmes on the national and on the EU level – for the restructuring of transport systems, energy provision, social housing, urban refurbishment et al. – as well as initiatives for the reduction of individual working time in different forms. Initiatives should also be taken to control the Euro exchange rate vis à vis the US dollar and the Chinese Renminbi and for this purpose to seek for more international monetary cooperation

***Public services*** – or “services of general interest” – must be recognised not only rhetorically but also through corresponding policies as a central element of a European Social Model based on solidarity and fairness. Public service provisions in the liberalised sectors must be strengthened and implemented and where this becomes increasingly difficult, a tighter direct public control should be envisaged, including new forms of public ownership and administration. The exemption from the internal market and competition rules should apply to all public services – even if they are of an economic character. The European dimension of these services can best be served by the definition of minimum standards with upward convergence, co-operation in border regions and joint research and educational projects.

Special emphasis should be put on ***anti-poverty policies.*** The abolition of poverty should be made a top priority in the Reform Treaty. In the pursuit of this objective the EU should urge the member states to adopt action plans (minimum wages, child benefits etc.). At the same time the EU should support such national anti-poverty measures through European transfers.

***Climate and energy policy*** should more actively and concretely take measures to effectuate the shift from the prevailing fossil system to a sustainable regime based on energy saving and development and use of renewable energy sources.

In its ***external policies*** the EU should adopt the principal aim to promote a fundamental transition towards a model of balanced and equitable global development. In particular it should embark on a fair trade agenda for cooperation and development. In the relationships with developing countries this includes trading relations based on non-reciprocity, specific assistance to fulfil human rights and environmental and social sustainability standards. In its relation to developed countries the EU should contribute to the reduction of the large imbalances and in a longer perspective aim at balanced current accounts and a jointly managed exchange rate which supports such balance. In such a policy framework there is no room for the threat or use of military force

**Introduction**

According to declarations by European Institutions, 2007 has been a year of economic and political progress. The economy grew relatively fast, and employment increased, too. Problems like climate change and financial crisis were themes of high priority at summits. But everything was overshadowed by the negotiations on the new “Reform Treaty”, and the adoption of this Treaty in October topped every other event and was celebrated as the decisive end of the longstanding crisis of the EU.

This view is far away from reality. The adoption of the Reform Treaty comes at a time of financial crisis, enhanced economic uncertainty and rising social inequality. Additional risks arise from the precarious situation in the areas of energy use and climate change and from mounting imbalances in the world economy. The new Treaty will not enable the EU to master these problems and challenges. On the contrary it will strengthen the neo-liberal policy framework which has contributed to the current situation.

In this memorandum we will present a view which is fundamentally different from that of the EU Commission and most governments. We will in the first part briefly highlight the most urgent economic, social and ecological problems in the EU, and in the second part criticise the policies of obsessive liberalisation and deregulation, the disregard of active macroeconomic policies to promote sustainable development in the EU, and the attempt to offset internal shortcomings by the development of a more aggressive trade and investment policies and to underpin the stronger global position of the EU increasingly by the enhancement of military power. This is followed by a presentation of proposals for a thorough turnaround of economic and social policies and for alternative policies in the financial markets, macroeconomic stimulation, anti-poverty and sustainability policies and of external economic relations which are guided by the principle of peaceful cooperation, fair trade and efficient development aid.

We see this memorandum as a contribution to the scientific critical discussion of European economic and social policies. We see it at the same time as a support for the political forces and social movements which fight against the subordination of the world under the neo-liberal imperatives of universal competition and unlimited profits. And it should also contribute basic elements and cornerstones of an alternative, fairer and sustainable pattern of European and global development.

**Part 1:**

## Enhanced risks, imbalances and inequalities – Current economic and social problems

According to official declarations of the EU Commission the robust economic upswing will only be very slightly affected by the financial crises and will continue during the next year. It will bring more and better jobs and further improve the economic strength and social welfare in the EU.

We criticise these assertions not only for their overly optimistic outlook for macroeconomic development in the EU but also for their complete disregard of the deepening of social and ecological problems which has taken place in the past years and continues in the current upswing. Beyond the still incalculable risks of the financial crisis and weaknesses of macroeconomic development and employment, persisting regional disparities we see that poverty has not declined but in many cases risen, and the precarisation of employment is an overall trend; ecologically responsible energy provision does not really advance and climate change is generating increasing threats also for Europe. The EU is by no means safe with regard to the growing imbalances in the world economy, and it will be severely affected by a failure to find solutions for these problems.

### 1.1. Financial crisis: More to come?

In September 2007 Britain saw the first bank run since 1866. Although the immediate crisis was contained through the intervention of the Bank of England (BoE) the event reveals the fragility of the present global financial system, and uncertainties about further developments remain.

The background to current financial disturbances is a general abundance of investible resources. This is often referred to as a situation of **excess liquidity** but it should be noted that there are both monetary and real factors behind it. After the collapse of the high-tech equity boom in 2000/1 the US Federal Reserve repeatedly lowered its main interest rate, from 6.5% at the start of 2001 to a low of 1% by 2003. This enabled banks and corporations under financial pressure to refinance themselves on easy terms. At the same time generally high levels of corporate profitability and an increasingly unequal distribution of income have persistently tended to promote a high volume of savings. The consequence has been that interest rates and the yields on many types of financial asset have been low.

Many banks and other financial institutions, unwilling to accept these low returns, have responded by increasing their **leverage**, that is by issuing debt in order to finance larger positions in a wide range of financial assets: such leverage will often give rise to higher returns on a portfolio but can involve much higher risks. Many institutional investors, especially pension funds, are required by regulators to avoid using leverage but they have been circumventing these restrictions by investing in other institutions, such as private equity companies and hedge funds, which make massive use of leverage. This has tended to weaken both sides of their balance sheets – the assets they hold are riskier and give more volatile returns and this in turn makes their liabilities less secure and exposes their investors, creditors and depositors to greater risks. Related developments compound the resulting rise in **systemic risks**. There is a general hunt for new types of assets and of investment with high yields. The resulting complex new financial instruments are often very difficult to evaluate. The ratings agencies which are supposed to inform the buyers of financial claims about the levels of risk involved are subject to a serious conflict of interest. They are paid by the issuers of securities and in recent years have made more than half their profits from rating just such innovative instruments.

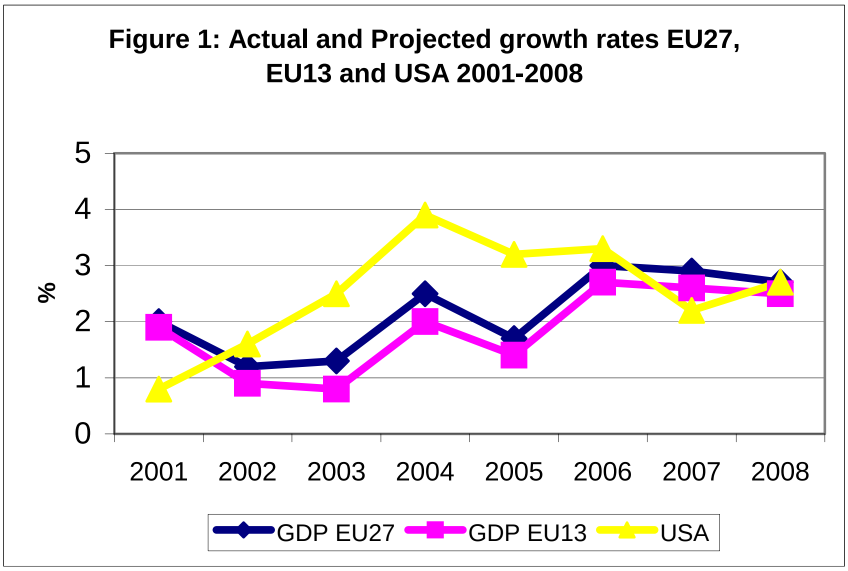
In an increasingly **fragile** financial system the probability of disruption rises over time although it is not always possible to predict which particular assets will be affected or when. In the event, trouble broke out in the finance of "subprime" mortgages in the US, that is the mortgages advanced to less credit-worthy, usually lower-income, house-buyers which earns interest rates of 3 – 4% above a normal mortgage. Under pressure in the labour market in many regions of the US, and rising interest rates, large numbers of these borrowers have been failing to maintain payments. In consequence the extremely complex financial instruments through which the mortgages were financed have lost much of their value.

The widespread distribution of these claims through the networks of global finance has meant that it has not been easy to identify which banks and other institutions have suffered losses and on what scale. This has greatly increased **uncertainty** within the financial system. In July 2007 two hedge funds owned by Bear Stearns, a leading New York investment bank, failed as a result of large exposures to mortgage-backed securities. Shortly thereafter two German public sector banks, IKB and SachsenLB, revealed large losses on US subprime assets which necessitated their refinancing by other banks in the German system. Such events have initiated a process of **contagion** in that they called into question the position of other hedge funds and hence of banks and other financial institutions which had invested either in hedge funds or in subprime-based assets. Some of the securities issued to finance mortgages were short-run and these short-run positions could not be rolled over after investors became alarmed about the developing crisis. The holders of mortgage-backed securities thus turned to the banks for emergency refinance and this also increased suspicion about the banks' exposures.

By early-August there had developed a serious crisis in the **money-markets** and the interbank market on both sides of the Atlantic and this threatened widespread financial pressures because both markets are central to the functioning of the financial system. Faced with these growing threats, both the ECB and its US counterpart, the Federal Reserve, injected large amounts of cash into the interbank market and made it clear that they were determined to avoid a build-up of financial tensions. This was certainly a necessary response, given the situation. However, in at least two respects the role of the **authorities** is open to question. Firstly, although they have responded promptly to the outbreak of crisis, they did little or nothing to prevent the move to increasingly risky positions by the main financial actors. Secondly, the two key authorities in the EU, the ECB and the Bank of England (BoE), adopted completely opposed and incoherent tactics. While the ECB pumped funds into the Eurozone money markets, the BoE initially tried to limit its interventions, on the grounds that this could encourage further excessive risk-taking by the banks. Although the BoE was later forced to reverse its position and rescue Northern Rock the original failure to coordinate the interventions of these two key European public authorities does not bode well for the future.

### 1.2. Low wages, precarious jobs, political complacency - Prospects for macro-economic decline

The current financial crisis has a negative impact on the macroeconomic development of the EU, and forecasts have been generally revised downward. How big this impact is, remains uncertain. In any case the relatively favourable upswing of the business cycle has come to an end and a new slow-down is imminent.




Source: European Economy 7/2007, T. 1.1 and 2.2; Statistical Annex, Spring 2007, T. 10.

***Growth***. In 2006, the economy of the EU27 grew on average at a rate of 3%. This was the highest growth rate of GDP in six years (Fig. 1). After the recession in 2001 and slow recovery in 2002 macroeconomic growth has picked up and - after a short interruption in 2005 culminated in 2006 and the first half of 2007. Major driving factors in 2006 as in the years before were exports and investment, whereas on the other hand public expenditure and private consumption lagged behind (see Table 1.1) The former reflects widespread government inactivity, i.e. the fact that in spite of the improvements in the budgetary positions as a consequence of the favourable overall development governments and the EU maintained their course of restrictive fiscal policies and did not meet the necessities to renovate public infrastructures, to upgrade the level of education and to improve the social situation of the disadvantaged members of society.

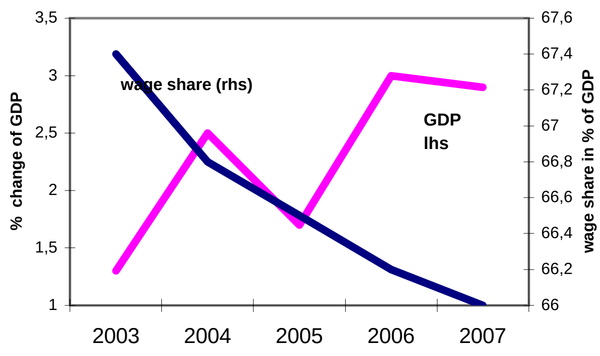
## Table 1.1: Macroeconomic development in the EU

| | EU 27 | | | | | |
|---|---|---|---|---|---|---|
| Yearly growth rates in % | 2003 | 2004 | 2005 | 2006 | 2007 | average |
| GDP | 1,3 | 2,5 | 1,8 | 3,0 | 2,9 | 2,3 |
| Private Consumption | 1,7 | 2,2 | 1,7 | 2,2 | 2,3 | 2,0 |
| Total investment | 1,1 | 3,2 | 3,0 | 5,9 | 5,6 | 3,8 |
| Government expenditure | 2,2 | 15 | 1,7 | 2,0 | 2,0 | 1,9 |
| Exports | 1,8 | 7,2 | 5,3 | 9,2 | 7,0 | 6,1 |
| Imports | 3,4 | 7,4 | 5,8 | 9,1 | 7,2 | 6,6 |
| | | | | | | |
| wage share in % of GDP(EU25) | 67,4 | 66,8 | 66,5 | 66,2 | 66,0 | 66,6 |
| current account in % of GDP | 0,1 | 0,4 | -0,3 | -0,7 | -0,8 | -0,3 |
| | | | | | | |
| | Euro area | | | | | |
| GDP | 0,8 | 2,0 | 1,5 | 2,8 | 2,6 | 1,9 |
| Private Consumption | 1,2 | 1,6 | 1,5 | 1,8 | 1,7 | 1,6 |
| Total investment | 1,1 | 2,2 | 2,7 | 4,8 | 4,7 | 3,3 |
| Government expenditure | 1,8 | 1,3 | 1,4 | 1,9 | 2,0 | 1,7 |
| Exports | 1,1 | 6,9 | 4,2 | 8,2 | 6,7 | 5,4 |
| Imports | 3,1 | 6,7 | 5,2 | 7,7 | 6,7 | 5,9 |
| | | | | | | |
| wage share in % of GDP | 65,5 | 65,0 | 64,7 | 64,2 | 63,9 | 64,7 |
| current account in % of GDP | 0,5 | 1,0 | 0,2 | -0,1 | 0,0 | 0,3 |

*Source: European Economy, Economic Forecasts, Spring and Autumn 2007.*

The continuing weakness of private consumption is due to the remarkable fact that the long-term trend of redistribution of income from the bottom to the top continues in the upswing (see figure 2).

**Figure 2: GDP and wage share in the EU27, 2003-2007**




The shortcomings of wage development and government activity will negatively impact macro-economic development in the near future.

The forecasts of the Commission, published in November 2007, confirmed the declining growth rate of the EU as a whole and for the Euro-area both for 2007 and for 2008, with minor exceptions across countries. This slow-down takes account of the global financial market turmoil.

***Employment*** Since 2002, there has been a slow increase in employment and a gradual drop in unemployment in EU27. The implications of this for growth are however ambivalent, given that the share of temporary and part-time employment (in total employment) has been steadily increasing and that unemployment has hit especially hard certain segments of the labour market, namely the young (15-24), women and the long-term (over 1 year) unemployed, where no improvement has taken place (Table 1.2). Many people who are without employment do not appear in any unemployment statistic.

**Table 1. 2: EU27 Employment Indicators, 2002-2006**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Employment growth (%) National Accounts | 0.3 | 0.4 | 0.8 | 1.0 | 1.6 |
| Temporary employment (% of total employment) | 12.4 | 12.5 | 13.1 | 13.9 | 14.3 |
| Part-time employment (% of total employment) | 15.6 | 16.0 | 16.7 | 17.1 | 17.4 |
| Unemployment rate (% of labor force) | 8.8 | 9.0 | 9.0 | 8.7 | 7.9 |
| Young (15-24) unemployed (% total 15-24) | 17.9 | 18.3 | 18.8 | 18.7 | 17.4 |
| Female unemployment (% total female ) | 10.0 | 10.0 | 10.1 | 9.7 | 8.8 |
| Long term unemployment (% of total unemploy ment) | 45.2 | 45.7 | 44.9 | 46.0 | 45.7 |

Source: European Economy 7/2007, EU Labour Developments, p.p.201 & 202.

### 1.3. Persistent poverty amidst exploding profits – Inequality on the rise

The latest data about poverty in the EU (relating to 2005) indicate that in general the situation has not improved and in many cases it has deteriorated. By the end of the 1990s the average EU-15 poverty rate had declined from 18% in 1995 to 15% in 2000. After it had remained constant for a couple of years, the poverty rate has increased by one percentage point to 16% in 2004 and remained there in 2005. (table 1.3)

**Table 1.3: Poverty Rates in the EU in %, 2005**

| | EU25 | EU15 | EU10 | Maximum Value | Minimum Value |
|---|---|---|---|---|---|
| **All age groups** | 16 | 16 | 17 | Poland, Lithuania (21, Greece, Spain, Ireland (20), Portugal, Latvia (19) | Sweden (9) Czech Republic (10) |
| **Adults** (16-64 years) | 14 | 14 | 17 | Poland (21) Lithuania (19) | Sweden (9) |
| **- Women** (16-64 years) | 15 | 15 | 17 | Poland (20) Lithuania (19) | Sweden (9) |
| **- Men** (16-64 years) | 14 | 13 | 18 | Poland (22) Lithuania (20) | Czech Republic, Sweden (9) |
| **Children** (< 16 years) | 19 | 18 | 24 | Poland (29) Lithuania (27) | Sweden (8) Denmark, Finl. (10) |
| **Elderly people** (> 65 years) | 19 | 20 | 9 | Cyprus (51), Ireland (33), Spain (29) | Czech Republic, NL (5) Hungary (6) |
| **Employees** (>16 years, incl. self-employed) | 8 | 7 | 10 | Poland(14),Greece (13), Portugal (12) | Czech Republic (3), Finland (4), Denmark (5) |
| **Unemployed** (>16 years) | 40 | 37 | 47 | Lithuania (63), Estonia (60), Latvia (59) Czech Republic (51) UK (50) | Slovenia (25), Denmark, Schweden (26), Netherlands (27) |
| **Households without dependent children** | 15 | 15 | 12 | Cyprus (27) Ireland, Latvia (20) | Czech Republic (7) Slovak. ,NL, Lux(8) |
| **Households with dependent children** | 17 | 16 | 21 | Poland (25), Lithuania (23), Italy (22) | Sweden (8), Finl., Denmark, (9) |
| **Households with two adults and three or more children** | 24 | 22 | 37 | Poland (45), Portugal, Latvia (39), Spain (36) | Sweden (9), Finland (12), Germany (13) |
| **Single Parent with dependent children** | 32 | 32 | 37 | Malta (49), Lithuania (48), Ireland (45), Greece (44) | Sweden (18), Finland (20), Denmark (21), Slovenia (22) |

Source: Eurostat-Database (November 2007).

***High poverty risk: children, old age, unemployment:*** While the poverty rate for adults in the EU-25 is at 14%, children, households with many children, and elderly persons belong to those groups of the population, that are particularly exposed to poverty: In EU-25, almost one fifth of the children under 16 years old live in poor households, and in Poland, Lithuania, Spain and Italy even every fourth child lives in poverty. Households with children, too, are more exposed to poverty than households without children (poverty rates of 17% and 15% respectively). Particularly alarming is the situation in Poland and Lithuania, where poverty rates for most groups of the population are the highest ones in the EU.

The average poverty rate of elderly people (aged 65 or more) is 19%. In Cyprus, every second person aged 65 or more is hit by poverty. In contrast, the poverty rate of the elderly in the Czech Republic, the Netherlands, Hungary, Poland, Slovakia and Luxembourg is less than

10%. Similar to the unemployed, increased exposure to poverty of elderly people is mainly caused by the loss of earned income.
The highest share of poverty is to be found amongst the unemployed. Overall two fifth of unemployed persons throughout the EU25 are poor. For the 10 new member countries this share has dramatically risen from 38% in 2003 to 47% in 2005.

***Working poor***. The number of people who are poor in spite of employment is about 14 million; this is almost twice as high as the number of unemployed poor people (about 7 million). Obviously, increasingly frequent insecure employment conditions raise the risk of poverty. E.g., the type of the working contract makes a significant difference, since the poverty rate for employees with fixed-term contracts is three times as high as for employees with permanent contracts (poverty rate of 11% for the former in comparison to 4% for the latter in EU-15); and with a poverty rate of 16% self-employed are exposed to poverty despite full-time occupation (European Commission 2005b: 193).

***Growing wealth.*** As well as the scandalous increase of poverty in the EU, there has been a substantial increase in the concentration of wealth in the EU. While much data is published by Eurostat on poverty, no information can be found on the distribution of wealth in Europe, so that we have to refer to the statistics of Merrill Lynch and CapGemini (2007): According to the World Wealth Report 2007, the number of $-millionaires and other rich people in Europe – so called high net worth individuals (HNWI) – has steadily increased in the last years and reached 2.9 million in 2006. At the same time, the wealth of these HNWI has increased even faster, which means that the rich became even richer, so that the concentration of income at the very top of the income scale has increased. In 2006, the financial assets of this 0.6% of the European population rose up to $ 10.1 trillions, corresponding to 2/3 of all European financial assets managed by institutional investors ($ 15.6 trillions in 2005, see International Financial Services 2006: 5).

### 1.4. Threats of dependence and catastrophes: Energy and climate change in the EU

***Energy***. The EU is one of the main consumption areas of energy world-wide, without being able to supply a sufficient amount of energy for its energy needs from its own sources. On the basis of the prevailing energy system, which is based on fossil energy sources, with a priority for oil (and gas)[1] the EU area has a durable energy supply deficit (see table 1.4). The deficit is currently covered by imports from a small number of trade partners (Russia, Algeria, Norway) which may create a situation of unilateral dependency, especially with a view to foreseeable shortages of available oil and gas.

**Table 1.4: Energy Consumption and (net)imports in the EU**

| | **Consumption Mio t oil Equivalent (2005)** | **Import Mio t (2005)** | **Dependency ratio, % (2005)** | ***Consumption 2007*** | | |
|---|---|---|---|---|---|---|
| | | | | Industry Mio t | Transport Moi t | Per capita kg |
| ***EU 25*** | 1.637,2 | 949,7 | 56,2 % | 313,0 | 354,9 | 2.470 |
| Germany | 324,2 | 212,6 | 65,1 % | 56,1 | 62,0 | 2.640 |
| Spain | 139,5 | 125,7 | 85,1 % | 31,0 | 39,4 | 2.280 |
| France | 257,3 | 141,9 | 54,5 % | 37,4 | 49,8 | 2.540 |
| UK | 224,1 | 29,4 | 13,0 % | 33,9 | 55,2 | 2.540 |
| Poland | 86,2 | 15,9 | 18,4 % | 16,4 | 12,1 | 1.500 |
| Slovenia | 6,3 | 3,5 | 55,8 % | 1,7 | 1,5 | 2.440 |
| Finland | 27,0 | 18,7 | 69,3 % | 12,1 | 4,8 | 4.820 |
| Italy | 181,9 | 160,9 | 86,8 % | 40,7 | 43,6 | 2.300 |

Comments: Imports including 60% oil and 25% gas (EU 25). Cyprus has the highest dependency rate with 105,5 %, Portugal = 99,4%; Luxembourg = 99,0%; Ireland = 90,2%.
Denmark is producing energy for export (dependency rate = -58,8%).

It is now generally agreed[2] that increasing the part of renewable energy sources in the energy use of the EU and investing in energy efficiency and sufficiency with the objective of energy saving should be central elements of an energy strategy for Europe. The EU Action plan for Energy efficiency – COM/2006/545 – gives the figure of € 100 billions for the annual energy saving potential for the EU and aims at 20% of energy savings by 2020 compared to the baseline scenario as forecasted in 2005.The most important energy source is energy efficiency, i.e. energy not used by saving policy or innovation and it is already the largest energy source in the EU.

***Climate***

The latest climate change report of the **IPCC** – "Impacts, Adaptation and Vulnerability"

[1] An increased use of the still sizeable coal reserves of the EU seems hardly possible because of the existing configuration of energy transforming apparatuses, the prohibitively high investment costs of their replacement or conversion to coal use, as well as the important side effects on climate and on the environment more generally.
[2] EU Commission Memo, January 2007: A Renewable Energy Roadmap – Paving the way towards a 20% share of renewables in the EU's energy mix by 2020.

(April 2007) – has provided a new sense of urgency to the debates on climate policy: An apocalyptic future is rapidly approaching, if action is not taken fast. Millions of people, ecosystems and species in all regions of the world are already suffering form the effects of human induced climate change, and more harmful effects are forthcoming: billions of people facing water scarcity, increased drought, sea level rises, storm surges, river flooding – and even more hunger and misery through reductions in food producing capacities.

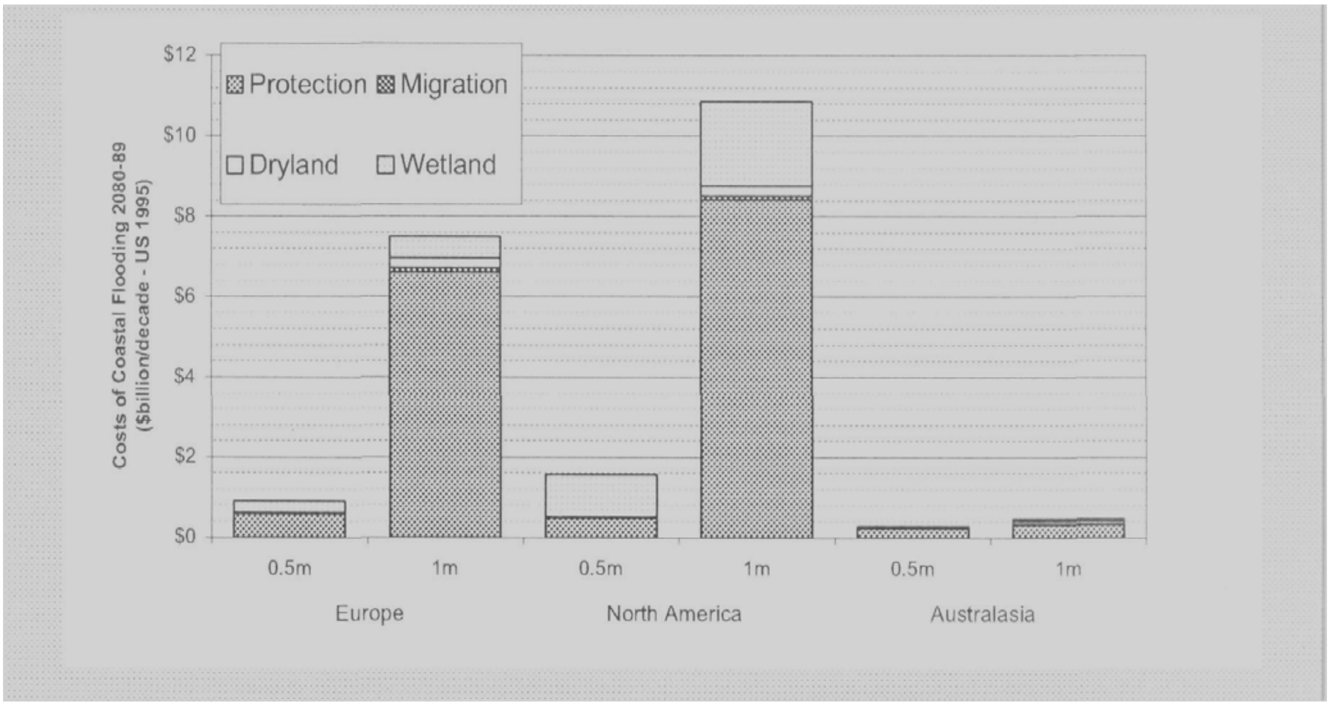
The report of the Working Group II of the IPCC has highlighted the potential consequences of climate change over the next forty years: violent rainfall and more frequent inundations; increased vulnerability of eco-systems, especially with regard to their capacity of binding carbone, accompanied by the disappearance of 20 to 30 % of known animal and plant species; deep modifications in the global distribution of fish species, with important consequences for fishing and aquaculture; increase of the sea level, coast erosion and more frequent floods; augmentation of the frequency and intensity of extreme meteorological events.

These tendencies are also visible in Europe. Unfortunately they still tend to be seen as specific problems of singular member states, as increasing coast-line fortification requirements in the Netherlands or summer fires in the Mediterranean member states.

*The Stern Report* published in 2007[3] has predicted, that, if nothing is done “in Europe, sea level rise will affect many densely populated areas. An area of 140.000 $km^2$ is currently within 1-m of sea level. Based on today’s population and GDP, this would affect over 20 million people and put an estimated $300 billion worth of GDP at risk. The Netherlands is by far the most vulnerable European country to sea level rise, with around 25% of the population potentially flooded each year for a 1-m sea level rise.”

[3] Stern, Nicholas. The Economics of Climate Change: The Stern Review, Cambridge Univ. Press, UK 2007). www.hm-treasury.gov.uk/media/9/1/Chapter_5_Costs_ofClimate_Change_in_developed_Countries.pdf, p.13.

***Figure 3:Costs of coastal flooding in developed country regions:***




The Potsdam Memorandum of October 8th to 10th 2007 has summarised this dramatic situation very clearly: "The world-economic acceleration after World War II has pushed our planet into an unprecedented situation: humanity is acting now as a quasi-geological force on a planetary scale that will qualitatively and quantitatively alter the natural Earth System mode of operation – should business as usual be pursued" (www.nobel-cause.de/potsdam-memorandum).

Although there still is a considerable knowledge gap on gender aspects of the impact of climate change, it can be stated that e.g. with regard to European countries, it is known that private and public transport are differently being accessed by women and men and used for different purposes. Therefore "integrating a gender perspective" would make it possible "to make transport systems more user-friendly and more climate-friendly" at the same time, e.g. by addressing the needs of the 'child-run', thereby avoiding the use of private cars.[4]

In spite of increased public awareness created by recently published authoritative reports, climatic change through human activity, the loss of biodiversity, the scarcity of resources, and the deterioration of the human habitat continue as unsustainable trends. With regard to greenhouse gas emissions the hope for a compliance of the Kyoto targets by the EU remain unsubstantiated by the actual development (cf. Euro-Memo 2006). Only drastic changes of policy will make certain that the

[4] Minu Hemmati and Ulrike Röhr, A Huge Challenge and a Narrow Discourse – Ain't No Space for Gender in Climate Change Policy? – in Women & Environment Magazine No. 74/75, Toronto, Canada, Spring/Summer 2007.

EU will fulfil its reduction commitments.[5]

The "Second ECCP Progress Report" ('**E**uropean **C**limate **C**hange **P**rogramme') gives an overview of the implementation activities and an indication on the EU's ability to meet its Kyoto targets of the first commitment period 2008-2012. The actual emission trends in the EU and the Member States are addressed in the Commission's annual greenhouse gas monitoring report. But what goal will the EU set (and concretise) for itself?

### 1. 5. Macroeconomic imbalances in the world economy

The financial crisis discussed above is closely related to a serious imbalance in the world economy. The huge current account deficit of the US is being financed by increasingly dubious methods, including the complex packaging and reselling of mortgage debt to banks and institutional investors around the world.

Deepening economic relations between the US on the one hand and China and South-East Asia on the other have been central to recent developments in the world economy and have contributed to rapid rise in incomes in many developing countries. On average, real GDP growth in developing countries has been above 7% per annum since 2004 and this is forecast to continue through 2007 and 2008.

But these relations have been characterised by a growing US payments deficit. In 2006 this amounted to some 800 billion dollars or approximately 6.5% of US GDP (see fig. 1.5). The need to find this amount of external finance for the US economy is an important part of the context in which the international financial crisis broke out.

The counterpart to these deficits is found in the massive surpluses of Japan, China and other Asian economies. To some extent this pattern derives from the Asian financial crisis of the late nineties which disrupted financial relations between Asian economies and the West. In many cases, for instance in China, it would be desirable for the development process to be less directed towards exports and more centred on the needs of the domestic population, but such a reorientation will require time to bring about.

[5] see critique on the EU Commission's Green Paper "Adapting to climate change in Europe – options for EU action", COM/2007/354.

**Table 1.5: Current Account Surpluses and Deficits (-) as Percentage of GDP**

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| US | -3.2 | -4.2 | -3.8 | -4.5 | -4.8 | -5.7 | -6.4 | -6.5 | -6.1 | -6.0 |
| Eurozone | 0.3 | -0.7 | 0.0 | 0.6 | 0.4 | 1.0 | 0.1 | -0.3 | -0.3 | -0.4 |
| Japan | 2.6 | 2.6 | 2.1 | 2.9 | 3.2 | 3.7 | 3.6 | 3.9 | 3.9 | 3.6 |
| Newly Industrialised Asian Economies | 5.8 | 3.5 | 4.7 | 5.1 | 6.9 | 6.6 | 5.6 | 5.6 | 5.3 | 5.1 |

*IMF World Economic Outlook*, April 2007. Forecasts for 2007 and 2008

The scale and persistence of the US deficit are unprecedented for a major industrial economy. It relates to both a big deficit in public finance and to an excessive reliance on debt by many American households. Unfair tax cuts for corporations and for the wealthy and widening economic inequalities are major factors behind this situation.

There is no prospect that market adjustments can bring about an appropriate correction because changes will be needed on a scale which is bound to disturb the general views which market agents have formed. The resulting disorientation in the markets would be likely to lead to a drastic fall in the exchange rate of the dollar or a drastic rise in US interest rates or both. In such circumstances there could be a marked decline in production and employment around the world. The US might “correct” its payments imbalance through a recession which would impact severely on its trading partners. The sudden narrowing of American markets might, in particular, slow down the economic development of China and other Asian economies.

Although the European Union does not itself have an aggregate balance of payments problem, it could be seriously affected by the problems of the dollar – export markets could be disrupted both by recession in the US and other important markets and by a drastic rise in the value of the euro. This appreciation of the euro might not be limited to the consequences of swings in international trade; any significant loss of confidence in the dollar would make the euro into a key store of value around the world, even for wealth holders with no concrete relationships to the European economies. Thus many Eurozone producers might suffer a drastic loss of competitiveness. At the same time European financial systems, increasingly interconnected with those of North America, might experience a range of disturbances. It would be in the interests of the EU itself, and an acknowledgement of its international responsibilities, to help promote a gradual correction. In this context it becomes vital that the EU stimulates domestic growth to offset the growing current account deficit which would accompany such a correction of the imbalances in the USA.

Because a purely market-based correction would be inadequate and would almost certainly involve multiple crises, a political solution is imperative – the largest economic groupings need to formulate a broad strategy for a medium term return of the US balance to a more sustainable position – an adjustment which is in their general interest.

There are precedents (the Plaza and Louvre agreements of the 1980s) for international cooperation to deal with the dollar's exchange rate problems. However, these were shallow agreements in that they only involved exchange rate interventions, not macroeconomic policies. Today, joint interventions by the major central banks in the foreign exchange markets may still be an important policy instrument but it also seems imperative to arrive at some commitment to mutually supporting changes in macroeconomic policies in the major economic zones. Some moves to reduce public sector deficits in the US seem necessary while an obvious contribution from the Europeans to a lowering of international financial tensions would be to move to a higher level of domestic activity, and to accept at least a temporary weakening of the overall European current account.

Also, the days are gone when global economic adjustments could be decided by the rich countries alone. The reduction of international financial imbalances today makes the participation of developing countries – above all China but also that of other large states and of regional groupings – an economic as well as a political necessity.

The existing macroeconomic regime in the EU is ill adapted to meet these global responsibilities. The ECB has a mandate completely centred on internal questions – this is a weakness in its institutional design quite comparable to the weakness most often discussed, that is the overriding priority given to price stability. Indeed, the ECB is likely to be hostile to any formal monetary agreement between the EU and external governments because such an agreement would imply a transfer of power away from the ECB and towards the EU's political leaderships.

Table 1.6

**Eurozone Countries: Current Account Surpluses and Deficits (-)** as Percentage of GDP

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Germany | 1.9 | 4.3 | 4.6 | 5.1 | 5.3 | 5.2 |
| France | 0.4 | -0.3 | -1.6 | -2.1 | -2.2 | -2.3 |
| Italy | -1.3 | -0.9 | -1.6 | -3.2 | -2.2 | -2.2 |
| Spain | -3.5 | -5.3 | -7.4 | -8.8 | -9.4 | -9.8 |
| Netherlands | 5.4 | 8.9 | 6.3 | 7.1 | 7.7 | 7.6 |
| Belgium | 4.1 | 3.5 | 2.5 | 2.5 | 2.4 | 2.5 |
| Austria | -0.2 | 0.2 | 1.2 | 1.8 | 1.9 | 1.6 |
| Finland | 6.4 | 6.4 | 7.8 | 5.3 | 5.1 | 5.2 |
| Greece | -5.6 | -5.6 | -5.0 | -9.4 | -9.3 | -8.7 |
| Portugal | -6.1 | -6.1 | -6.7 | -9.6 | -9.1 | -9.1 |
| Ireland | 0.0 | -0.6 | -2.6 | -4.1 | -4.4 | -3.0 |
| Luxembourg | 7.5 | 11.8 | 11.8 | 11.7 | 11.7 | 11.4 |
| Slovenia | -0.8 | -2.7 | -2.0 | -2.3 | -2.6 | -2.5 |

*IMF World Economic Outlook*, April 2007. Forecasts for 2007 and 2008.

The situation regarding budgetary policies is even more problematic. The approximate current account balance of the eurozone as a whole disguises internal strains: Germany has a large export surplus while many of its EU partners have corresponding payments deficits (see fig. 1.6). Coordinated changes in budgetary policy to lower these tensions would again be advantageous both internally, in that they would support higher levels of employment, and externally in that they would facilitate a more positive EU response to global problems. These internal payments imbalances do not give rise to exchange rate problems because of the use of a single currency but they represent geographical imbalances which may constrain economic activity in economies under competitive pressure.

At present, however, the institutional structures of the EU, as well as the conservatism and lack of ambition of its political leaderships, are keeping this kind of coordination off the European agenda. The consequent passivity of the EU in the face of growing international economic tensions represents a serious abdication of political responsibility.

**Part 2:**

## Undermining the European Social Model - Critique of economic and social policies

In this part we undertake a critique of EU policies in the main areas of economic and social development. We start by showing that the content of the much praised Reform Treaty is still nothing else than the neo-liberal content of the old draft; it has maintained its thrust to strengthen the EU military power; the improvements in the codetermination rights of the European Parliament do not overcome the basic democratic deficits of this Treaty. We criticise the continuation of the deregulatory obsession of the Commission in its initiative to integrate basic public services in the internal market framework and to impose even more flexibility onto the labour markets. Against this deregulatory thrust European immigration policy is much too rigid and restrictive, while in climate and energy policy we cannot discover concrete actions behind strong rhetoric. In our view it is alarming that the EU, instead of taking a course of stronger orientation towards more internal stability and cohesion, embarks on an increasingly aggressive external trade and investment policy and on a neo-liberal reshaping of relations with Less Developed Countries.

### 2.1. The "Reform Treaty" – The EU elites' counter-reform under a new cover

Those who expected that after the French and Dutch "No" to the draft constitution in 2005 there would be a broad participatory consultation with the people of the European Union on the future of Europe were thoroughly disappointed. The "period of reflection" provided no meaningful efforts in that direction from the side of the EU institutions. Instead, the political leaders rushed through the Treaty reform at the highest possible speed without any broader consultation. On 19 October 2007, the European Council in Lisbon adopted a new "Reform Treaty" for the EU. It will be signed at the summit in December and then the ratification process will start. Governments are firmly determined not to submit the Treaty to the people and to avoid any referenda with the risk of new failure. This anti-participatory staging of the reform process is a clear indication of the fact that the Reform Treaty is an entirely elitist project.

Perhaps the most remarkable change with regard to the failed draft constitution is the absence of the term "constitution" and of all symbols of the EU as a united entity. This is surprising because for several years Europe's political leaders and mainstream media had argued that the

EU needs a “constitution” to progress towards what was called the “finality of European integration”. It was claimed that the EU could not continue with gradual Treaty reforms in the style of Maastricht, Amsterdam and Nice. But the now adopted Reform Treaty is exactly this, a “Modification Treaty”, just as the Treaty of Nice is a modification of the Amsterdam Treaty.

This was not the point of the public critique in 2004/5 against the draft constitution. Such critique was not directed against the project of a European Constitution as such but against the ***content*** of the proposed draft: the democratic deficit of the Union, the neo-liberal character of economic and social policy orientations, the strengthening of the military component of EU policies. European leaders could have responded to this critique by proposing a shorter and more comprehensible text containing basic values, institutions and procedural rules for a democratic EU and avoiding “constitutionalising” neo-liberalism and stronger military capacities of the EU. Instead they took exactly the opposite way: abandoning the term constitution and maintaining the content of the former text.

Mainstream media want people to believe that negotiations are just about some watered down “Mini-Treaty”. Nothing could be further from the truth. In fact more than 90 per cent of the content of the draft Constitution is to be found in the new “Reform Treaty”. Especially the former part III is maintained (neo-liberal policy design), as is the heavily criticised provisions for the Common Security and Defence Policy etc. The limited number of changes mainly refers to institutional issues: the number of Commissioners is reduced; the strengthening of the role of President of the Commission is postponed to 2014; the new voting system (double majority) in the Council is also postponed to 2014/2017; the proposed “Minister for Foreign Affairs and Security Policy” will be called “High Representative of the Union”; a protocol on the role of national parliaments is added and the period in which they can respond to a legislative proposal from the Commission extended from 6 to 8 weeks; the policy areas that require qualified majority voting in the Council and co-decision of the European Parliament are extended. While the latter is welcome the basic institutional shortcoming remains that the European Parliament does not have the right to initiate European legislation.

Concerning our areas of work as economists, there are also no serious changes in the “Reform Treaty”. Amongst the EU´s objectives the “internal market” is mentioned without the former addition “with free and undistorted competition”. Proclaimed by French President Nicolas Sarkozy as a victory for a more social Europe, the impact of that change will be zero. The formulations on the internal market in the “Treaty on the Functioning of the Union” remain the same as in the "Constitution Treaty" Part III, and a new "Protocol on the Internal Market and Competition" clarifies that the internal market "*includes a system ensuring that competition is not distorted*" and empowers the Union to take action accordingly. We are not against competition within a well defined framework of common rules, but we oppose the competition of rules which is prevalent in the Treaty. A new "Protocol on Services of General Interest" is annexed to the Treaties, stressing the "essential role and the wide discretion of national, regional and local authorities in providing, commissioning and organising services of general economic interests as closely as possible to the need of the users". While this may possibly serve as a basis for less strict interpretations of internal market and competition rules by the European Court of Justice vis a vis public services and services of general interest, the protocol nonetheless does not abolish the subordination of services of general economic interest to these internal market rules. For non-economic services it states that the "provisions of the Treaties do not affect in any way the competence of the member states to provide, commission and organise non-economic services of general interest." This could also be an interesting point for new discussions, but the Commission has made it quite clear that services are almost always economic services and fall under the internal market rules.

To summarize: the draft "Reform Treaty" essentially presents the content of the failed "Constitution Treaty" in a new format, while the ratification process to be followed does not in any way "move the popular will". We reject it on the same grounds which we gave for our opposition to much of the content of the "Constitution Treaty" in our 2004 Euro Memorandum and the reservations we expressed regarding the two year "reflection period" in our 2005 EuroMemorandum.

### 2.2. Service directive through the backdoor - The deregulatory obsession continues

Since January 2007 the controversial services directive (SD) is in force. It establishes the principle of free movement throughout the Union and treats special – administrative, social, environmental – regulations of member states for the provision of services on their territory as infringement of the EC Treaty. This deregulatory thrust has been maintained in the directive although terminology has been softened and some areas have been exempted from the application of the services as a consequence of public debate and critique. The main energy and activity of the Commission, particularly its Internal Market directorate is now aiming not only at a very narrow interpretation of the directive through the publication of a handbook, but also and most importantly at developing similarly deregulatory community frameworks for those areas which have been exempted from the SD. Thus it tries to re-conquer the territories which it had lost in the preceding debates and to introduce the SD through the backdoor. At the same time, the discussion on the status and possible perspectives of services of general (economic) interest which had gained momentum through public protest against excessive liberalisation and privatisation is widely disregarded by the Commission. The tactic seems obvious: by adopting free-movement-frameworks for as many areas of services, including public services, there should remain no or very little room for genuine public services which are not governed by the rules of competition.

***Social services***. Immediately after social services had been exempted from the coverage of the services directive the Commission announced in an official communication in April 2006 the way in which it envisages to proceed in this area (Com (2006)177 final), not without emphasizing the role of these services as "pillars of European Society and the European Economy".

In this paper the Commission then develops an argument in five steps which is so remarkable that it deserves full quotation (see box):

> In general, the case law of the Court of Justice ("the Court") indicates that the EC Tre gives Member States the freedom to define missions of general interest and to establish organisational principles of the services intended to accomplish them.
>
> However, this freedom must be exercised transparently and without misusing the notion general interest, and the Member States must take account of Community law when fixing arrangements for implementing the objectives and principles they have laid down. I example, they must respect the principle of non-discrimination and the Community legislat on public contracts and concessions when organising a public service.
>
> Moreover, when it comes to services of an economic nature, the compatibility of tl organisational arrangements with other areas of Community law must be ensured particular freedom to provide services and freedom of establishment, and competition law).
>
> In the field of competition law, the Court has established that any activity consisting supplying goods and services in a given market by an undertaking constitutes an econoi activity, regardless of the legal status of the undertaking and the way in which it is financed
>
> With regard to the freedom to provide services and freedom of establishment, the Court ruled that services provided generally for payment must be considered as economic activi within the meaning of the Treaty. However, the Treaty does not require the service to be p for directly by those benefiting from it[13]. It therefore follows that almost all services offe in the social field can be considered "economic activities" within the meaning of Articles
>
> European Commission, Implementing the Community Lisbon programme: Social services of general interest in the European Union, Com (2006) 177, final 26.April 2006, p.6.

The first step gives member states ***freedom*** to define and organise social services. The second step raises a warning finger against any "***misusing***" of this freedom, which would be the case if member states breach Community law. For services of an "***economic nature***", step three explains that member states have of course to respect the freedom to provide services (Art. 43 and 49 of the EC-Treaty). What is a service of economic nature? Step four explains that "…any activity consisting of supplying goods and services in a given market by an undertaking constitutes an economic activity…" And to make the matter quite clear it adds in step five that "…services provided generally for payment must be considered as economic activities" and finally drives the point home: "***It therefore follows that almost all services offered in the social field can be considered 'economic activities" within the meaning of Articles 43 and 49 of the EC treaty***." The decisive point is, that if a service is provided for money – regardless of the appropriateness of the price and of the ultimate source of finance – it is regarded as an economic activity and must be subordinated to the internal market and competition rules. Therefore an entity providing a social service against money has to behave as if it were a private firm in a private market. It seems logical that under such circumstances there is no reason why they should not be privatised.

***Health care***. Health care is essentially a matter for national regulation and there are a number of very different systems in force in the Community. Problems of "patient mobility" – for instance who pays if tourists or temporary workers from one member state need and get care in an other member state – have been dealt with through coordination. This had already since 1971 been codified in a specific regulation (EC 14008/71) which was updated and enlarged in 2004 (883/2004). It is based on the right of member states to choose the structure, organisation and management of their specific health systems and deliver a fairly comprehensive framework for the resolution of such intra-EU problems – although further improvements are desirable and possible. However, the Commission, while formally accepting this arrangement, aims at integrating national health systems into the overarching framework of the internal market. It has recently circulated a proposal for a directive "on safe, high quality and efficient cross-border healthcare" in which it proposes to "put in place a parallel mechanism based on the principle of free movements and building upon the principles underlining decisions of the Court of Justice. This would allow patients to seek any healthcare abroad that they would have been provided at home and be reimbursed up to the amount that would have been paid had they obtained that treatment at home, but they bear the financial risk of any additional costs arising" (p.4). It can easily be seen that such a "parallel mechanism" is a formidable instrument to put national healthcare system under increased competitive pressure. In the course of their numerous health care reforms member states cut public spending, introduce more market based instruments and competition in the provision of health care, propose outsourcing, privatisation and public private partnerships (PPPs). Reforms of statutory health insurance lead to a reduction of coverage to basic services, while for all treatment beyond these the patients must pay individually – for which cases "supplementary health insurance schemes" are offered from the financial market actors.

***Posting of workers***. In an attempt to compensate for the deletion of the articles of the draft services directive relating to the posting of workers from other member countries the Commission has in April 2006 published a "Guidance on the posting of workers in the framework of the provision of services" in which it clarifies its position that special requirements of host countries for the admission of workers from other member countries– like appointment of a representative in the host country, prior registration of the posting of workers, obligation to keep documents on posted workers in the host member states etc. – should be regarded and treated as illegal. Such provisions are not the removal of administrative obstacles to "good governance" (another big deregulatory project of the Commission) but they open the road for social dumping and for more or less criminal practices of firms and for work agencies operation beyond any legal control.

### 2.3. „Flexicurity" – Labour market reform with a neo-liberal bias

The European Commission is promoting a new twist for implementing "structural reforms" in the labour markets. In the recent communication on Flexicurity (COM 2007/0359), it broadens the approach which it has been advocating for since many years and already concretised in the "Green Paper on modernising labour law" (COM 2006/0708) of November 2006. The Commission seems to be aware that the spreading of non-standard labour arrangements entail the danger of increasing labour market segmentation and the growth of often poorly protected and often precarious types of employment. But instead of promoting the phasing out precarious "atypical" employment, the Commission develops the assertion that the standard regular employment relationship (permanent contracts based on full-time employment) has become the main obstacle for reversing labour market segmentation and needs to become more "flexible". For this purpose the level of job protection must be lowered and reduced to a "floor of rights" covering standard and atypical employment alike. This concept of "flexicurity" shall in the perspective of the Commission become the overarching approach for the next 3-year cycle of the European Employment Strategy and the "Integrated Guidelines for Jobs and Growth" (2008 – 2010).

The Commission proposes to establish an EU indicator on the "strictness of employment protection legislation" (EPL). Where this indicator is regarded as being too high member states are encouraged to impinge on "reforms" to lower the level of protection. Apart from that, the old orientations already contained in the revised Lisbon Strategy and the Integrated Guidelines for Jobs and Growth are simply maintained: "activating" labour market policies "making work pay", "establishing a balance between rights and obligations", promoting "employability" and "adaptability" of workers and the unemployed, contributing to "sound and financially sustainable budgetary policies" etc.

The Commission's central aim is to reinvigorate the "Jobs and Growth" Strategy by focusing its employment policy component more strongly on "flexicurity" – claiming that "new forms of flexibility and security are needed, for individuals and companies as well as for Member States and the Union." The Commission's position strongly points towards a change in the notion of security, which moves from the protection against risks to the capacity to adapt to change by means of a process of constant learning. 'Old' types of security are deemed to obstruct the necessary flexibility and should be reduced. Concretely this means a reduction of benefit schemes where they are regarded as too 'generous', and a lowering of employment protection. The 'new' security should facilitate flexibility and is based on learning. Learning should lead to greater adaptability and employability, which in turn should lead to employment, considered the best recipe for security.

These proposals serve neatly the employers' demands for increased flexibility, while workers as well as the unemployed see their job protection and income security decline, in exchange for the mere promise of better lifelong learning opportunities and "activating" labour market policies increasing conditionality, reducing rights and strengthening obligations of workers and unemployed persons. Compared to 'old-style' job protection and income security the 'new' security also seems rather insecure. Although it is in general true that the better qualified have a lower risk of unemployment, access to education or training does not provide enforceable guarantees to the individual. Moreover, the Commission refrains from proposing training, education and lifelong learning as a right for workers and unemployed persons and also does not want oblige employers to properly finance such measures.

The Commission's analysis of the reasons for labour market segmentation ("insiders" and "outsiders") is far away from reality. Firstly, as the European Parliament rightly pointed out in its resolution on the Green Paper on Labour Law, "recent OECD and other studies have shown that there is no evidence for the claim that reducing dismissal protection and weakening standard employment contracts facilitates employment growth", and equally "the example of the Scandinavian countries shows clearly that a high level of dismissal protection and employment standards is fully compatible with high employment growth". Secondly, it can be observed that the strategies of employers and Member State's governments to increase labour market flexibility are at the root of labour market segmentation. Working time accounts and flexible working time schemes make it possible for companies to work with a smaller regular workforce and thus meet market fluctuations by adapting weekly working time accordingly. This "internal flexibility" is often combined with "external flexibility", relying on fixed-term, temporary and project work during peak periods. Annualised hours and the concept of the 'breathing enterprise' contribute to the spreading of precarious employment and prevent that an 'upswing' translates into increased permanent and regular employment. Therefore, the Commission's proposals for flexicurity should be more honestly called a programme for increasing "***flexploitation***" of workers throughout the European Union. They should be rigorously rejected.

### 2.4. Against European interests and fairness – Too restrictive immigration policy

Modern migratory movement can best be understood in the context of a globalised market economy that directs and regulates the flows of goods, money and labour. Unlike other goods labour is embodied in human beings with all its physical, gendered and cultural characteristics that are shaped by history giving labour migration its political and cultural dimensions.

Migration is functional for the economic organization of EU countries and complements native labour. Globalisation has accelerated the pace of liberalization, deregulation and flexiblisation of labour markets. Whilst native workers abandon the low paid jobs, in many sectors the demand for different types of low paid unskilled workers has been on the rise, that has been increasingly filled by migrant workers, employed under precarious conditions. In the past male migration dominated migratory flows to the EU, but now female migrants are at least as numerous as male migrants. The feminization of migration is driven by the demands of the care/health, leisure and sex industries.

The EU enlargement project has led to migration given the disparities in living standards and income differentials between the new member states and the EU15. All the EU15, except the UK, Ireland and Sweden, imposed a seven year ban on free movement of labour from the new member states. This has diverted the flow of migration to these countries whilst illegal migration for work to other EU15 countries has continued. Over time the intra-EU migratory flow will slow down as the disparities within the EU decline and the demand for labour picks up in the new accession countries, a trend that has been observed in the migratory flows from the earlier accession countries.

Similar economic forces govern migration from the third world countries to the EU, but given that the income gap between the EU and these countries is not going to narrow substantially soon and while the other factors like war, repression and persecution would still be at work, immigration from outside EU will continue. The young age structure of these immigrants would help to provide support for a European ageing population indirectly through tax contributions and directly through work in the care and other areas of service industry.

These positive impacts on destination economies are often ignored in the media and popular debate on immigration in the EU in which immigrants are blamed for increased crime, pressure on the public transport, health and education system and erosion of national identity. Influx of immigrants and their concentration in specific areas would create tensions with the natives over the existing resources. But the poor state of public services in some EU countries is due to the lack of state support and budgetary constraints and not to immigration. Public information campaigns and advocacy on the real impact of immigrants are essential if such conflicts were to be resolved. It is also stated that ‘immigrants take jobs from the natives’ and that ‘they depress wages’ of native population. Neither of these claims is borne out by evidence. In general immigrants complement the skills of native labour that often could result in increased demand for native labour, especially if a sector relies heavily on immigrant labour. The negative impacts of immigration on native wages are sector specific, temporary, and on the low end of the wage distribution. Over time increased profitability in these sectors leads to new firms moving in, that will increase demand for labour and gradually raises wages.

The EU internal market project has reduced or eliminated intra EU border controls at the expense of tighter control of external borders and introduction of a new ‘border control’ regime that relies heavily on stricter visa regulation and cross border cooperation between EU and third countries on security matters. A ‘border land’ has gradually replaced the geographical ‘border line’, that has brought the ‘border’ into the heart of EU countries where immigrants are expected to provide their credentials to the police and immigration officials in public spaces like train and bus stations, or when using public services like hospitals and schools. The Sarkozy government’s plan to introduce DNA testing for family reunion of French immigrants from outside the EU is part and parcel of this ‘border land’ approach. With increasing difficulty of entering the EU, illegal immigration will become the only alternative contributing to people smuggling and trafficking. Illegal entry is no bar to employment where labour markets are tight and in sectors with a short supply of native labour. Immigrants, especially the illegal ones, are mostly doing the dirty, demanding and dangerous jobs that few natives would do. They are hired on a casual basis, especially if they are un-documented. Their precarious condition contributes to their super-exploitation.

Immigration policy at the EU level has been viewed more as a security than a labour market or human rights issue. This view has to change if an immigration policy were to be formulated on the principles of: EU labour market needs, accepting immigration as an important dimension of globalization, freedom of movement as a fundamental human right, and integration of immigrants in the EU. In the short term, EU countries should regularize the status of illegal immigrants and offer permanent status to legal immigrants. This will remove the illegality and wasteful policing, whilst helping to promote an integration policy based on active participation of immigrants. On humanitarian grounds, any restriction on immigrants’ access to key public services such as health and education should be removed. In the medium to long run attempts should be made to move towards a common immigration policy across the EU based on international justice, solidarity and integration of immigrants, drawing on the best practices of EU member states policies on admissions, naturalization, family reunion and labour market related issues.

### 2.5. Global Europe – Threatening ambitions

The EU likes to project an image of itself as pursuing socially inclusive policies, not only within Europe, but also in its relations with the rest of the world. But in a series of recent strategy papers it has stressed that, with some 450 million citizens, the EU is now a force in the world, and that it must take advantage of this to promote its own interests. According to a document prepared by the EC Presidency in October 2007 “the EU of 27 Member States offers a route for Europe to act on a continental scale, with a critical mass and a reach which should be used to the greatest advantage".[6] This reach can be observed in an increasingly forceful global assertion of the interests of European business and, more worryingly, policies designed to promote the EU's capacity to conduct overseas military operations.

***Opening markets****:* The EU's Lisbon strategy, first presented in 2000, and re-launched in 2005, set out an externally-oriented growth strategy which claimed that Europe would achieve full employment by becoming the most competitive economy in the world. This vision of Europe locked in competition with other countries for a larger share of world exports, especially in higher-value products, was expounded even more starkly in October 2006 in a new trade-strategy document entitled *Global Europe: Competing in the World*. According to the document, one of the key requirements for European competitiveness is ensuring greater openness and what it calls 'fair rules' in other markets. Here it is especially critical of the major emerging economies, singling out China, India and Brazil as countries which combine high growth with unnecessarily high barriers to EU exports.

In order to achieve greater access to other markets, the EU strongly supported the World Trade Organisation (WTO) and the negotiations associated with the Doha round, and it says that it was willing to make concessions in order to reach an agreement. But, despite the rhetorical support for a multilateral agreement, once it became clear that the Doha talks had stalled, the EU began to radically reorient its strategy towards securing bilateral trade deals. To this end, it has started negotiations for Free Trade Agreements (FTAs) with the Central American countries, the Andean Community, Korea and India. At the same time, the EU is seeking to pursue negotiations for a new series of agreements involving the liberalisation of services and investment with the Mediterranean countries. It is also in the final phase of trade negotiations with the ACP countries, and is pushing hard for them to accept so-called Economic Partnership Agreements (EPAs) by the beginning of 2008 – a deadline that was set by the WTO, but which now seems to be unrealistic. The EU-Africa summit in Lisbon in December 2007 will launch the Europe-Africa-Energy Partnership which focuses on the conservative energy interests of the EU, not on the needs of Africa and an energy change. Finally, the EU is working towards an intensification of the Transatlantic Dialogue with the US, although the chance of initiating negotiations for an EU-US Free Trade Area do not, at present, seem high.

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[6] European Commission, The European Interest: Succeeding in the age of globalization, Brussels, 3 October 2007, p. 3.

***Promoting investment***. The EU is, after the US, the second most important source of foreign direct investment. As *Global Europe* puts it: 'Establishing a "physical presence" in a foreign country helps EU companies realise business opportunities, makes the flow of trade more predictable, and consolidates the image and reputation of the firm and of the country of origin'.[7] Following the defeat of earlier attempts by the EU, together with the US, to achieve a highly-liberal investment code, first through the OECD's Multilateral Agreement on Investment, and then as part of the so-called Singapore issues at the WTO, both countries have now turned to bilateral FTAs as a means of opening developing countries to their direct investment. So far, the EU has concluded FTAs with Mexico, Chile, South Africa, Tunisia, Morocco, Egypt, Turkey and Lebanon. These agreements all involve commitments to substantial liberalisation of FDI by the developing countries concerned, often in return for very limited concessions by the EU.[8]

For the EU, trade agreements are seen not only a way of gaining access to foreign markets, but also as a means to guarantee the property rights of EU companies and to facilitate their operations in other countries through the creation of regulatory environments which eliminate burdensome rules and regulations. This approach is explicitly aimed at reducing the room for policy discretion in the partner countries. *Global Europe* states quite bluntly: "The EU has a strategic interest in developing international rules and cooperation on competition policies to ensure European firms do not suffer in third countries from unreasonable subsidisation of local companies or anti-competitive policies".[9] In this way, policy initiatives that could have a detrimental effect on EU companies are to be curtailed, and kept to a minimum through provisions that effectively place national policy makers in a straitjacket.

This approach must be challenged. Firstly, it is based on an uncritical identification of European interests with the interests of EU-based multinationals. Secondly, investment in developing countries has often been associated with the privatisation of public services, leading to the introduction of a commercial logic and price rises, and thereby undermining important instruments of redistribution. Thirdly, by aligning itself with the US government's approach to investment, the EU is supporting the perpetuation of a mono-polar world, rather than lending its weight to the emergence of a multi-polar world, in which China, India and other emerging economies will play an increasing role in shaping international economic rules.

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[7] Global Europe, p. 8.
[8] 'Signing away the future: How trade and investment agreements between rich and poor countries undermine development', Oxfam Briefing Report, March 2007.
[9] Global Europe, p. 8.

***Economic Partnership Agreements****:* The EU places a high value on its contribution to development cooperation. In *Global Europe,* however, it says that while current bilateral agreements support development objectives well, the EU's trade interests have been less well served. Despite protestations that it is not pursing a commercial agenda in the Economic Partnership Agreements (EPAs) being negotiated with the African, Caribbean and Pacific countries, the EU has been concerned to achieve a greater opening of markets to European exports, the main difference being that such agreements are sweetened by the promise of development aid. The EU is also keenly aware of Europe's dependence on imports of raw materials, and the need to ensure access to these. In a throwback to the classic age of imperialism, Africa has become something of a geo-strategic hot spot, where the EU and the US now also face rivalry from China in securing access to strategic raw materials, and more generally of establishing zones of politico-economic influence.

***Economic and financial vulnerability****.* A key weakness of the externally oriented model being promoted by the EU is its heightened vulnerability to an international economic downturn. The global economy is currently driven by an axis between the US, with its huge current account deficit, and the Asian exporters, who have been acquiring ever-increasing quantities of US-dollar denominated financial assets. The US can, however, not continue to run a deficit on this scale indefinitely, and if China continues to restructure it's huge foreign currency reserves this would have a further destabilising impact on the US economy. Europe – as other parts of the world – remain vulnerable to a reduction of US demand, and a weakening of the dollar.

The vulnerability of the EU economy was emphasised by the speed with which the fall-out from the US financial crisis in August-September was transmitted to European financial institutions. The EU bears a responsibility for this because its policy of promoting the creation of a deregulated US-style market-based system of finance has made European financial institutions more vulnerable to such a crisis. Competitive pressure encouraged European financial institutions to invest in riskier, higher-yielding assets in an attempt to achieve US-style rates of return. At all events, the EU now faces a cyclical weakening of external demand as US growth slows in response to tighter credit markets in North America. At the same time, demand is also likely to weaken within Europe as banks respond to the crisis by reigning in the supply of domestic credit.

As the Federal Reserve responded to the crisis by lowering its lead interest rate, this led – predictably – to a further weakening of the dollar. The corresponding rise in the value of the euro to its highest level since being introduced highlights the paucity of the EU's exchange-rate policy. In contrast to the Japanese government, which has continually sought a more co-operative international approach, the European authorities have abnegated responsibility for exchange-rate policy, leaving the exchange rate to be determined by the short-term calculations of private financial investors. To that extent that policy decisions are able to influence investors' calculations, the EU is, in effect, leaving the US central bank to determine the value of the euro.

***Stronger military ambitions***. Greater economic assertiveness has also been followed by a concern to strengthen the EU's military capabilities. It seems that these ambitions are based on an agenda which is wider than the mere involvement in humanitarian and rescue tasks, peacekeeping and crisis management, including the deployment of combat troops in peacekeeping. An indicator of this is the famous paper by Javier Solana which was adopted by the European Council in 2003. Globalisation the paper argues, has increased Europe's external dependence and its vulnerability to threats from abroad, like nuclear proliferation, terrorism and 'failed states'. It concludes from this that: " With the new threats, the first line of defence will often be abroad."[10] And when it turns to the policy implications it states: "We need to be able to act before countries around us deteriorate … Preventive engagement can avoid more serious problems in the future".

## 2.6. Too little action behind the rhetoric - Climate and energy policies

The need for a joint European energy strategy became obvious already during the first oil shock of 1973, and the need to combine a European energy policy with a climate strategy at the latest with the 'Earth Summit' of 1992 in Rio de Janeiro. At Rio de Janeiro the EU and its major member states had taken commitments for the reduction of CO2 emissions – thereby establishing a direct link between its climate policy and its energy policy. But this has not been followed by the formulation and adoption of a joint strategy. European energy policies have continued to be different between member countries. Their European dimension has *de facto* been merged with the project of the single market, based on the neo-liberal promise that,

[10] A secure Europe in a better world, Brussels, December 2003.

in the long run, market opening would solve all problems. The main content of European energy policy has therefore been the opening up of energy markets and often the privatisation of state-owned energy corporations.

After the short crisis around Russia's stopping the flow of gas into both Ukraine and Belarus, which serve as transit states to the EU, the European institutions have again undertaken a number of initiatives for a common energy policy, like the *Green Paper* of March 2006 or the European Energy plan of April 2006 with the priority aim to secure the provision of energy. But in spite of resounding statements and ambitions no clear and binding plans were adopted.

Recently the efforts of the European Commission to launch a common and co-ordinated European energy policy resulted in the presentation of an ***"integrated energy and climate change package"*** **(**January 2007**).** In this document a number of projects were announced: the preparation of a *European Charter on the Rights of Energy Consumers*; the appointment of European coordinators for key energy projects; the publication of TEN-E guidelines; the organisation of "structured international dialogues" The package also included actions to raise public awareness like a renewable energy roadmap or a sustainable energy week. There still is, however, a central contradiction even in these limited actions: As the Commission puts competitiveness, supply security and sustainability on the same footing, without any indication on how to decide in cases of conflicts between these objectives, there is a strong tendency that the objective of competitiveness will dominate in all concrete decisions, relegating the other two objectives to a secondary role. This corresponds to the observation that the only area in which effective action is being taken by the Commission to enforce member state compliance is the infringement procedures against member states which have failed to open their energy markets 'properly'.
The European Council on 9 March 2007 in principle has backed the Commission proposals on energy and climate change, and agreed on an action plan to put in place a European energy policy by year 2009. But the steps forwards achieved in the following areas have been riddled by loopholes and indecisions:

- *Greenhouse-gas reduction*: A binding target has been laid down to reduce EU emissions by 20% by 2020, regardless of progress in international negotiations for a post-Kyoto agreement, and a binding 30% target was envisaged in case other industrialised nations including the US take similar steps. This has not been concretised, however, by at least defining a mechanism translating this general commitment into specific obligations for each member state;

- *Renewable energies*: Again a binding target has been agreed to have 20% of the EU's overall energy consumption coming from renewables by 2020, including the specific commitment to a (problematic) binding minimum target for each member state to achieve at least 10% of their transport fuel consumption from biofuels. - *Energy efficiency*: a relatively bold objective - saving 20% of the EU's energy consumption compared to projections for 2020 – has been laid down as a binding target. At the same time the specific proposals for implementation which the Commission is required to make during the next years are targeting relatively limited fields of action, like increased energy savings from office and street lighting.

At the same time, the summit rejected the proposals made by the Commission in the direction of an even further increased marketisation of the area. It limited itself to underlining the existing commitments, i.e. referring to "full implementation of the letter and spirit" of existing legislation as a "first step" before going further with more radical options.

There are, in fact, some positive elements in the EU energy and climate strategy which would deserve to be strongly expanded and further improved, particularly with regard to effective energy use. This is true for encouraging the use of truly renewable energy sources, and for policies of supporting and stimulating energy saving

On the other hand in the transport sector the EU Strategy for reducing CO2 emissions of cars is still in the stage of a consultation procedure The third legislative package on the EU Electricity & Gas markets (September 2007) is still exclusively geared to market opening 'liberalisation'.

Another clearly negative element is the direction of important investments to dangerous, illusionary and strategically counter-productive options which should not be included into a sustainable European energy strategy – the nuclear option (including fusion), the coal and lignite option, and the option of first generation biological fuels:

- The nuclear option cannot be considered sustainable: It is either based on limited uranium supplies which are estimated to last for a maximum of another 40 years, or it is linked to a plutonium cycle which is inseparable from nuclear weapons production – and, in any case, there is no solution to the problems of high risk and of waste storage over some 10,000 years.

- The coal and lignite option is less evident in the public debate – because of its all too visible side-effects in the climatic dimension. Yet it has not entirely dropped out of the European energy policy mix, due to its strong traditional positions inherited from the ECCS.

- The bio-fuel option is strongly championed by EU policies, internally as well as in international fora and in bilateral agreements. This is, however, not a step towards sustainable development – for first generation bio-fuels have two main downsides: on the one hand, they are not climate neutral, as it is claimed. On the other hand, they do compete directly for fertile soils with food production, thereby exacerbating rural poverty and food shortages in the areas concerned.

## Part 3:
## Stability, solidarity and cooperation –Alternatives for economic and social policies

In this part we present our proposals for alternative European economic and social policies, starting with immediate and medium-term measures to restrict financial speculation and restore financial stability. The range of policies for full employment, solidarity and sustainability include a strengthening and full recognition of public services as a second basic pillar of the European Social Model, as well as a more energetic use of macroeconomic policy instruments to stimulate sustainable development. We propose specific measures to eliminate poverty in the EU and other steps to shift to a new pattern of energy use. In our proposal for international economic relations we propose the transition to a regime of peaceful cooperation, fair trade and efficient development aid.

### 3.1. Limits for speculation and financial investor pressure - Policies against financial crises

To deal with financial crises policies should be developed on three levels. Firstly, they should draw lessons from the recent events and the concrete mechanisms which led to the build-up and international proliferation of the current financial crisis. On the second level they should envisage further reaching and preventive measures to stabilise the international financial system and democratise its central institutions. On the third level they should address the non-financial causes for the pressures and recurrent disruptions in the financial system.

With regard to the ***first level*** the analysis of the current crisis has shown, that lack of transparency, securitisation and trading of loan packages, highly leveraged financial investment and the failure of rating agencies have contributed to its outbreak. Therefore the following policy responses should be given:

- ***Banks and non-bank financial institutions alike*** should be required to give full information to the supervisory authorities about their engagements and risk exposures.
- Mutual information and ***cooperation of supervisory bodies*** must be enhanced on the global and on the European level. The set-up of a financial market supervising agency on the European level for all financial institutions with international activities should be considered.
- ***Rating agencies*** should be put under much stronger public control. Particularly conflicts of interests should be avoided through the provision that a rating agency may not assess the quality of financial activities of an institution which is at the same time financing this agency. The set-up of independent public rating agencies should be envisaged. They could be financed out of a pool of contributions from financial institutions.
- The securitisation of loans and ***trading of loan packages*** is in the first place a means to circumvent capital requirements and extend borrowing activities beyond the limits set by the Basle framework. They should be either forbidden or required to obtain formal approval from the supervisory agencies. The risk and the corresponding capital requirement should in any case remain in the books of the selling bank.
- The current situation has been much aggravated through the use of ***high leverage*** to finance the purchase of loan packages or other financial investment and take-overs. This happened in an environment not of scarcity but of abundance of capital and contributed to enhance the excess of liquidity on the financial markets. Such techniques should be severely restricted, either by imposing legal limits to the degree of leverage for the debtor side or by imposing much higher capital requirements for such loans on the lending banks.

On the ***second level*** the stability of the international financial system should be promoted by the following measures:

- ***Offshore centres*** (OFC) which are because of their lack of efficient financial supervision a particular threat to financial stability must be treated in a much more restrictive way. This should include OFC within national territories like Delaware or the City of London as well as territories outside the legislative reach of EU member countries. In the latter cases policy should restrict national institutions to do business with these OFC.

- The ***International Monetary Fund***, which is in permanent crisis of legitimacy for more than ten years, should be thoroughly reformed to serve as a pillar of a democratic financial architecture. This requires a new distribution of voting power in the Fund and a new stability and cooperation oriented monetary policy.
- An important step towards a stable financial order is the orderly ***management of exchange rates*** through continuous cooperation between the US, the EU, Japan, China, Brazil, and a number of other countries. The IMF could play an important role in facilitating and monitoring such exchange rate cooperation. Amongst the instruments to prevent short-term currency flows with disruptive effects on exchange rates a flexible ***currency transaction tax*** should be introduced.

On the ***third level*** the non-financial market roots of financial crises are addressed, which are located in the strong redistribution of income and the expansion of private pension funds:

- Policies for a ***more egalitarian distribution of income and wealth*** would take much of the steam and pressure out of the financial system. While a policy for higher wages is basically a challenge for trade unions, such redistribution from the top to the bottom can also be organised by governments through decent minimum wages and incomes and through a much stronger taxation of capital gains, corporate profits and high personal income and wealth.
- The steady expansion of ***private pension funds*** and the shift in many countries from public pay-as-you-go to capital funded pension systems is one of the major reasons for the accumulation of profit-seeking financial assets. Since such private pension funds are less reliable, less comprehensive and much more expensive than PAYGO system, their further expansion should be stopped wherever possible. The supervision of existing capital funded systems should be tightened. Particularly all current plans within the Commission to loosen pension funds investment rules and to force member states to do the same, should be strictly rejected. Instead rules for pension funds on the European level should be reformulated so as to prohibit any engagement in risky financial instruments.
- Lastly the wave of privatisation of banks in the 1990s has triggered competition without clear rules and thus contributed to financial instability. Therefore it is important to retain a certain ***base of public financial institutions*** with democratic governance and clear economic and social missions on the national, regional and local level

## 3.2. Policies for full employment, solidarity and sustainability

### 3.2.1. Alternative to the dominance of markets – strong and democratic public services

The thrust for deregulation projects currently underway will not be stopped or reverted through reflection and critical self-revision from the side of the Commission and most member states. Continuing and rising awareness and resistance will be necessary to preserve and revitalise the essence, enhance the reach and public participation and also to modernise and democratise the organisation of public services in the EU. Experience shows that local and regional initiatives and movements are of crucial importance as conditions for success. But it is also necessary to act and develop movements and alternative proposals on the European level. Three approaches are possible: sector specific regulations, a general framework directive and a new foundation of public services outside the competition framework.

***Sector-specific approaches.*** This concept takes up the approach of the Commission for network services (telecommunications, electricity, gas railways etc.) for which European liberalisation has been accompanied by the formulation and imposition of "universal service obligations", either by national or European legislation. For already liberalised sectors these obligations could be tightened, their implementation could be more strictly and efficiently enforced. However, the experience with network services is not encouraging and perspectives are even less so. With rising power and dominance of financial investors privatised corporations will find it increasingly difficult to fulfil public service obligations. Therefore the expansion of European regulations to new ***network sectors*** cannot be really recommended. The alternative should be democratic re-organisation of public sector networks and infrastructures. For other sectors like ***health care and social services*** the question is whether such EU-wide regulations are necessary and how far they should go. Health care and social services are in a broad majority services which are supplied and consumed locally. Instead of the introduction of competition in health care (and this applies to other social services, too) European action should be developed on four levels:

- The *first* and most important level is the promotion of sufficient ***high quality health care in each country and region.*** Minimum standards (e.g.. number of doctors for 10 000 persons) should be defined and assistance given from the EU for their achievement.

- A *second* mission would be to ensure that residents of one member country A who are in country B and need (occasional or hospital) medical treatment get it in country B, at terms corresponding to his or her country of origin.
- A *third* perspective is the close *cooperation in border regions*.
- The *fourth* reasonable European activity in health care is the extension of already existing *European reference centres* for the treatment of very rare diseases and to guarantee equal access for all residents in the EU to these. In this context also common European medical research centres are to be recommended.

While European activities relating to point 1 are missing and should be energetically addressed coordination in areas of points 2 , 3 and 4 takes place on the basis of a EU regulation (883/2004), which could be further expanded and improved. The essential point here is, that health care is not a matter of the internal market (where freedom of services and competition prevail) but a service with a special value in itself.

***A European Framework directive on services of general (economic) interest.*** The European Trade Union Congress (ETUC) and other civil society groups have demanded the insertion of an overarching framework directive for services of general (economic) interest. ETUC has also in spring 2007 started a "campaign for high-quality public services, accessible to all".

The conception behind these initiatives is to be welcomed and should be strongly supported. It contains a definite perspective for shifting regulatory requirements more to the improvement of the quality of network and infrastructure services and the employment conditions. Here, the reconciliation between public interest and internal market seems possible to a certain degree – although under existing law there is a clear hierarchy in favour of the latter.

Problems arise when it comes to non-economic services like health and social services. The current Treaty contains no provisions for services of general interest but only services of general *economic* interest. The negotiations on the Reform Treaty have missed the opportunity to correct this inappropriate and biased approach. Therefore the attempt to integrate public services into the existing (and the future Reform) Treaty is always under threat to be captured by and subordinated under the rules of internal market access and competition, and this threat is enhanced through the jurisdiction of the ECJ.

***Public services as new pillar for EU.*** To give public services a stronger place in the European Social Model without subordinating them to the dominance of market and competition rules it seems therefore necessary to establish them as a genuine pillar of its own weight corresponding to and of equal importance as private enterprises, markets and competition. The most comprehensive perspective would be if public services – economic and non-economic ones – which are defined after political discussion by parliaments and governments on all (national, regional, local) levels would then be exempted from the internal market and competition rules and put under the umbrella of “public services rules”. While public services are essentially a matter of member states regulation there remains ample room for a European perspective which is necessary to avoid regression to national isolationism and chauvinism and to benefit from the social, economic and cultural potential of the continent. Such European perspectives could be:

- enhanced and improved cross-border *cooperation* between existing public service structures; the model for this is the existing cooperation in health care services,
- formulation of certain *minimum standards* for public services, particularly social services, anti-poverty strategies, pension systems, education etc.; this should be substantiated through financial assistance to member countries to fulfil these standards,
- joint planning and implementation of large *European education, research and infrastructure projects* which are financed through member states, the European budget, and EU bonds.

### 3.2.2. More active use of macroeconomic policy tools

The EU economy as a whole and most member states rely heavily on domestic demand. If this is weak, the economy cannot be expected to do better. This simple fact seems to evade the present EU policy makers. This is not a mere omission of policy, rather, it is a question of political orientation. As the share of wages in total income falls, that of profit rises. Thus, a weak labour market is preferred by the EU political elites, as opposed to a strong labour market.

The EuroMemorandum Group has long argued for macroeconomic policies that promote sustainable development and full employment. Such policies include the following guidelines and proposals:

- ***Monetary policy*** should be accommodating and closely linked to the overall framework of economic and social policy, and it should become democratically accountable. In the current situation the ECB should lower the rate to stimulate productive investment and employment, while at the same time it should promote a tighter supervisory framework for financial institutions to prevent purely speculative and risky financial behaviour.

- The EU should accept the perspective of ***exchange rate policy*** (for which the Council is in the last instance responsible) as an instrument to deal in an orderly way with the worldwide macroeconomic imbalances, which have led to a strong appreciation of the Euro against the dollar and thus also against the Chinese Renminbi. While unilateral steps should be regarded as very last emergency measures and are currently not recommended, the EU should make strong efforts to reach cooperative arrangements with China and the US to bring exchange rates more in line with the basic economic relationships.

- The very rigid arithmetic rules guiding ***fiscal policy*** across the 27 member states should be abolished. Fiscal policy needs to adjust to and serve the goals of economic and social policy, rather than the other way around. Under current circumstances this requires a shift from the priority on debt and deficit reduction towards a more expansionary course to offset the negative impact of the financial crisis upon the European economy. Member states should be encouraged to step up their public investment programs for better infrastructure, ecological restructuring and repair, healthcare and education according to their specific needs. Such programs should be complemented by joint European research, development and infrastructure projects.

- The ***public sector*** must be given back its role as the guarantor of social welfare and also of macroeconomic stability. It should be upgraded, modernized and reshaped in a transparent and democratic way. The provision of public services is much more than an economic issue. It is the very substance that holds European societies together and a necessary pillar of the often invoked European Social Model. Under the current circumstances the EU should refrain from initiatives to liberalize public services and integrate them into the internal market and competition framework.

- To ***finance*** the stimulation of sustainable growth and strong public services the EU should on the one hand set an end to tax competition by developing a common tax base and a minimum rate for corporate profits (at 40% in general and 30% for poorer countries), interest and dividend income and capital gains. On the other hand the necessary increase in the budget of the EU should be financed through a new progressive GDP-per-capita based revenue and through financial market transaction taxes. Temporary additional expenditures to counter recessions and to finance long-term projects should be financed via loans; on the EU level such loans should be extended by the European Investment Bank.

- One indispensable tool to stimulate sustainable development is also a considerable ***reduction of individual working times***. This objective should be included into the European employment guidelines, and implementation should be organised in different forms according to traditions and priorities of member countries. At the same time it should be ensured that reduction of working time must not lead to a deterioration of working conditions and social benefits.

- ***Social policy*** needs to be upgraded and included in the overall EU policy framework in its own right, rather than being subjugated to the dictates of such rigid rules as those set by the Stability Pact and the ECB. Social policy has also a role in an overall macroeconomic policy mix, when it provides the weaker parts of societies with necessary means for their living and thus supports private consumption as the main component of aggregate demand. Social cuts must be stopped and expenditure to fight poverty and exclusion needs to be increased.

- The EU's ***trade relations*** with the rest of the world and especially with poorer countries need to be based on mutual respect for the integrity and well-being of all partners concerned. Such relations must be equitable and development-friendly (see section 3.3.).

### 3.2.3 End "flexploitation" – Promote full employment with "good work"

We call on the European Council to abandon the "flexicurity agenda" and instead to embark on the "good work agenda" contained in the conclusions of the informal Council of Labour Ministers in Berlin on 19 January 2007: "*GOOD WORK means employee rights and participation, fair wages, protection of safety and health at work as well as a family friendly work organisation. Good and fair working conditions as well as an appropriate social protection are indispensable for the acceptance of the European Union by its citizens.*" We welcome this approach and at the same time propose that it should be broadened. The "good work" agenda should encompass the ILO minimum labour standards and, going beyond these, aim at social sustainability in all its aspects. It demands shaping working conditions in a way that the quality of employment is improved and that preventive and participation-oriented health and safety regulations at work create an environment which enables workers to stay fit and healthy during and beyond their working age. The “good work” agenda furthermore must aim at developing the personality and competences of workers on the basis of enhanced participation rights and rights to education, further education, training and lifelong learning, also by way of strengthening collective co-determination rights. It aims at defending and renewing the standard employment relationship, based on a core of equal workers rights, a high level of job and employment protection and working conditions, the right to strike, collective action and collective bargaining, a high level of social protection and decent remuneration, and full-time employment as the norm. This also includes establishing norms for part-time employment, so that only substantiated and socially protected part-time work (15 - 25 hours weekly) will be offered to those who wish to work part-time.

Good work requires adequate ***remuneration*** (“a living wage”). Therefore, the EU and the Member States must commit themselves to phasing out all forms of precarious employment by abolishing existing incentives (in-work benefits, tax and social security breaks) for marginal atypical forms of employment or for employment in the low wage sector. An instrument for this purpose could be a system of progressively rising social security contributions (or taxation) of employers, according to the principle ‘the lower the employment status (short period, weak perspectives, high risks), the higher contributions to social security’.

Against the background of increased labour mobility as a result of the freedom to provide goods and services in the internal market, there is an urgent need for a ***European minimum wage policy***. The aim of such a policy is to halt the spread of poverty-level wages as well as preventing the menace of cross-border wage dumping, a phenomenon to which the low-wage sector is particularly vulnerable. A European minimum wage policy would also tend to narrow wage differentials between men and women and improve the quality and productivity of work. Finally, regarding its macroeconomic function, a European minimum wage policy would contribute significantly to stabilising private demand and serve as a buffer against deflationary tendencies.  We propose that the EU urges member states to introduce national minimum wages which correspond at least to 60% of the median average wage.

There is as well an urgent need for work organisation and ***working time*** organisation to support the reconciliation of employment and personal life for women and men. The latter needs a commitment to the project of a new European working time standard aiming at shorter full-time employment for all. The EU must establish a clear limitation of the maximum working week at EU level (down from the present norm of 48 hours per week to 40 hours in a first step, abolishing all present derogations and loopholes of the existing EU working time directive), which would provide member states with an incentive for working time reduction at the national level. With regard to the present debate on the revision of the EU working time directive, we insist on three demands:

- the provisions on applying individual and sector-specific opt outs from the maximum weekly working time provided for by the directive must be completely abolished,
- the ECJ case law must be fully implemented and integrated into the directive (on-call time spent at the workplace must be regarded as working time, compensatory rest must be granted immediately after time spent on duty),
- any lowering of the level of protection granted by the existing directive must be blocked (this mainly concerns flexible annualized hours, introduction of 'inactive part of on-call time etc.).

### 3.2.4. Minimum standards and European transfers - Anti-poverty policy

The persistence and even rise of poverty in the EU in spite of the relatively favourable overall economic development is a scandal which must be addressed as a challenge with very high priority. Of course the most important way to overcome mass poverty and social exclusion is the creation of decent and well paid jobs alongside with the provision of high quality social services and adequate standards for a minimum income at all levels.

Therefore a macroeconomic strategy for full employment through public investment, working time reduction and extension of public employment is in the long run the indispensable basis for overcoming poverty in the EU. Such a strategy must not exclusively be directed at a high number of jobs but also target their quality: the recent rise in precarious work conditions with low remuneration, a lack of work protection involuntary part-time contracts etc. is the main reason for the increase in the number of working poor in an environment of economic growth. European anti-poverty policies must go beyond stocktaking, declarations and appeals and have to limit and roll back the wave of precarisation in labour relations. Furthermore every effort should be taken to include those furthest to the labour market (migrants, lone parents, people with disabilities, long term unemployed) and to reconcile employment policies with care policies which safeguard the necessary care for children, sick persons and the elderly.

The political will to eradicate poverty has to be reflected in the EU's strategy on growth and jobs (Lisbon strategy) and consequently in the Integrated Guidelines that are shaping this strategy. Moreover, the EU should define minimum standards in labour relations including setting minimum wages, work protection, maximum working times and related issues, as well as minimum standards for social income and access to high quality social services. Such standards should be different for different countries depending on the level of economic development of member countries. There is almost universal agreement that the high level of child poverty is one of the biggest scandals in many countries in the EU, destroying the moral quality and the economic and social future of society. At the same time some member states like Sweden and Denmark have demonstrated that it is possible to keep child poverty at considerably low levels. Going beyond pure reporting exercises the EU should set a strong target for every member state to visibly reduce the rate of child poverty, set minimum standards and to introduce mechanisms of consultation, assistance and sanctions to reach this objective. Such mechanism of monitoring and enforcing the abolition of child poverty and other binding coordination instruments in the fight against poverty certainly make much more sense than the hitherto coordination mechanism imposed by the Stability and Growth Pact.

The high poverty rate of the elderly must also be a matter of special concern and activity for the EU. An effective countermeasure against old-age poverty is the introduction of a general guaranteed minimum pension for those whose working time earnings were so low that their pensions are not sufficient to prevent poverty. The resources necessary to bring factual pensions upon an above poverty level should be financed partly through public budgets for PAYGO systems; in capital funded system they should come from a fund financed through contributions of private pension funds.

Beyond such specific measures it should be the general policy of the EU to require member countries to strengthen their anti-poverty policies and to define minimum amounts of resources in each country, which are necessary to lead an independent life for individuals and households. Such standards should not be lower then 60% of the mean individual or household income and they should be raised in a process of upwards convergence. Minimum standards do not only relate to income and monetary benefits but also have to reflect costs of necessary expenditure, such as housing and food and to the free access to a broad range of social and cultural services from which people experiencing poverty are often excluded. Access to public goods, such as water, energy etc. has to be safeguarded.

A priority for anti-poverty policies has to be reflected in the overall economic and financial framework of the Union and certainly must not be contradicted by them. As most of the anti-poverty measures will have to be funded by the member states, they must shape their public budgets accordingly and measures have to be taken to end the harmful tax competition. It is noteworthy that those countries in the EU which have the lowest rates of poverty and particularly child poverty have at the same time the highest share of tax revenue. The fight against poverty can be won, but, although it is not exclusively a matter of money, it costs money. Governments must be prepared to recognise this fact and increase their anti-poverty budgets accordingly.

Anti-poverty policy on the EU-level should not exclusively consist in initiatives to encourage and stimulate member states to become active. We propose that the EU should and could dampen the destroying effects of poverty upon the individual and the society through monetary transfers. We therefore repeat our proposal that the EU makes a payment of 20€ per month to each of the ca. 80 million poor persons in the Union, and that this amount should be increased by 10 Euro each year until it reaches the level of 50 euro. This would cost € 17.3 bn. in the first year, and to finance this and the rising amounts for the subsequent years an increase in the European budget appears indispensable. Such a relatively moderate anti-poverty transfer from the EU would improve the living conditions of the poor in the EU in a very visible and tangible way, it would limit social exclusion and soften the otherwise growing disparities within the Union. It would be understood that the EU is not a project of the elites for the elites but concerned with the welfare of all people.

### 3.2.5. Focus on energy saving and renewables – Climate and energy policies

An alternative internal strategy in the area of the energy and climate policies of the EU and its member states could start by addressing two priorities: It should make an ambitious push forward in the fields of renewable energy sources, thereby securing first-mover advantages for the EU, and it should address the challenges of energy saving strategies which would not lead to any reduction of human well-being (cf. Euro-Memo 2006). The long-term perspective should be to reduce the energy inputs required to meet human needs, and to provide these inputs fully from renewable energy sources, especially solar energy.

An improvement of the European emission trading system would be required for reaching these objectives. In order to win some additional time for the implementation of such a strategy, reforestation programmes in Europe would be helpful. The internal alternatives in EU policies should be connected with a corresponding shift to a co-operative strategy, especially with Eastern Europe (including Russia and the Caspian region) and with Africa.

On this basis, a three-pronged strategic approach can be elaborated and implemented within the EU which combines energy saving with a transition to renewable energy sources and an improved European system of emission permit trading:

Energy saving should start by
- avoiding unnecessary transport (by changing urban planning towards car-free cities, specifically addressing the gendered requirements of transportation in order to avoid imposed private car use, and by increasing transportation costs, in order to prevent transportation based on marginal price differentials from taking place);
- switching to less energy intensive modes of transportation (investment programmes for the shifting of freight transport from road to rail or waterways, limiting car traffic and velocity in urban areas and generally reducing the average speed and weight of vehicles in order to achieve gains in energy efficiency and reductions in the emission of greenhouse gases);
- avoiding energy waste (distribution systems, stand-by, eliminating older, energy wasting appliances),
- accelerating the introduction of low energy housing (investment support programmes and tax incentives, with the main objective of upgrading the stock of housing to a high standard);
- accelerating the introduction of lower energy appliances in industry and in households (R&D programmes, tax incentives, top-runner approach).

A transition to renewable energies sources could be accelerated by:
- supporting the introduction of renewable energies by giving them priority in all public procurement (binding all public agencies to climate and energy objectives, with quality criteria in particular for biomass) and by creating immediate incentives for the production and use of the respective energy interfaces (public investment programmes and tax benefits for introducing elements of a new energy system based on truly renewable energy sources),
- creating taxation advantages (combined CO2 emission and energy use taxation, reduced VAT for products with very high energy efficiency and very low climate gas emissions) and introducing subsidies (especially supporting the introduction of truly renewable energy

sources, guaranteeing prices for energy supply from renewable sources for a transition period) for the production and use of renewable energies,
- imposing tax disadvantages on fossil energy sources.

The European system of emission permit trading should be applied more rigorously,
- with permissions auctioned and the cappings reduced,
- with very ambitious reduction targets, automatically reducing the quantities permitted on a yearly basis,
- with a strict limitation to intra-EU trading and trading with countries with similar trading systems and enforcement and monitoring mechanisms (like California), closing all loopholes towards shifting the reductions to developing countries,
- with strict supervision by a European Energy Agency capable of effectively controlling target implementation, and – if needed – imposing additional rules.

These actions should be accompanied by programmes guaranteeing the supply for basic energetic needs for all residents in the EU, in order to avoid side-effects of social disruption or polarisation. In order to avoid a decoupling of the new member states from such a common strategy special programmes should be developed and implemented to increase their capacity for an energetic self-reliance compatible with a strategy of sustainable energy supplies, i.e. overcoming their dependence on nuclear energy and coal by rapidly enhancing their potential for energy saving and for expanding the use of renewable energy sources.
Such a strategic approach requires a conscious embedding of European policies on energy and climate in a deepening and an effective implementation of the EU Sustainable Development Strategy (SDS) (cf. Euro-Memo 2006).

### 3.3. Fair trade, development aid and peaceful relations – Global perspectives for the EU

The principal aim of an alternative external policy should be to promote a fundamental transition towards a model of sustainable global development, in which overcoming the mass poverty in developing countries is the greatest priority, and where international relations are guided by long-term cooperation based on mutual interests and a peaceful negotiation of conflicts. The realisation of the Millennium Development Goals must be the central orientation for responsible external policy in relation to developing countries. So a moratorium of all negotiations which don't respond to the MDG agreement would be logical The following specific proposals seek to further this aim:

***Trade***. In order to reduce Europe's vulnerability to a downturn in the US, and the longer-term fallout from a major readjustment of the US's external demand, the EU should fundamentally re-direct its macroeconomic policy mix so as to foster internal demand. This would serve, not only to stabilise economic development in Europe, but also to contribute to eliminating global macroeconomic imbalances in a way that avoids a severe systemic crisis.

As part of such a reorientation, the EU should completely revise its aggressive bilateral trade strategy, above all in relation to emerging and developing countries. Instead, the EU should shift towards a fair trade agenda. The contradictory aims of trade and development policy should be overcome by explicitly taking account of the social, and in particular gender impact of trade policies on developing countries to this end, the following measures should be taken:

- Sustainability Impact Assessments of EU Trade Policy must explicitly include a system of indicators that assess the social impact of trade policies, and this should give particular attention to the gender impact of trade in so far as it affects both paid and unpaid areas of work.
- All requirements that would result in a serious restriction on national policy making in less-developed countries should be withdrawn. This applies in particular to the liberalisation of investment conditions, the opening up of markets in services and government procurement, and the protection of intellectual property rights.
- Trade relations with less developed countries should be guided by the principal of non-reciprocity. The scope of 'special and differential treatment' has been curtailed, and now only involves exempting a small number of products from tariff reductions, and granting longer transition periods for the implementation of free market access. This might spread the adjustment costs of trade liberalisation over a longer period, but it does not contribute to promoting sustainable development in these countries. The EU must seek a means of maintaining non-reciprocity in trade policies with less-developed countries on a *de facto* basis, even if this is formally not compatible with WTO law.
- Specific measures that strengthen countries' ability to fulfil universal human rights, and to promote environmental and social minimum standards, should be introduced in bilateral trade agreements. A first step has been taken with the EU's recently reformed GSP-Plus regime,

which allows duty-free access to European markets for certain countries that have ratified international conventions on human and labour rights, governance and environmental protection. A more developed system should facilitate the transition to an approach which implements minimum standards. A further step would be to establish an appropriate system of monitoring and control, which, in the case of violations, provides institutionalized mechanism for consultation and mediation, but which, in the case of persistent and severe violations, also contains the possibility of invoking trade sanctions.

- The deadline for the negotiations between the EU and the Africa, Caribbean and Pacific (ACP) countries should be extended, as it will be impossible to complete these by 1 January 2008. While these negotiations continue, the EU must continue to grant ACP countries the trade preferences which were agreed in 2000 under the terms of the Cotonou Agreement.
- More generally, bilateral agreements like the Economic Partnership Agreements, which divide countries into groups on a regional basis, should be abandoned in favour of multilateral agreements, in which a common basis is established for negotiating relations with all the countries concerned.

***Banking and financial markets***. The internationalisation of banking and financial markets has been highlighted by the impact in Europe of the US sub-prime mortgage crisis. The vulnerability of the financial system to such a crisis reflects the highly deregulated approach which has been achieved as a result of persistent pressure from financial institutions. Alternatives to the subordination of financial markets to the interests of financial investors should aim at the following:

- The risks of financial investment should be controlled through, for example, limiting the leverage of private equity funds and hedge funds; introducing higher capital requirements for banks' investment in private equity funds and hedge funds; and prohibiting or strongly limiting the securitisation and sale of bank loans.
- Social security systems should be protected from financial market risks. Where such systems are not public PAYGO-systems but capital funded, the associated investments should be strictly separated from all risky investment holdings. Pension funds and insurance should not be allowed to invest in private equity and hedge funds.
- Employees and firms should be protected from being exploited and plundered by short-term investors. This could be done by linking voting rights to a minimum holding period for shares (for example one year) and through enhancing employees' rights in the management of the firm.

- Sources of public financing should be enhanced, in particular for small and medium firms.
- Public development banks should be employed to support and implement national and European economic policy orientations based on public discussion and democratic political decisions. At the same time, they should be restricted from engaging in risky international financial transactions. Public banks should not be global investment banks or securities traders.

The bottom line of a sustainable alternative approach to European financial markets is monetary, fiscal and tax policies which stimulate employment and prevent the accumulation of financial assets for which there are no productive investment opportunities.

***The Euro***. The current international monetary order benefits private financial institutions, in particular the big banks, which have profited from the huge business in foreign currency transactions, and in the various hedges against exchange rate instability. The uncertainty associated with exchange-rate instability has a negative impact on trade and investment, not only for the European economy, but also for developing countries. The main points of an EU currency policy should include the following:

- The Council of Ministers should take its responsibility for exchange-rate policy seriously, and cease to hide behind the notion that leaving the exchange rate to the market will yield an optimal result.
- Co-ordinated intervention in the currency markets should be mounted in order to penalise private traders and demonstrate that there is a downside risk to taking large positions against a currency.
- As a matter of urgency, the EU should push for the establishment of agreed bands within which the movement of the principal exchange rates will be restricted.
- The EU should seek to build support for the creation of new international monetary system based on a truly international reserve currency.

***Sustainability***. One major strategic objective of the external policies of the EU should be to contribute to worldwide climate protection and particularly to the reduction of greenhouse emissions. This objective must on the one hand be pursued through international negotiations aiming at binding international commitments and on the other hand through international assistance in the development of renewable energy sources and methods for energy saving. A key to success will be convincing the USA, and China, of the necessity for a long-term stabilization target and a global reduction in the emissions of greenhouse gases in the range of

50 percent until the year 2050. For rapidly industrializing countries it should be the aim for European negotiators to reach binding commitments to emissions reductions without setting a fixed cap on emissions per country but rather per sector, like steel or cement. A further goal should be that until 2020 a minimum of 30% of energy supply should stem from renewable sources, which requires the development and diffusion of climate-friendly/energy saving technologies. At the same time the Least Developed Countries (LDCs) will not have to take on any reduction or limitation commitments, but are aided in their energy needs via renewable energies and in their adaptation to climate change.

Such a climate centred alternative strategies could be broadened to energy policy in general and to trade policy by:

- Building and developing a 'coalition of the willing' for the development of truly renewable energy sources and strategies of energy saving (efficiency and sufficiency);
- Negotiating long-term common strategies with regard to climate and energy and technology exchange with the big emerging countries (China, India, South Africa, Brazil) as well as with groups of partner countries (ACP);
- Developing the structured dialogue the EU is building with the OPEC countries to a process of constructive participation in all dimensions of global energy and climate policies;
- Introducing a strong element of co-operation in a strategy on energy and climate into the European Neighbourhood Policy, making it an obligatory chapter of all negotiations on Neighbourhood Agreements.

***Development***. EU policy should be inspired by the desirability for the rich developed countries to adopt a far-sighted approach to underdevelopment, by limiting their short-term profits in order to overcome the widening gap between the rich and poor on a global scale. The guiding principal of development cooperation should be a clear recognition of each country's right to define its own pattern of development. In particular, the EU should not impose conditions that are primarily concerned to reflect its ideology and the interests of European business, rather than the interests of the developing countries themselves. To this end, the following policies should be supported:

- Aid should be multilateral. At present EU programmes are characterised by both multilateral and bilateral aid. The future expansion of aid should be oriented primarily at strengthening the multilateral component.
- Aid should not be tied. Despite discussions reaching back to the 1960s, current regulations do not cover Member States' bilateral aid. It is now high time that all bilateral and multilateral

aid should be completely de-linked from the obligation to buy goods and services from the donor country.

- The EU should press for the WTO rules to be amended in order to re-establish non-reciprocal preferences for the poorest ACP countries. Trade agreements should allow ACP countries to protect their domestic and regional markets in order to facilitate the support of 'infant industries'.
- The EU should push for the setting up of an effective system to ensure that developing countries are protected from a deterioration in their terms of trade. This is especially important in the case of the poorest African countries. Here, the Stablex and Sysmin schemes, which functioned in the 1970s, provide a valuable basis for building on[11]. An important requirement of such a system is that it should provide countries with automatic support to stabilise their export revenues.

- The Common Agricultural Policy should be extended in order to give full and free access to the EU market for the agricultural products of ACP countries.

***Security***. The guiding principal of EU policy should be to support a strengthening of the United Nations (UN), and a democratisation of its decision making structures. One of the primary objectives of the United Nations is securing universal respect for human rights and fundamental freedoms of individuals throughout the world. In this connection, few topics are of greater importance than the fight against impunity and the struggle for peace and justice and human rights in conflict situations in today's world. The creation by the UN in 1998 of a permanent International Criminal Court is therefore a decisive step forward. The EU should now seek to push for the ICC to be extended to those countries that have not ratified it, in particular, the United States, which is now able to escape the court's jurisdiction.

### 3.4. A democratic constitution for the EU

The "Reform Treaty" does not promote the "finality of European integration". It will encourage a European Union of different speeds and variable geometry, but not a deepening of integration across its Member States. Thus, for the European integration project as a whole, the spectre of the post-Maastricht crisis of legitimacy remains. What prevails, is the

[11] Stabex and Sysmin are the acronyms for, respectively, 'System for the Stabilisation of Export Earnings' and 'System for Stabulising Minerals'.

continued unleashing of market forces based on the neo-liberal policy design of the Treaty, promoting ever stronger competition and a race to the bottom in the EU's internal market.

The EuroMemorandum Group has in previous memoranda called for a comprehensive European Social Model based on solidarity and equality and striving for sustainable development. We have defended the notion of a "constitution", but stressed that a proper constitution can only formulate certain basic principles of the Union, fundamental rights and a thorough democratic design of its institutions and procedures. Such a "constitution", which leaves room for developing and changing political majorities and orientations to shape the economic order of the Union, should promote a European Social Model with the following core elements, about which a broad political debate should take place:

- ***full employment*** with decent working conditions and with wages and salaries sufficient to lead an independent life,
- ***the protection of public goods*** and the provision of high quality public services and socio-cultural services of general interest. Such services must be exempted from the rules on competition, the internal market, state aid and procurement.
- ***social welfare*** as a guarantee that nobody is exposed to poverty and social exclusion,
- ***social equity*** as the absence of discrimination and of excessive inequalities in income, wealth or access to public goods and opportunities,
- ***ecological sustainability*** as the preservation of the natural basis for individual and social life,
- ***cooperative* and *balanced international relations and efficient development aid*** as the long-term preconditions for peace and political stability.

A draft constitution based on these principles should after a broad political debate throughout the Union be submitted to a democratic all-European referendum. This would avoid that the European people shall have no say on the emerging elite project of the Reform Treaty, which in our view must be strongly opposed.

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

### Declaration of support

I support the general direction, main arguments and proposals in the EuroMemorandum 2007:

## "Full Employment, Strong Public Services, and International Cooperation Democratic Alternatives to Poverty and Precariousness in Europe"

☐ Yes ☐ No

Name:

Institution

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e-mail:

**Signature:** ______________________________

I would like to be informed about the regular work of the working group and be invited to their meetings.

☐ Yes ☐ No

Please return this form to Jacqueline Runje by e-mail: Jacqueline.Runje@uni-dortmund.de or by fax to: +49-(0)231-755-4788.