

European Economists for an Alternative Economic Policy in Europe

- EuroMemo Group -

European integration at the crossroads:

Democratic deepening for stability, solidarity and social justice

– EuroMemorandum 2012 –

Summary

The deepening crisis of the European Union

The euro area crisis threatens the future of European integration, but instead of challenging the power of the financial institutions which are driving the crisis, the European authorities have imposed austerity programmes on Greece and other peripheral euro area countries, and developed centralised policies for imposing highly restrictive fiscal discipline on all member states which risk undermining the democratic legitimacy of the European Union (EU).

Restrictive fiscal measures have depressed demand in Europe, and economic forecasts for 2012 indicate virtual stagnation, which will exacerbate the difficulties deficit countries face in servicing their debts. A euro area summit at the end of October 2011 decided that Greece's debt should be cut by 50%, but panic selling by bond holders intensified, also affecting larger countries including Italy and Spain.

Austerity programmes in Eastern European countries (Latvia, Romania and Hungary) and the euro area periphery (Greece, Portugal and Ireland), have led to especially serious recessions and major fiscal cuts have been accompanied by demands for privatisation and the deregulation of labour markets.

The EU's South-Eastern neighbours and Turkey, many of which were dependent on capital inflows, have all also been hard hit by the crisis. Like the countries of North Africa, these had all been encouraged strongly by the EU to open their economies.

Growth in several EU countries, in particular Germany, has benefited from the strong rebound in world trade since 2010, but together with the surpluses generated by China and Japan, this is contributing to a dangerous widening of global imbalances. Low interest rates in Europe, and especially the US, have led to destabilising inflows of capital to several middle-income countries, forcing up their exchange rates.

The Fukushima catastrophe has led Germany to reinstate its programme to phase out nuclear energy but this has not triggered a wider European phasing out. Following the failure of the Copenhagen conference, the EU has also failed to develop an adequate response in the area of climate change. European agricultural production, which is based on a failed model of industrialisation, has negative social and environment effects in the EU and undermines the ability of developing countries to feed themselves.

Wrong policies lead to wrong outcomes - A critique of EU policy

The EU has failed to define an adequate response to the euro area crisis. The proposed reforms to the Growth and Stability Pact are based on the fallacious notion that, provided public deficits are limited, market forces will ensure balanced development. Prior to the crisis Germany had run up a very large current account surpluses, while large deficits in southern Europe were financed by capital inflows. The financial crisis in 2008 led to a sharp decline of private expenditure and necessitated a major expansion of government spending. The EU's new legislation refers to policy co-ordination, but

the primary focus is on surveillance and threatens to subject economically weaker states to comprehensive tutelage in every aspect of public policy.

European banks, which face large losses on government bonds, are directly threatened by the euro area crisis. But they have mounted massive lobbying campaigns against financial reforms, and modest proposals affecting derivatives and the capital requirements for banks were both successfully diluted. The Commission has proposed introducing a financial transactions tax, but this excludes foreign exchange transactions and is opposed by key states.

The crisis has laid bare the divergent productive structures in the EU. Regional policies have focussed on physical infrastructure and training, but no attention has been given to industrial policy, something which the neo-mercantilist core around Germany has no interest in promoting. EU policies have tended to cement the existing European division of labour, and imposing austerity policies on the peripheral countries will exacerbate this yet further.

The EU's Mediterranean policy has been called into question by the popular uprisings in Tunisia and Egypt; although democratisation has been welcomed, the economic model which led to widespread poverty and unemployment has not been questioned and the EU continues to promote free trade. The EU's neighbourhood and enlargement policy is at an impasse; negotiations with Turkey and countries from former Yugoslavia are making little progress and there is considerable hesitation about further enlargement in many EU member states.

EU trade policy, while paying lip-service to concluding the Doha Round, has shifted decisively towards negotiating bilateral free-trade agreements. The EU is increasing pressure on the African, Caribbean and Pacific group of countries to sign Economic Partnership Agreements, which require wide-ranging commitments to open their countries to EU trade and investment.

The EU has appropriated, wrongly, the military concept of 'security' to designate an illusory way out of dependence on the world market for energy and raw materials. The Commission's new paper on agricultural policy makes an important step towards sustainable policies, but despite recognising the social importance of agrarian labour, payments will not be confined to active farmers.

Strengthening democracy and social justice in Europe

The ECB must act immediately as lender of last resort in the euro area bond market to break the cycle of falling prices and panic selling. Then the major expansion in the size and power of the financial sector over the last three decades must be dramatically reversed. Commercial and investment banking should be separated; cooperative, public-sector and other non-profit banks should be promoted to provide financing for socially and ecologically desirable investment projects; investment banks, hedge funds and private equity funds should be tightly curtailed. Most derivatives should be banned, and all securities should be traded on public platforms. A financial transactions tax should be introduced on all financial transactions, and a publicly-owned European ratings agency should be established.

The existing level of public debt, especially in Greece, is unsustainable. Debt Audits, as pioneered in Ecuador, should determine which debts are legitimate, and which institutions should bear the write-downs. In countries with very high public debt, a reduction should also be achieved through a wealth tax on the very rich. To prevent speculation against weaker states, euro area countries should swap remaining government bonds for jointly guaranteed euro bonds.

A common monetary policy should be accompanied by a common fiscal policy. This should aim to promote full employment with good work. Austerity programmes will make it even more difficult to repay debt, and governments with primary deficits should be provided with finance to facilitate expansion. A strong programme of public investments is necessary, especially in peripheral euro area countries. Financing should draw on the European Investment Bank, which is already empowered to issue bonds. In place of the one-sided emphasis on cuts in government spending cuts, the long-term reduction in the taxation of higher incomes should be reversed. Constitutional prohibitions on running government deficits are dangerously restrictive and should not be introduced.

A coordinated European wage policy should ensure that the widespread decline of the share of wages in national income is reversed, and that wages in states with lower incomes begin to converge on those with higher incomes. A reduction of normal working time to 30 hours a week should be introduced both to combat unemployment and as a contribution to building a society in which life is not dominated by waged work.

In place of austerity programmes, there is a need for programmes that address fundamental structural problems of capitalism today. Privatisation has been counterproductive, leading to two-tier health systems, and the role of public services should be re-established. Low wage strategies, supposedly aimed at improving competitiveness in developing regions, have failed. Development should instead be based on the adoption of modern technology, and European structural funds should be used to develop advanced productive sectors. To reduce trade imbalances, member states should seek to reduce imports, including through the expansion of renewable energy sources. Co-operatives can play an important role in integrating economic and social goals, promoting local production and consumption. Flexicurity has increased employment insecurity, and to counter this full trade union rights should be re-established and enforced. Measures should be introduced to ensure that enterprises cannot use the argument of 'competitive pressure' from other EU countries to justify lower wages and a deterioration of working conditions.

The EU should address asymmetries in relations with neighbouring countries by adopting asymmetric arrangements, which favour the neighbouring countries, and this should be reflected in a new approach to Association Agreements, which govern such relations. Free trade should be abandoned in favour of sectorally differentiated arrangements with very long transition periods. Neighbouring countries should retain the policy space necessary to strengthen their productive structures, and EU aid should be oriented to promoting industrial development.

In place of its mercantilist export-led strategy, the EU should increase domestic demand so as to absorb more imported goods and services. The prevailing model of WTO-plus bilateral free trade agreements should be abandoned so as to take account of asymmetries between countries. Trade distorting agricultural subsidies should be phased out, and demands for the liberalisation of public services by trade partners should be dropped. Development policies should be reoriented to support the construction of diversified local economies, and the construction of state capacities in less developed countries should be supported.

The EU could make an important contribution to advancing sustainable development if were to coordinate member states' initiatives for Rio II in 2012. These could include transnational green jobs programmes, linking ecological and social concerns with energy saving. The common agricultural policy could also be transformed to achieve a compromise between the political requirements of feeding Europeans with high quality food at low prices; maintaining active farmers who sustain the ecological balance in the countryside; and supporting fair exchange for agricultural products with the rest of the world.

The full text of the EuroMemorandum draws on discussions and papers presented at the 17th Workshop on Alternative Economic Policy in Europe, organised by the EuroMemo Group, on 16-18 September 2011 in Vienna, Austria. If you wish to receive the full text of the **EuroMemorandum 2012**

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please send and email to info@euromemo.eu.

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