European Economists for an Alternative Economic Policy in Europe
- Euromemorandum Group -

Full Employment, Welfare and a Strong Public Sector - Democratic Challenges in a Wider Union -

Memorandum 2003

Contents

Chapter 6: La Politique Agricole Commune : bilan et propositions

Jacques Mazier

Chapter 7 : Main lines of development of social policy in the EU

Miren Etxezarreta

Chapter 8 : A Strong and Democratic Public Sector against the Priority for Privatisation and Deregulation

Jörg Huffschmid

Introductory remark

The chapters of this “long Version” of the Euromemorandum 2003 have been formulated by the authors on the basis of papers presented to and discussions held at the ninth international workshop on alternative economic policy in Europe, which the Euromemorandum Group has organised on September 26-28, 2003 in Brussels and which was attended by some 70 economists from all EU-15 and several accession countries. The long version was preceded by a “short version” of the Memorandum, published in December 2003 in several capitals of the EU together with more than 250 supporting signatures of European economists.

The Euromemorandum group (www.memo-europe.uni-bremen.de) is a network of professional economists who believe that the current orientation of economic policy of the EU and in most member countries is not helpful for the development of economic strength, social welfare and justice in Europe and that therefore to achieve these goals a thorough change of economic and social policy in Europe is needed. The group organises workshops and conferences on different topics and a large conference in Brussels every year at the end of September (2004: 24-26 September). Like previous memoranda the present book should be regarded as work in progress, to which critical comments and other contributions are most welcome.

We dedicate the present book to the memory of Egon Matzner (1938 - 2003) who was a strong supporter, active member and a very good friend of the group.

Euromemorandum 2003

Chapter 8

A Strong and Democratic Public Sector against the Priority for Privatisation and Deregulation

Jörg Huffschmid

1. A decade of privatisation

Since the beginning of the 1990s privatisation has become one of the main thrusts of economic and social policy around the world. It takes the form of the sale of state-owned companies to private investors, the shift from the provision of public services from public entities to private firms, the transfer of social security from public provision to private capital market systems and the transformation of common ownership into private property rights.

The proceeds from company privatisations alone rose worldwide from $ 33 bn. in 1990 to $153 bn. in 1997 and subsequently fell to $100 bn. in 2000. The majority of privatisations – measured by the financial volume of transactions – took place in *OECD countries* ($ 65 bn). in 2000 against 35 bn $ in Non-OECD countries) but the increase and impact was higher in the developing countries, especially *Latin America*, the former Soviet *Union and the Central and Eastern European* Countries. In developing and transition countries the IMF pushed privatisations forward as core element of the Washington consensus. In the EU the pioneer was Great Britain under the Thatcher government, where major privatisations had already taken place in the 1980s.

Many companies which were recently privatised had previously been formed in economically backward countries to give governments control over economic development and assure the provision of goods and services in strategic sectors – particularly in energy resources, large industrial conglomerates, banks and other financial institutions - and areas of basic social needs. In developed industrial countries like France and Great Britain privatisation of leading corporations after World War II (and in France still in the 1980s) had also been motivated by the objective to prevent excessive influence of private monopolies and to establish more democratic control over the economy. Privatisation is essentially a reversal of this development.

Privatisation affects virtually all sectors not only of the economy but of the whole of social life and of nature. In the Central and Eastern European Countries (CEEC) it has been on of the main pillar in the transition from a (state) socialist to a capitalist society, encompassing all sectors of production and services. In the EU15 most publicly owned industrial corporations (like steel, automobile and oil), had already been privatised in the 1970s and 1980s. In the last decade privatisation occurred as a consequence of the sweeping liberalisation in connection with the Single Market project of the EU. It affected mainly infrastructure and other services: utilities (electricity, gas, water), traditional and modern network industries (airlines, railways, local transport; telecommunication) and financial institutions. But the process tends to go beyond the transfer of property from public to private owners and the shift from public to private provision of services. It extends into areas where the question of formal property had not even come up before: common natural resources like water, lakes and forests, living organisms, basic elements of the biosphere and of life like genes and living organisms. Under the current rule of neo-liberalism privatisation is the overarching principle of conquering the world by transforming it into private property rights.

Currently the most frequent form of privatisation in the EU is going on without change of property but by contracting out or commissioning the provision of public services to private firms, who are paid out of the public budget. This encompasses all forms of Public Private Partnerships (PPP): private firms take over activities which were (and are) regarded as public responsibilities – from cleaning, waste management, water supply (in joint ventures) to the running of security services, hospitals and kindergartens.

All forms of privatisations have in the last decade created formidable windows of opportunity for widespread ***corruption*** and have thus contributed already in their very initial stages to the undermining of political cohesion, stability and public confidence in governments and administrations. This is particularly true for some transformation countries where corruption and crime were very relevant and influential factors in the privatisation process and have led to the emergence of a new oligarchy within few years after the collapse of the old system.

The arguments which were and are mostly used to justify privatisation relate to greater internal and external efficiency, better provision of goods and services at lower prices and with less bureaucracy as a result of more competition. However, in spite of occasional positive (interim) result neither theoretical considerations nor factual experience confirm these general claims. In many cases the opposite can be observed as a result of quick concentration, the establishment of high barriers to entry, the lack of transparency and the enormous difficulties and eventual loss ob public control following privatisation.

Social cohesion. The regular provision of public services has been and continues to be important for the development and maintenance of social cohesion. This is particularly true for transport, postal and banking services. Especially for the countryside, remote regions, thinly populated regions and small villages the possibility to reach central places, the regular delivery of mail and the uncomplicated access to the banking and payment system at no or low cost, the personal contact to the postman and the local bank manager, are essential factors of social networks. In these areas privatisation can easily – and in the long run must almost inevitably – generate social exclusion. As experience shows, the provision of infrastructure is not generally improved by privatisation, and often a marked deterioration takes place. This was for instance the consequence of railway deregulation and privatisation in Germany and Britain, where substantial closures of transport connections were decided. Were national firms had been split up in several firms in the course of deregulation and/or privatisation the result was often great chaos. This, too, can be studied for the British railway system, for which a severe fall in the quality of transport services has been publicly recognised. Where comprehensive provision has been maintained (e.g. in telecommunication) this has been the result of public supervision by regulatory authorities which were introduced simultaneously with privatisation. Efficient public supervision and control of private provision of public services is very difficult due to the complexity of contract negotiations and to information asymmetry. In addition regulation is always politically contested.

Safety, continuity and modernisation of public services are also not guaranteed after privatisation and deregulation. This has recently been demonstrated by the collapse and blackouts in electricity provision in California, New York, London and Italy. For this latter country it seems that the liberalisation of the market for electricity within the EU has affected also state-owned firms and drawn them into a competitive race in which basic requirements of safety and continuous investment in the existing infrastructure were neglected.

In many cases ***prices*** for privatised services have fallen immediately after privatisation to make the process more acceptable to the public and to conquer market shares. But when markets are "consolidated" through mergers, acquisitions and cooperation agreements, prices are often rising, like currently in electricity, gas and water supply. Where they remain low this is often because markets are still in the process of formation or because of the existence of strong regulators. In European telecommunications both is the case, but the fall in prices is regularly far smaller than what the increase in productivity would allow. Privatised firms have also often developed techniques of accounting and calculating of prices which – due to information asymmetry - are very difficult to monitor and control by public regulators, let alone the broader public.

With regard to ***employment*** one can safely state that privatisations (and the subsequent "consolidation") have in almost every case led to considerable job losses and deterioration of working conditions. This is not surprising because the perspective of profits has been the driving force for the investor to take over a public firm or service, and the quickest – although in the long run not the most sustainable – road to profits is to cut costs through the elimination of jobs, the reduction of wages and salaries and the tightening of working conditions.

Even in terms of ***internal efficiency and profitability*** the results lead to a mixed picture. On the one hand severe cost-cutting programmes and extensive marketing have often substantially raised profitability. On the other hand most large privatised firms and private service providers have in the last five years engaged in a largely irrational merger wave and bought firms beyond any reasonable and solid business perspective. They paid prices for business licences (for instance UMTS) for which they had to take up an unsustainable burden of debt. In the stock market crash they suffered huge losses and the subsequent restructuring processes cost many thousands of jobs and remain an economic burden for many years to come.

In the light of this poor performance the justification for privatisation/deregulation cannot be seen in the alleged generally superior efficiency and better provision of public services. Other reasons must be more relevant. Apart from strong ideological and political pressures there are two economic interests which drive the process and which complement each other: On the side of the government it is the interest to alleviate the burden on the public budget: to raise money through the sale of public property or to save money trough the outcontracting the provision of public services. On the side of private firms it is the interest to open up new opportunities for investment in a general economic environment, in which their liquidity is high because of income redistribution but the investment opportunities are low because of the same redistribution and the weakness of economic growth. Privatisation meets both interests.

The ***next round of privatisation is already underway*** and it will penetrate into the very core of social cohesion and welfare. The driving force behind this round is the private financial sector and health and educational services. The vehicle to accomplish deregulation and privatisation is the GATS (General Agreement on Trade in Services) in the framework of WTO (World Trade Organisation). The thrust of the attack is first the opening of markets for private competitors to the existing public structures and after that enforcing a "level playing ground" on which all public subsidies to the existing public system must either be cancelled or equally be given to all private competitors. The consequence of this will be that the provision of educational and health services – which are up to now in most countries regarded as core elements of public goods - will be subject to competing private profit maximising strategies and the pressures and restrictions which this implies.

2. Liberalisation, privatisation, and public services in the EU

Priority for liberalisation and privatisation

The EU has since the failure of more ambitious attempts to European integration in the early 1950s been constituted as an economic community with a strong bias towards regulation through competition – although there were some exceptions like the Common Agricultural Policy (CAP) and trade policy. There is no public service or public interest related equivalent counterpart to the strict and detailed competition rules of the Treaty of Rome. Only within the context of these competition rules (in the old article 90) there is a reference to "public undertakings" and "undertakings entrusted with the operation of services of general economic interest", which on the one hand grants an exemption from the competition rules but on the other hand locks these exceptions very tightly into a strictly competitive framework. Throughout the history of the EC the partly strong public sectors in member states have been a basis for criticism, complaints and legal actions from the side of the European Commission which regarded the activities of this sector in many cases as a violation of the Treaty. These attacks have been enhanced and multiplied during the last two decades in accordance with the worldwide rise of neo-liberalism. The Single Market as the main EC project from the mid 1980s to the mid 1990s has generated a wave of liberalisations in many areas which were operated as public service sectors. Although the EU is formally neutral with regard to the choice of public or private ownership, (Art.295, ex222: "This Treaty shall in no way prejudice the rules in the Member States governing the system of ownership") liberalisation has in fact promoted a wave of privatisations in public utility and network services which have come under competitive pressure. However, most of these processes, like the liberalisation of the markets for telecommunications, electricity and gas, have been accompanied by European directives which aimed at maintaining a minimum standard of regulation in the continuing pursuit of the general economic interest. In this context the concept of ***universal services*** was developed.

With German unification and the collapse of Eastern European socialism the concept of an all European political union came on the European agenda again. Although far-reaching attempts to establish a political union failed at the beginning of the 1990s, the Treaty of Maastricht transgressed the area of exclusive economic integration and created space for closer political cooperation. In the economic and social area, however, the predominance of the rule of competition, privatisation and deregulation prevailed and was even reinforced. It was not until the Treaty of Amsterdam that "***services of general economic interest***" (SGEI) were taken beyond the narrow context of the competition rules and a special article was inserted into the Treaty (art. 16). This must probably be interpreted as a response to growing criticism and opposition to the increasingly neo-liberal course of the EU. The reference to SGEI was then also included in the Charter of fundamental rights and via this into the draft constitution (art. II 36). It comes up again in the third part of the draft (Art. III-6), where the perspective of a European law on SGEI is mentioned. It should define the "principles and conditions, in particular economic and financial" for SGEI which "enable them to fulfil their missions." At the same time the draft reconfirms and underlines the priority of competition as the overarching approach to services when it begins the article on services of general economic interest with the words "Without prejudice to Art. III-55, III-56 and III-136…" - articles which refer to the rules of competition.

On the other hand it is remarkable that the concept of ***solidarity*** – a genuine domain of public services – which plays only a very minor role in the Treaty, has been considerably upgraded in the draft constitution. It appears in the preamble and in the articles about the union's values (I,2) and objectives (I,3), extensively in part II (Charter of fundamental rights of the Union) and in various articles relating to foreign and security as well as immigration policy. This seems to reflect a greater sensibility with regard to the mounting dissatisfaction with and opposition against the mainstream policy approach. This dissatisfaction has also been taken up by the European Parliament which has asked the Commission to submit a thorough analysis and assessment of public services in the EU.

The Green Paper – Services of general interest as exception

The European Commission responded to this demand by the publication in May 2003 of a *Green Paper on Services of General Interest.* The paper pursues two objectives: first, to give a comprehensive report on the regulatory status concerning the supply of SGEI and, second, to launch a public debate on a number of issues relating to the concept of SGEI and their place in the framework of a "European model of society" (paragraph 2), for which no definition or conceptual explanation is given. The paper recognises that the concept has to reach beyond the narrow borders of services of general ***economic*** interests and should where necessary be extended to "services of ***general*** interest" (SEI), but these, too, are not conceptualised in the following. The significance attributed to this truly public issue is underlined in the *Green Paper* by the repeated reference to it as "an essential element of the *European Model of Society",* their, "role as essential for increasing quality of life for all citizens and for overcoming social exclusion and isolation." (2). It also sees "an evolving and crucial role for public authorities" in the implementation, preservation and improvement of this European social model. On this basis the Green Gaper discusses and throws open for discussion a number of questions under the following five headings:

1. Background
2. The Scope of Community action
3. Towards a Community concept of services of general interest?
4. Good governance: organisation, financing and evaluation
5. Services of general interest and the challenges of globalisation

The publication of the Green Paper is to be welcomed, because it clarifies the (dominant) position of the Commission on the issue and will inspire the public discussion. In spite of the open and seemingly unbiased approach – reflected by the fact that the Green Paper is presented as a kind of questionnaire – this position is very narrow and misses essential points of the problem. Therefore the public debate should go beyond the framework set by the Commission and – before it engages in the discussion of the questions raised by the Commission - thematise a broader concept of ***public*** services as different from services of ***general interest***. .

The *Green Paper* leaves no doubt about which regulatory idea is to be the dominant: It is the idea of competition between private firms in the market. With respect to the supply of goods and services, non-market ways of provision are, in principle, not excluded. They are conceded a right to exist in a world in which the standard is set by the market, which in the view of the Commission guarantees "an optimal allocation of resources to the benefit of society at large." (22). This spirit of the Green Paper is also clearly expressed by the Commissions' choice of terminology: What hitherto used to be called "public" is replaced by "service of general interest", or, originally still narrower, as "service of general economic interest."[1] It is asserted without any argument that both terms "must not be confused" with the term *public services.* (7). Contrary to the *Green Papers'* assertion, the term "general interest" is not improving the clarity of the meaning, but it is blurring essential elements of the issues in question. "General interest", as is the blunt meaning of the term, eliminates any differentiating aspect which is a prerequisite of political action. Bread is as well of general interest as is the supply of low entropy (i.e. energy) or the provision of a road system. The notion "general interest" completely eradicates the distinction between "private" and "public" which is constitutive for economics as a science (as established by Adam Smith´s works) as well as the raison d´être of any *res publica.*[2] The quality of "publicness" is essential for defining the political realm beyond the "res privata". The political element (to give reference to Gunnar Myrdal´s pioneering thesis of 1928!) emerges as soon as the *res privata* exerts negative (or positive) external effects on third parties. It calls for regulation as soon as the level of these external effects accumulate to

[1] The term "service of general economic interest" was first introduced in the original *Treaty*. It was presumably invented by a lawyer who added the adjective "economic", to shift the burden for this alien term to "economists". Nowhere a further explanation could be found. The term "service of general interest" is not part of the *Treaty* (para 16, p.6), nor can it be found in an economists' dictionary. It is obviously an invention of the *Green Papers'* anonymous authors and, in any case, chosen on inadequate or/ and false economic reasoning.

[2] This view is well established in classical English political economy. Lord Robbins carefully traced its roots in his book *The theory of economic policy in English classical political economy*. MacMillan (first published in London 1952). He summarises the classical thought as follows:
"…the pursuit of self–interest unrestrained by suitable institutions carries no guarantee of anything except chaos…"
This view is a far cry from the *Green Paper´* s article of faith which runs like this "---the market usually ensures optimum allocation of resources for the benefit of society at large." (p.7)

produce “public” goods or bads. This is the subject matter of the economic theory of the state and it is dealt with explicitly in the theories of external effects and of public goods – but not in the Green Paper.

For the sake of avoiding ideological misunderstanding, which is threatening any controversy in the provision of a public service, it is, following common sense, useful to introduce a distinction between the five phases observable in the provision of public goods and services:

1. Definition of the requirement
2. Planning of the service
3. Production of the service
4. Financing the service
5. Evaluation of the provision

In each of the five phases, there is an element of publicness at stake. It distinctively differs from e.g. the provision of bread by the baker. This degree of publicness certainly will reflect history and culture. Inherent in introducing equal treatment is always an element of disposessment (expropriation), usually of hitherto privileged groups or persons. “Equal treatment”, as referred to in the *Green Paper,* introduces a novel element in so far as it tends to expropriate the poor of an entitlement or an opportunity to their favour.

A *Green Paper* wishing to promote a *European Social Model* of substance, needs a full account of scientific thought and a more careful consideration of cultural arguments, and, in particular of those, which so far have been an essential part of the European heritage. The position advanced here is that the essence of such a model is to be found in the private – public as well as in the market – state – civil society dimensions. Europe, all European regions and cultural traditions, have at least four elements in common[3], which in an important way distinguishes them from the official European authorities’ preferred bench mark model, namely contemporary US-American capitalism.

First: Private property **a**s basic institution of any society is in Europe historically intrinsically connected with ***social obligation***. This was essential to feudal property. It is an inherent part of Catholic social philosophy as well as essential to socialist and social-democratic thought.

[3] This argument is convincingly elaborated by Will Hutton. See his book *The World We ´re In.* Time-Warner Books, London 2002.

This is different from the American tradition, in which private property is the very foundation of individual autonomy, open to rational and industrial people without any restriction, and precluded to the lazy. According to this belief, an essential ingredient in Americas' foundation myth, "man creates his property with Gods' blessing". Government and Supreme Court do not have the task to represent and guard the ´common interest`; they are committed to protect the freedom of the individual property and its owner.

Second: In the European tradition a *social contract* encompasses every citizen. The weak, poor and the helpless must be taken care of. Redistribution of income and wealth is regarded as a social responsibility leading to formal and legal entitlements of the individual against the society and state. This formalised social obligation is against true American values which favour voluntary charity.

Third: The public sphere or *res publica* is common to, more or less, all European nations. It existed in the USA always in a less significant way and has by now been reduced to a minimum.

Fourth: The state is given more weight in Europe than in the USA. While in the American perception the state is the adversary, if not the enemy, of the citizen, the European tradition considers the state rather as supportive to the public purpose. This attitude was in many cases not matched by the quality and actions of the states themselves, some of which have engaged in external aggression and internal suppression, culminating in fascism. To prevent this from happening again it is therefore necessary to underpin the traditionally positive attitude towards the state by strong social movements and public control of state activities

Such distinctions, corresponding to crucial and still viable European traditions, must not be ignored. The *Green Paper* in substance and spirit is violating crucial European traditions, which are all but outdated - although they have come under heavy attack from the side of neo-liberal ideologies and policies. It contains the implicit statement that the European Union has embarked on a path which will end up in a world with a uniform set of institutions. Contrary to its repeated proclamation to allow, or even promote, variety and diversity, the *Green Paper* is set to prevent these qualities to continue or develop by e.g. subjecting "public undertakings" to the same rights and obligations" as private business. (p.7) This precludes institutional designs the specificity of which is required for fulfilling a defined *public* purpose. The "respect" of "diversity and the roles of national, regional and local authorities in ensuring the well-being of their citizens and in guaranteeing democratic choices regarding, among other things, the level of service quality" (p.5) is, by the virtue of this conditionality, eliminated.

3. Alternatives: Strengthening and democratising public services

Re-embedding economic activity in a social context

The European Social Model, which is so much talked about, requires a thorough revision of the relationship between the public and the private area in social reproduction. This revision must abandon the a priori assumption of the general superiority of the market. Public services must not be justified as an exception from the predominant rule of the market, as a remedy in the (rare) case of "market failure". Public provision of services as public goods and private provision of public and private goods must both be re-embedded into a social environment, in which democracy, solidarity and genuine freedom (including freedom from poverty) are the governing principles and in which the four features of a European model of society play a crucial role. There is no essential priority for private production and services, although historic experience has shown that many – in fact very many - products and services can be provided more efficiently through markets than through public regulation. But others cannot. Still others can only be regulated to a certain extent through private markets and need public regulation and control to ensure their operation in the public interest. Public services are not an exception but an alternative to private services.

In the framework of this reconstitution of a genuine concept of public interest and re-embedding of private and public economic activity in a social context it is important that the choice and decision about which rule should prevail must be transparent and democratic. It is a matter of res publica, of establishing a public space and using it for intense discussion about the main orientation of social development.

As a result of such a re-embedding process we can – very schematically – differentiate three ways of resource consuming activity:

- ***private*** production of goods and provision of services as ***private commodities***, which are regulated via markets in the framework of strong competition rules which prevent the distortion of competition and strong rules for consumer and environmental protection (like consumer goods, machinery etc.)

- ***public*** production and provision of ***public*** goods which are directly regulated through political decisions and democratic control (education, health, defence, justice). Public production and distribution can take place via national state monopolies, regional and local authorities, other public bodies like schools, universities, hospitals etc. The issue here is to avoid bureaucracy and inflexibility and to assure democratic, transparent and efficient governance of the public service provision.

- ***private*** production and provision of ***public*** goods, which has emerged as the most frequent public services during the last decade. The problem here is the private-public interface or the conflict between the objectives of the public service – to deliver a public good or service – and the objective of private firms – to maximise profits. Theoretically this conflict could be solved through contracts which make the proper delivery of the service a condition for payment and profit. However, practical experience and theoretical considerations demonstrate that such contracts are very difficult to elaborate and even more difficult to monitor. The reason for the first difficulty is the rigidity of contracts and the impossibility to include all details and unforeseeable events in the contract. The reason for the second difficulty is the information asymmetry and the conflict of interests between the state on one hand and the management as agent of the owners of the firm on the other hand. These difficulties require very strong political regulation via monitoring, control and sanctions from the side of the state – which makes the regulation rather costly.

Proposals for the construction of strong and democratic public services

1. ***WTO and GATS***. In order to preserve, reshape and strengthen the role of public services in the EU in a democratic way the EU must not accept that it is put under external pressure. Therefore it should maintain and reinforce its initial position in the ***GATS negotiations*** that all public services should be exempted from the pressure to liberalise. It should withdraw all offers for liberalisation of public services which were made during the ongoing negotiations. It should insist on the freedom of member states – and under the principle of subsidiarity also of regional and local authorities - to define their own public services and the way in which they are delivered (how the services are financed, whether the enterprises involved are public or private). It should also refuse that such definitions are regularly re-examined by the WTO

and in the last instance be decided by a “dispute settlement body” of very questionable democratic legitimacy.

As regards the general framework of the GATS negotiators of the EU, who represent all member countries, should pursue a revision of the statutes in the sense that public services should be recognised as essential to the exercise of fundamental rights and should therefore enjoy a special status. At the same time the definition of public service should be broadened with regard to the narrow definition in ***article I, section 3 a and b***, where “services supplied in the exercise of governmental authority” are on the one hand exempted from the liberalisation rule, but on the other hand are defined in such a way that they must be supplied “neither on a commercial basis nor in competition with one or more service provider.” These restrictions should be abandoned.

2. ***European Constitution***. The preservation and operation of a strong and democratically regulated public sector should be explicitly included as one of the objectives of the EU equally important as competition as regulating principle for economic and social development. The following formulation is proposed to be inserted into ***Article I, 3*** of the current draft ***“The Union shall maintain and develop a strong and democratic public sector through which it provides to its citizens a broad range of public services as a basis for social cohesion and solidarity as well as for economic development.”***

On this basis four - not mutually excluding - ways to preserve and revitalise the concept of public service in the EU are proposed:

3. The most modest approach would be to guarantee in the constitution the freedom of each member country to define and implement its own concept of public goods and services.

4. A more ambitious approach would maintain the principle of a framework directive at EU and ***oblige member states to define*** "services of general interest" with regard to certain criteria and to establish democratic regulatory bodies with the participation of service users and citizens. The notion of "public service" would be wider than that of "universal service". The criteria which should be taken into account in this definition should refer to

- universal access
- quality
- safety and continuity of provision

- non-discriminatory character and affordability
- transparency
- modernisation and development.

After implementation of such a directive there would be clear and comparable information about the concept, the extent and the standard of public sector and of the regulatory structures and procedure to implement it in each member country. Because of differences in the historical and political development the pictures would differ considerably throughout the Union, and this would probably be the basis for an intense political discussion.

5. A further step following this discussion should be the development and adoption of certain ***minimum standards*** referring to

a. the areas and sectors which should be regarded either as exclusive domain of public ***provision*** (e.g. education, health, water, social security, justice, defence, basic research) or as domain of public ***regulation*** of (public or private) provision (gas and electricity, transport, housing, other infrastructure, pharmaceutical production)

b. the criteria previously developed relating to access, safety, affordability etc. and

c. the structures and procedures of implementation (regulatory authority, voluntary negotiations etc., ex-post or ex-ante regulation)

A directive or European law in this direction should also ensure that the agreed minimum standards should be no reason for lowering standards in countries where they are already higher.

6. Finally the definition of minimum standards for public interest should be interpreted through further sector-specific directives to take account of the specific characteristics of each industry. The existing sector-specific regulations should be revised accordingly. This approach would mean that liberalisation and opening up of markets would no longer be considered as the only way to bring about European integration.

A longer-term perspective of such progress would be a common European platform of public services ("services of general interest") which would then become obligatory for all member states, with common objectives, common minimum standards and joint interventions by EU and national regulators. In this perspective, there would be a clear framework to constrain the working of competition and the drive towards privatisation.

Financing public services

For the financing of public services four models are reasonable and should be used:

Public budget: Basic public services which are provided at no or very low charge must be financed through the public budget. The concept of strong public services is therefore inseparably linked to a concept of taxation which ensures a sufficient revenue basis to bear the cost of public services. Tax competition, which is harmful even in its non-discriminatory form, must be stopped and taxes on corporate profits and capital income – where severe cuts have been pushed through during the last decade - must be raised. Also wealth and property taxes should be introduced, where not existent. At the same time it should be ensured that tax revenue is assigned to the public levels (national, regional and local) which provide the services.

Mandatory contributions. The cost for a strong social security system (pension, health, welfare, unemployment insurance etc.) can be borne by a system of mandatory contributions as a fraction of the income – not only wages and salaries but also profits, interests, dividends, capital gains, rent and other income - of the active population. In a public Pay-as-you-go system the revenue from these contributions is immediately spent to finance the expenditure of the respective systems. Contributions in this sense can be regarded as a kind of special tax, and in some countries social security expenditure is mainly financed out of taxes, in others taxes complement contributions. The latter are the basis for individual entitlements and claims against the community, but they cannot be regarded as private money which can be invested on the capital market. The privatisation of social security systems does not solve a single problem but enhances the risk and insecurity of such systems.

Intra-firm Cross-subsidies: Where public services are delivered against payment, prices must follow the imperative of affordability and of uniformity for the end-user. Because costs of delivery are different for different groups of recipients, volume and regions of delivery, service providers must cross-subsidise high cost recipients (e.g. households in remote rural areas) through the proceeds from low-cost recipients (e.g. industry in agglomeration areas). Such cross-subsidies which are strongly rejected by proponents of privatisation and deregulation make sense as a potentially efficient way to combine economic efficiency with social redistribution. While they can without particular difficulty be implemented in public firms, they contradict the logic of private enterprises which would tend to terminate non-profitable activities. For such cases – like e.g. the supply of transport, postal or financial services – much stronger regulatory control is required than is presently in place in most countries.

Contributions by market participants. Where public services are delivered by public and private firms or exclusively by private firms under public regulation a fund should be established by market participants which covers the cost of keeping the minimum standards and of regulation. All firms must contribute to this fund according to the volume of their activity, and firms which engage in cost intensive activities to fulfil the public purpose will receive subsidies from this fund. Additionally the fund bears the cost of regulation and control of the industry.

Network services

The experience with liberalisation, deregulation and privatisation of network services in the EU is not favourable. In telecommunications the main suppliers have engaged in very costly international expansion and merger activities which were on the whole not successful. The race for UMTS licences ended in heavy losses and in a debacle for some firms. Although prices have been considerably reduced since the beginning of liberalisation and privatisation, the situation for the end consumer remains precarious. For on the one hand prices are starting to rise again. On the other hand the product differentiation and marketing activities have flooded consumers with information and suggestions which are more confusing than helpful. Railway privatisation and deregulation in Britain has been a catastrophe, and in Germany deregulation has produced negative effects on prices, universal provision (closures of connections, abolishment of regional trains) and comfort. Gas and electricity liberalisation has not led to improved and cheaper supply for the citizens, and it leaves the question of continuous investment with a long time horizon unanswered.

As an overall experience one can probably state that the regulation and control of liberalised and/or privatised public services is not meeting the aspiration and ambitions linked to the concept of public services. It must be much improved. Such an improvement raises the general questions of principal-agent relationships and of information asymmetries: A private firm with a mission to deliver public goods has two principals: shareholders who own the company and the state who commissions the firm to deliver a public good. Information asymmetry makes it extremely difficult and in the last instance impossible to shape contracts in such a way that the fulfilment of the public interest is guaranteed. Even below this threshold improvement of regulation and control is costly and could lead to new bureaucratic structures. Therefore the question must be asked whether the insecurity and costs of privatisation (including regulation) do not exceed the (often lower than asserted) benefits in efficiency. It is not surprising that in this context the core of the privatised British railway system has been taken back under public control after Railtrack went into insolvency.

In the light of such observations and considerations public ownership of network services providing corporations may be not only safer with regard to delivering the public good but also more efficient and cheaper that privatisation-cum-regulation.

We therefore propose a ***moratorium on further liberalisations and privatisations*** until a thorough assessment of the effects of the last round has been undertaken and publicly discussed.

For the existing deregulated/privatised network sectors the access of competing suppliers to the transportation network has been the crucial issue. Such central networks have before deregulation/privatisation been in the hands of the public monopoly. After privatisation the access to this network has remained under control of the same now privatised firm, and this monopoly has regularly been used to the disadvantage of competing suppliers. Although it is the core responsibility of public regulation to ensure the equal access to all suppliers to this network, discrimination of competitors has often not been avoided and if noticed only ex-post been sanctioned. Therefore it is proposed to keep – or to recover – the ***main network body of such services*** – the tracks, waterways, pipelines, high power electricity networks etc. – ***in public property***. Although this is as such no guarantee it facilitates fair treatment of all competitors.

Euromemorandum 2003
Chapter 7

Main lines of development of social policy in the EU

Miren Etxezarreta

Introduction: Social policy in the framework of globalisation and neoliberal policy.

After the crisis of the late sixties and the seventies, the eighties witnessed the full adoption of neoliberalism as the model of development and of economic management at the EU. In relation with social policy[1] this model implies:

. first, *that social policy is seen exclusively as a cost*. Since in order to be able to compete, all 'unnecessary' expenses have to be eliminated, and social expenses increase costs, they have to be reduced. The costs of social policy have to diminish.

. second, *that social expenditure has to be converted in a field for profits.* Globalisation implies the deepening of the sphere of the commodity since capital, in its endless need for expansion, is always looking for new fields for profits. Therefore the field of social policy has to be privatised in order to produce profits.

[1] To understand any EU policy we need to take into account the different levels of policy at the EU: policy at the level of Member States and policy at the EU (centralised) level. In the case of social policy the different levels are still more relevant because, as we shall see, there is very little policy at the EU level, but the EU has a very significant influence in the social policy of the Member States.
Social policy embraces labour and industrial relations policy and the social security systems. I do not propose to describe either of both but refer briefly first mainly to social security systems and second, stop a little more at the question of the 'modernisation' of pensions.

. finally, *social policy may be a very good instrument to discipline the working force.* As the labour markets become more precarious and unemployment and poverty is a real threat for significant parts of the working population , the need to rely on public welfare services becomes bigger. Then, provision of public services may be linked to 'good behaviour' of workers. Mechanisms as 'workfare', control of benefits, means tests and so on are implemented.

It is within this frame of the policy of capitalism for the XXI century that the social policy of the EU has to be interpreted.

1. Social policy at the EU level.

Although the EU Treaty takes the economic and social cohesion as an explicit engagement, and establishes that the Union has as its objective to diminish de differences in development in the different regions in order to promote a harmonious development of the whole Union, the social policy is explicitly left under the responsibility of the member states.

As it is well known, the European Social Fund (ESF) and the Regional Fund (EFRD) were established in the seventies and refounded and reformed in the nineties. Since that period, together with the Agricultural Orientation fund (FEOGA, Orientation) they constitute the so called Structural funds of the Union[2], the amount of which have been growing from a very low level, reaching at present about a third of the total budget of the Union[3]. The Social Fund in practice is mainly devoted to support workers educational and training expenses and the Regional Fund devotes itself to Regional Development Plans, very often dedicated to improve the productive structure of small enterprises, rural development and the provision of infrastructures and transport[4]. Also, in 1992, after the Treaty of Maastricht, the Cohesion Fund was established to compensate for the negative consequences of the Treaty, the beneficiaries being the

[2] The other part of the agricultural Fund- FEOGA Guarantee- that takes the main part of the Agricultural budget is not included in those funds.
[3] It could seem a sensible amount were it not for the fact of the ridiculous amount of the budget of the Union itself.
[4] The philosophy for these Funds is not to redistribute incomes but to improve in the long run the productive potential of the poorest regions under the leadership and plans of the member states until they become strong and transfers become unnecessary.

Southern countries, especially Spain (that up to the present has received about 50% of this Fund).

Up to the Treaty of Amsterdam (1997) there was no other significant specific social policy. It was considered that the areas that constituted the social part of the Union were embodied in other provisions such as the 1986 Internal Market Act, that asserted the free circulation of people, no discrimination among Union citizens, improvement of Health and Security at Work, or the willingness of gender equality. There were also measures to improve trans-border cooperation among the member states in education and other social services but proper social policy was missing. In 1989 in order to avoid social dumping, the Union Charter about the Fundamental Social Rights of Workers (Social Charter) was signed by all member governments except the United Kingdom, but the only relevant measures as a consequence from this related to health and safety. It can rightly be said that social policy has been up to now the ugly duck of the Union.

The nineties has been a poor decade as far as perception and acceptance of the Union by the European populations is concerned. Unemployment increased and reached more than 10% around the middle of the decade, greater poverty and inequality has gradually led people of most countries of the Union to become disaffected about the European project. Political leaders became aware of this situation and since are trying to legitimate the Union and recover a more pro-Union feelings in the population.

In 1993 the Delors-Report about 'Growth, competitiveness and employment' gave the first signs of preoccupation especially about employment, but it was not until the Treaty of Amsterdam that some concrete decisions were taken, when the Social Charter was transformed in a Union policy including the UK and the proposal to organise a summit specifically on employment was accepted. This was the Luxemburg Summit, also in 1997, exclusively devoted to the issue of employment. In it, the requirement for member states to draw National Employment Plans (NAP) and submit then to the Union for approval and convergence in the European Strategy for Employment was established; also, four pillars for employment policy were established and made explicit: employability, entrepreneurship, adaptability and gender equality. Note that three of the four pillars place the onus of employment on the person to be employed and not in creating true opportunities for employment, showing clearly how the tenets of 'supply economics' and the ideology of 'self-reliance' (Reagan) are accepted, adding insult to injury since they sponsor the idea that the shortcomings of workers (professional or personal) are the cause of unemployment. A remarkable exception from this general neo-liberal line is the unequivocal stance of the employment guidelines in favour of gender equality and of creating more and better job opportunities for women. But in this area, too, much more work has to be done. (cf. box 2) And in general for this gender-pillar the same is true as for the other three: the Union 'establishes' an employment policy but its implementation continues to be left to the member countries.

Nevertheless legitimation continued to deteriorate - no surprisingly with the measures 'implemented'-, and in the Lisbon Summit (2000) new measures related to employment were taken, among them the fixation of a quantitative benchmark for the activity rate for 2010 (70% for men and 60% for women) and 'an ambitious program of creation of infrastructures for knowledge, increasing of innovation and economic reform and modernisation of social welfare and economic systems' [5]. But the main basis of the European Strategy for Employment remained (until 2003, cf. chapter 6 on the recent redefinition of objectives) the four pillars established at Luxemburg.

Finally, at the Nice summit (2001) the Charter on Fundamental Rights was approved with great publicity, seemingly as a first step towards an European Constitution[6]. According to the EU authorities its objective is to try to approach the European project to the citizens of the member states, but it does not include the right to work, or to a fair wage, to a pension or minimum income although these rights are present in the laws of some member states. It is a Charter on Fundamental rights without social rights[7]. In the Charter of Nice according to most observers there is little substance related to true propositions for social improvement[8]. We should not forget either that most of the commitments lack a compulsory character and that there are very limited financial provisions for social policy[9].

---

[5] It was the period of great optimism about the possibilities that the 'new economy' offered.

[6] However, since the Irish rejected the Nice proposals it has not been incorporated

[7] Expression of R. Fernandez Duran in Fz. Duran et al. 2001,188

[8] Perhaps 'to compensate' for even such a weak advance, also in Nice it was approved the statute of the 'European enterprise' (CEMCC,2000) that gives trans-national enterprises new rights over and above states.

[9] With a very limited budget currently around 1,2% of GDP of the EU- social policy accounts for very little. All structural funds together are below 0,5% of GDP of the EU. There is often a misunderstanding here: due to the many million euro in total terms that come from the UE, public opinion does not perceive

At the Lisbon summit, a new methodology for coordination of policy was formally initiated, which was earlier introduced at the Stockholm summit in March 2001: the Open Method of Coordination (OMC). It allows member states and the Commission to formulate political positions and proposals for European policy in areas where there is no formal European competence, and thus exert strong political pressure upon other member states (see Box 1). The late movements on social policy are, at best, nothing but legitimating and lip paying exercises. They can be something worse as we shall see.

Box 1. The Open method of Coordination*

Transmission of decisions between the EU and the Member States have traditionally been based on legally binding Directives, and Regulations. In 1988 the principle of Subsidiarity was added and since 1993 the Broad Guidelines for Economic Policy), not legally binding as their name shows, completed the parcel. At the Lisbon Summit a new framework method - the Open Method of Coordination (OMC) - was defined for tackling problems in politically sensitive areas. Because of its relevance for Social Policy it will be summarized here.

The OMC or 'soft law' has been developed as a method for the social dimension of the EU policy. The 1998-2000 social action program focused more on the adaptation and expansion of past directives, rather than on making new proposals for directives in the social policy area… 'A consensus emerged on the fact that the method was to involve the agreement of non-binding common objectives, coupled with a surveillance procedure, to progressively establish a European level framework for analysis and action… OMC represents a new form of regulation that is softer than the classic legalistic approach, but is more than a simple non-binding recommendation or a political declaration … For each policy area to which it is applied, OMC involves agreement upon overarching guidelines, the selection of appropriate indicators and benchmarks to reflect the policy line of guidelines, the transposition of the guidelines to national and regional level policies and multilateral evaluation and peer review… (OMC) is a decentralised but carefully co-ordinated process… The focus is on the area of employment … and the area of pensions where it is embryonic…The European level activities on the reform of public pensions are being tackled trough the open method of coordination (OMC), of the soft policy making path' ... The European Council of Stockholm (March 2001) accepted envisaging application of the OMC to the area of pensions.

'In a broad sense, OMC could be conceived as a part of the 'trans-national public policy processes' which are 'embedded in political institutions that are less clearly defined, and much less authoritative, than those of a traditional state… It is conceived as an instrument of added value at European level, where there is little scope for legislative solutions.…A key ingredient of the OMC approach is its use of a decentralised method of co-ordination in which various actors- the Commission, the member States, the local and regional collectivities, as well as the social partners and civil society- play an active role in respect of the principle of subsidiarity' With the new methodology the BEPG are becoming more important.

The emergence of this new method coincides with a real difficulty in defining a new agenda of legislative proposals. A trend can be detected towards fewer legally binding measures (directives and regulations) emanating from the EU after entering the Amsterdam Treaty, although the social agreement was integrated into the Treaty.

Three scenarios are offered to assess the relevance of OMC:

. OMC masks the absence of action in the social sphere. It is then no more than a source of justificatory discourse, without the real social issues actually being addressed.

. OMC seeks to limit divergence, or even bring about a degree of convergence in some cases.

. OMC could be conducive to policy convergence.

It is of interest to note that the definition of the OMC is not integrated into the Treaty, and there is no explicit reference to it in any articles of the Treaty

A few words for evaluation may be of interest: first, the whole approach starts from the premise that social policy is an area not amenable to legislative activity. Why is it considered so? If most areas of economic policy are susceptible of legislation, which are the reasons to single out social policy? The case seems to us has never been solidly established. And second, why has social policy to be singled out to use less legally binding measures?

It looks to us that the final reason for those developments is nothing more than to draw a smoke screen for a much lighter approach for social policy than for the tough economic policy which is being imposed on Member States. It is guidance and subtle imposition without responsibilities. The first scenario presented above seems the more realistic and sadly it appears necessary to conclude that 'The OMC is then no more than a source of justificatory discourse, without the real social issues actually being addressed'.

---

that it is a small amount in relative terms and, more important, than these amounts are 'gross' and not 'net' amounts, in the sense that the country that receives them has also paid a financial participation to the Union that has to be discounted from the total amounts received apparently from it.

(Most of this brief explanation is taken from Porte, C. de la andPochet, P., 2002, Building Social Europe through the Open Method of Coordination. P.I.E. Peter Land, Bruxelles, Introduction, chapters 1 and 6, from which all quotations have been taken.)

The latest developments do not provide much room for optimism about the social policies of the Union. As it is well known in 2003 the European Convention presented a draft for an European Constitution. Although we recognise that the draft contains some progressive elements, it is our view that it is very insufficient, first, with regard to the democratic character of the institutions and decision making processes, and second, in the area of economic and social policies where it largely reproduces the design of the Treaties of Maastricht and Amsterdam which we have criticised repeatedly.

In spite of some encouraging provisions regarding the Union´s objectives we find that the draft lacks the necessary progress towards a Social Europe. It is not sufficient to invoke – as in Article I-2 - the traditional bourgeois-democratic values of the French Revolution (respect for human dignity, liberty, democracy, equality and the rule of law).The principles of the welfare state - solidarity and social responsibility - and the more recent value of ecological integrity of our planet should also be included in the basic values and objectives of a modern Union. This is not the case.

We welcome the objectives of "equality between women and men" and "full employment and social progress", although "full employment" should be further specified with regard to the quality of work… In spite of these positive elements, however, there persists a strong and harmful imbalance between the principle of the internal market and free competition on the one hand and the need for democratic policies that serve the public interest…: Whereas the former constitute the overarching rule of European integration, the latter, although recognized, play a clearly inferior and subordinate role. We find this imbalance unjustified and unacceptable… We also regard the replacement of the current formulation "a high degree of social protection" (Article 2), by the new formulation "social justice and protection" (draft, Article I-3) as an unacceptable regression, which urgently needs to be corrected.

Article I-14 provides for the coordination of economic and employment policies (by the traditional channels of the Broad Economic Policy Guidelines and the European Employment Strategy) and opens the door for a coordination of social policies. No mention is made of the European Sustainability Strategy. Here the Convention has missed the opportunity to explicitly establish a coherent design for the coordination of economic, employment and social policies - putting them all on an equal footing and reconciling conflicting targets between them instead of giving priority to the Broad Economic Policy Guidelines (BEPGs).

As regards social policy, in this draft a positive step seems to have been taken incorporating in it the Charter of Fundamental Rights of the Union as its Part II. However, no effort has been made to improve or make more operative its provisions but the Convention has essentially discussed its integration into the Constitution but not its content, that as we have just shown is really very limited. Moreover the Member States are not compelled to respect the Charter but when they act in the frame of the Union competences, that is, the Charter cannot influence national law. Besides the draft Constitution does not integrate the Human Rights Declaration. This Charter does not add much to the citizens of the countries that have an advanced social protection, even if it provides with some moral justification for the countries with weak social protection systems.

We strongly criticize the fact that positive and progressive formulations about objectives of the EU in part I of the draft are in no way given concrete expression and developed in part III. Instead, the anachronistic and harmful design of the Maastricht and Amsterdam Treaties remains fully intact: economic and monetary policies are set in the framework of an "open market economy with free competition". Employment policy aims at a "high level of employment" instead of full employment; the BEPG keep their primacy over the European Employment Strategy (EES). The very restrictive provisions regarding the European Central Bank (ECB) and the priority given to price stability, the deficit rules and the convergence criteria for EMU etc. – all remain unchanged. The position of the European Parliament in matters of socio-economic governance is as weak as before: It only has the right of "information" with regard to the BEPGs and of "consultation" in employment and social policy coordination processes.

It is obvious that this draft bears the same heavy imprint of neoliberal social policies than in the past, both for employment, welfare and other social policies. It seems clear that all these measures do not constitute an active and dynamic labour or social policy of the Union. No significant change favourable to social policy is envisaged in the draft but, the other way round, the recent proposals to cut the budget of the Union in spite of the recent enlargement and the many additional problems which this will generate, demonstrate very clearly the resolve of very relevant partners of the Union to reduce its expenses. This can not be done without reducing the already meagre social expenditure.

Moreover, there is a very notorious asymmetry between the treatment of economic and of social policy: whereas since the European and Monetary Union, and also in the draft constitution, the EU establishes and takes for itself the main pillars of **economic** policy, it very determinedly continues to refuse to take responsibility for **social** policy to compensate for the consequences of such a policy. While it centralises most of economic policy 'emptying' the economic policy of the member states with the requirements of the Maastricht Treaty and Stability Pact, it does not compensate this weakness with a more powerful social policy from the EU, but social policy consists mainly on the rather rhetoric statements of the European Charter. The compensating social policy of the EU at central level is extremely weak to say the least[10]. Leaving social policy for the member states, the EU translates to them the care of the social consequences of the EU central economic policy and to cope with their own social problems and even with the negative social consequences that the EU central economic policies might have caused. This position will also remain in the future European constitution. Equally the EU budget, the principle of subsidiarity[11] and the new OMC technique show clearly that the EU does not have, and does not plan to have, any will or capacity to compensate centrally for any type of shocks (either general or asymmetric) or the negative consequences of policy. In the EU model the social policy has been left at the member states level under the fallacious argument that social systems are deeply ingrained in national features[12].

Furthermore, in the way the other parts of the EU economic and social model have been structured since the EMU, Social Policy has been left as the only adjustment macrovariable at the member state level: monetary policy together with external policy

[10] Compare the 20-25% of the central Federal Budget of the USA with the 1,27% of the EU one. Although it is hard to think that USA should be an example for anything, even in their own terms the difference is striking.

[11] The principle of subsidiarity seems in principle a reasonable position except for the fact that there is not any specific criteria about who decides and because of what, that something can be done better by the member states than the EU. For instance, on what grounds and for whom is it decided that monetary policy is better geared by central decisions while social policy is best left to member states?

and exchange rate has disappeared, and fiscal policy is heavily limited by the Stability Pact and the Macroeconomic guidelines of Economic Policy (since they advise for a reduction in taxation). The EU establishes and takes for itself the main pillars of **economic** policy, that condition all economic and social life, and leaves social policy for the member states under the principle of subsidiarity. Labour and social policy are the only elements left for internal adjustment, and even those are limited due to the constraint on the budget deficits of the member states imposed by the Stability Pact.

Box 2. Looking for a GENDER IMPACT ASSESSMENT of European economic policy
Marcella Corsi, Rome

Introduction
Economic policy decisions that appear gender neutral may have a differential impact on women and men, even when such an effect was neither intended nor envisaged. Gender impact assessment is carried out to avoid unintended negative consequences and improve the quality and efficiency of policies.
The Global Platform for Action, adopted at the Fourth World Conference on Women in Beijing 1995, requests Governments and other actors *to mainstream a gender perspective into all policies and programmes, so that, before decisions are taken, an analysis is made of the effects on women and men respectively*. Gender impact assessment is a tool for realising this. In February 1996 the Commission adopted a Communication on Mainstreaming (COM (96) 67 final of 21 February 1996 on: "Incorporating equal opportunities for women and men into all Community policies and activities") as a first step towards implementing the commitment of the EU to gender mainstreaming at the Community level. In the follow up Strategy Paper, agreed by the Inter-service Group on Equal Opportunities for Women and Men in February 1997, gender impact assessment in the Commission services is mentioned among the core measures.
The Treaty of Amsterdam formalises the mainstreaming commitment at the European level, as it explicitly mentions the *elimination of inequalities and the promotion of equality between women and men* among the tasks and objectives of the Community (Articles 2 and 3).
Gender impact assessment has been widely used in the area of development cooperation, where appropriate training and tools have been applied (see OECD/DAC/WID Gender Impact Assessment Form, used *inter alia* by ILO Gender Training Package).

Basic concepts
There are some concepts which are at the very core of the gender mainstreaming strategy. These may be defined as follows:

Sex and gender: The existing differences between men and women are of a biological and social nature: *Sex* refers to the biologically determined differences between men and women, that are universal. *Gender* refers to the social differences between women and men that are learned, changeable over time and have wide variations both within and between cultures.
Example: While only women can give birth (biologically determined), biology does not determine who will raise the children (gendered behaviour).

[12] As if the currency was not a deeply ingrained feature as well¡

Equality between women and men (gender equality):By gender equality we mean that all human beings be free to develop their personal abilities and make choices without the limitations set by strict gender roles; that the different behaviour, aspirations and needs of women and men are equally valued and favoured. Formal (*de jure*) equality is only a first step towards material (*de facto*) equality. Unequal treatment and incentive measures (positive action) may be necessary to compensate for past and present discrimination. Gender differences may be influenced by other structural differences, such as race/ethnicity and class. These dimensions (and others, such as age, disability, marital status, sexual orientation) may also be relevant to a proper assessment.
Mainstreaming:In the Commission Communication on Mainstreaming (COM ((96)67) mainstreaming is defined as "not restricting efforts to promote equality to the implementation of specific measures, but mobilising all general policies and measures specifically for the purpose of achieving equality".
The gender and equality dimension should be taken into account in all policies and activities; in the planning, implementation, monitoring and evaluation phases.

Checking gender relevance
It should be borne in mind that gender is a structural difference which affects the entire population. Neither women nor men should be treated like some special interest group among several such groups. On the contrary, gender affects, and indeed often reinforces, differences and vulnerabilities according to other structural differences, such as race/ethnicity, class, age, disability, sexual orientation etc. Policies which *appear gender neutral* may on closer investigation turn out to affect women and men differently. Why? Because we find substantial *differences in the lives of women and men* in most policy fields; differences which may cause apparently neutral policies to impact differently on women and men and reinforce existing inequalities. Policies which are directed at, or have clear implications for, target groups/population groups are, consequently, to a larger or lesser degree gender relevant.

The first step in a gender mainstreaming process is to establish whether gender is relevant to the policy under assessment. In order to check gender relevance, it is necessary to obtain and study sex-disaggregated data and to ask the right questions:
* Does the proposal concern one or more target groups? Will it affect the daily life of part(s) of the population?
* Are there differences between women and men in this policy field (with regard to rights, resources, participation, values and norms related to gender)?

If the answer to any of these two questions is positive, gender is relevant to the issue. An assessment should be made of the potential gender impact of the policy proposal.

Gender impact assessment
Gender impact assessment should be carried out once it is established that a certain policy has implications for gender relations. It is most successfully carried out at an early stage of the decision-making process, to allow for changes, and even major reorientation, of policies, when appropriate.
Gender impact assessment means to compare and assess, according to gender relevant criteria, the current situation and trend with the expected development resulting from the introduction of the proposed policy.
In order to carry out gender impact assessment it must be taken into account the existing difference between women and men, which is relevant to the policy area (see **1.** below), in order to ensure that the policy proposal under assessment contributes to eliminate inequalities and promote the objective of equality between women and men, embedded in Articles 2 and 3 of the new Treaty of Amsterdam (see **2.** below).

Criteria for gender impact assessment
1. Differences between women and men *in* the policy field, such as:

**** participation*** (sex-composition of the target/population group(s), representation of women and men in decision-making positions
**** resources*** (distribution of crucial resources such as time, space, information and money, political and economic power, education and training, job and professional career, new technologies, health care services, housing, means of transport, leisure)
* ***norms and values*** which influence gender roles, division of labour by gender, the attitudes and behaviour of women and men respectively, and inequalities in the value attached to men and women or to masculine and feminine characteristics
* ***rights*** pertaining to direct or indirect sex-discrimination, human rights (including freedom from sexual violence and degradation), and access to justice, in the legal, political or socio-economic environment.

2. How can European policies contribute to the *elimination of existing inequalities and promote equality between women and men* (in compliance with Articles 2 and 3 of the Treaty of Amsterdam); in participation rates, in the distribution of resources, benefits, tasks and responsibilities in private and public life, in the value and attention accorded to male and female, to masculine and feminine characteristics, behaviour and priorities?

*Some example:*In the following examples the references to the main criteria for assessment, namely participation, resources, rights, norms and values, are set out in italics.

Example 1: Looking at an apparently neutral policy sector, such as *transport*, closer scrutiny will reveal substantial differences between women and men in the patterns of use and access to public and private means of transport. While women less frequently than men have access to a private car, they are more frequent users of public transport. Women consequently stand most to gain from improvements in the availability and cost profile of public transport. These inequalities have implications for the *participation* of women and men respectively among various target groups of the transport sector. They are influenced by the lack of gender balance among decision-makers in the field. They reflect gender differences in the distribution of *resources* (such as a private car) and reinforce existing inequalities with regard to time constraints (to the extent that a private car represents time efficiency). The decision-making process within the family regarding the use of a limited resource, such as the family car, is likely to be influenced by social *norms and values* as to the relative importance attributed to the needs of the husband and wife respectively.

Example 2: When regulating **working time**, or the rights and constraints pertaining to **part-time** work, the gender differences in time spent in paid and unpaid work should be taken into account. The large majority of part-time workers are female. Women spend on average two thirds of their working time in unpaid activities; men only one third. These are differences which impact on the **participation** by gender (level of economic activity), and on the distribution of **resources** (time, income, career opportunities**). Norms and values** contribute to gendered choices in education and career and in the internal distribution in households of tasks and responsibilities.
Differences in **rights** pertaining to full-time and part-time workers will impact differently on women and men. Gender impact assessment will help prevent policy proposal from further reinforcing existing differences; in participation, distribution of resources, discriminatory norms and values and structural direct or indirect discrimination.

Conclusions
It should be borne in mind that both women and men are bearers of gender roles.
Policies are gender-sensitive if they take into account the particularities pertaining to the lives of both women and men, while aiming at eliminating inequalities and promoting an equal

distribution of resources. Not only women, but also men and society at large stand to gain from gender equality and an equal distribution by gender of benefits, tasks and responsibilities. Art. 119.4 of the Treaty of Amsterdam explicitly allows positive action in the field of employment and vocational activities in favour of *the under-represented sex.*

2. The Union and the social policy of the member states

The Union places very definitely the social policy at the hands of the member states. Nevertheless, according to the recommendations and the guidelines that the EU gives to the member states the EU has very definite views about which should be the social policy of the member states. The governments of which, on the other hand, take these guidelines joyously because they share the same neoliberal philosophy.

It is not question here of revising in detail the employment and social measures taken by the member states. We shall very briefly single out some issues that show quite clearly which are the true main lines of orientation of the social policy of the European Union in order that the member states follow a tightly framed social policy in their countries. They refer to the late nineties and to what it seems can be envisaged for the next few years[13]:

Back to full employment? The Lisbon Summit recovered an expression that seemed out of order during the last two decades: the objective of full employment. It should be achieved with the 'knowledge society' and 'the modernisation of social systems'. This development could be greeted as a positive step. However, upon deeper consideration this full employment is characterised in such a way that it gives room for concern. This idea of employment seems to be rather less than 'full' since it ignores most of the content that has characterised the concept of 'full employment' - decent wages, social security and personal freedom- that become the more and more limited or are totally abandoned due to deregulation, flexibility and 'social modernisation'. Moreover, the wage policy that is recommended consists of wages increasing less than productivity 'to enhance employment', which of course before the background of continuously rising profits implies increasing inequality. In the Employment Plans presented by the member states and approved by the EU, ('full') employment will be achieved through lower

[13] The arguments that follow are mainly taken from the Memoranda 2000 – 2002 of the European Economists. for an Alternative Economic Policy in Europe

wages, more occasional, temporary and non voluntary part-time jobs, precarious employment and strong pressure upon unemployed people to accept any type of activities that are offered to them[14]. These types of activities will be very favourable to global competitiveness but they do not seem to improve much the sort of workers, job-seekers and unemployed people. The nature of employment does not seem to change since emphasis on 'flexibility' -that means nothing more than 'precariousness' of jobs-, is maintained and stressed. The objectives of the labour policies are still to complete the 'liberalisation' of the labour market. Competitive production and growth are the overall aims and employment is seen as an instrument to achieve them instead of sustainable growth been the instrument for the improvement of welfare and employment. Any type of employment is considered as a privilege and employed workers should be grateful for their chance. Education of the work force is also presented as the panacea, ignoring that many highly educated workers are unemployed and that even educated workers need jobs to be employed. Inquiring for conditions or quality of jobs has become to be contemplated as an indicator of a strange idiosyncrasy or even to be considered with suspicion.

From welfare to workfare: Social policy of the Union, especially since the Vienna Summit of 1998, is being moulded on the British and US model: 'welfare to work'. That is, it is considered that social security benefits are being too generous and that they disincentive the seeking of employment. 'This approach suggests that the reasons for unemployment are not primarily the lack of jobs but the lack of willingness and flexibility of the unemployed to accept existing job offers and that therefore increased pressure on the unemployed will help to increase employment' (Memo 2001, 8). Therefore 'an activating welfare state' is advocated and the substitution of people supporting policies- passive policies-, by active policies -making people able to be employed- is enhanced. People seeking unemployment or social assistance benefits are required to accept any job that is offered to them or the benefit will be eliminated-workfare instead of welfare. 'The central rationale for intervention into long-term unemployment in this framework is to render an uncompetitive pool of workers into an effective disciplinary force on wage formation… after a certain period in 'passive' receipt of indemnities, they should be 'activated', i.e. required to accept subsidised work

[14] Official Statistics of OECD and also EU consider employed a person that has been working for more than an hour in the week before the employment survey has taken place.

or retraining on terms laid down by the authorities. It is recognised *and presented as and advantage of this approach* that it will lead some of the unemployed, those unwilling to submit to this tightened discipline, to simply disappear from the register of unemployed claimants' (Memo 2000:13). This workfare system is entirely against the traditional philosophy of the European social systems where benefits are entitlements and is visibly leading to a sharp deterioration of working and social conditions. Nevertheless it has been adopted since the Vienna Summit.

Again we have here the neoliberal idea that unemployed people is in this position because of their own shortcomings or willingness: not enough preparation or not seeking actively for a job, which according to this rationale seems to be waiting there for adequate candidates. This approach to unemployment could be seen as a failure to articulate data on unemployment with evidence and analysis on poverty and social division. We presume that the EU knows better and it is a definite policy of thinning the welfare system what is at stake[15].

Add to this recommendations for 'the increasing recourse to the market' (of course, it means privatisation) for health, education, and pensions and of late privatisation of public services and public utilities and the recommendations to reduce taxes and social security contributions, to obtain a realistic picture of the social policy of the Union in regard to the member states. Poverty, exclusion, inequality and other social problems are hardly considered as a matter of policy by the Union, minimum cost being the main objective. Workers as such, let alone poor people and their living situations do not seem to exist, or at least the Union as such does not take responsibility for them.

In response to this poor social policy of the Union, the European Economists for an Alternative Economic Policy consider that even allowing for different national systems the Union should care for an improvement of real convergence towards the best social policies and actively contribute towards the achievement of this aim: establishing a set of minimum compulsory commitments in quantitative terms for the social security systems: i.e. a certain percentage of GDP to be devoted to social expenditure or some

[15] It should be pointed out that although the welfare state can and must alleviate the pain of unemployment, it cannot itself establish full employment. The later must be supported by a wide range of

specific items within it as pensions or health services, minimum percentage of GDP per capita as the floor for social allowances, rate of growth for the indexation of pensions… , may be an adequate line of development, as well as sharing significantly in their financing especially for specific elements and the weaker countries. Although the specific points may be debated further the general provisions should be clearly pursued and compulsorily enforced.

To illustrate the treatment of the Union to one of the key issues of social policy and because of its importance for the wellbeing of the population we are going to include a more detailed comment about the position of the Union towards the privatisation of pensions.

3. Social Security: Destruction or Revitalisation of the European Social Model?

One of the most important pillars of the European social model is a relatively comprehensive network of public social security regimes. Their core are pension and health care systems and unemployment insurance. They have been developed in the various countries in very different ways and therefore they differ considerably in their concrete structure and way of operation. However, in spite of their differences they have several features in common: their structure is relatively egalitarian and their financing is in most countries based on pay-as-you-go (PAYG) arrangements in which payments to beneficiaries are financed not by prior savings but by public revenues (taxes or contributions) of the same period.

This system has come under heavy attack in the world during the last decade from the neoliberal theoreticians and policy makers. On the one hand, as we have just mentioned, unemployment policy and other social benefits are considered too generous, and that they discourage the active search for employment; therefore workfare instead of welfare is recommended; on the other hand, it is maintained that expenditure in the public health system and especially in public pensions is growing rapidly because of higher life expectations, that it will grow further in the future and cannot be maintained. Due to it the development of private and mixed (public and private) systems are advocated.

---

other measures including macroeconomic, regional and industrial policies designed to reduce and

The European Union seems to have accepted the soundness of the arguments for modernisation and privatisation of the social systems. The guidelines for social policy faithfully follow the recommendations of the World Bank for the 'modernisation of social security systems' and the direction of this modernisation follows unambiguously the privatisation pattern. The pressure being most obvious and effective in pension policy which we will discuss here, but it is also present in unemployment policy and the trend to privatise increasing parts of the public health systems. The development of social policy along those trends is at present one of the top priorities of the enlarged EU agenda with very serious consequences for the European citizenship.

Following the main lines of orientation initiated in the seventies in some Latin American countries under the auspices of the Chicago School and its consolidation by the 1994 Report of the World Bank about 'The ageing society', the Laeken European in December 2001 council approved 11 principles and objectives for pension reform –see Box 3- and on this basis officially started the open method of coordination. Member states submitted national strategy reports in September 2002, in which they detailed how they intend to meet the objectives. There is a clear bias to postpone actual retirement and to ensure so called 'sound public finances' has become a primary preoccupation of the Commission. In practice both aspects amount to further downsizing of public pension systems. At the same time the EU has – in the framework of the Single Market and specially its 'Financial Services Action Plan'- embarked on measures to facilitate private pension systems. A main cornerstone in this strategy is a proposal for occupational retirement schemes (OPS) which the Commission launched as early as October 2000 and which was adopted by the European Parliament (EP) in March 2003 with minor amendments. The directive will open service provision for OPS to competition and liberalise requirements on prudential regulations, leaving broad room for manoeuvre for the financial management of such OPSs. It seems that behind the policy to defuse the alleged problems of the public pension systems another hidden agenda is emerging aiming at channelling increasing amounts of money to European financial markets and creating a single European market for private pension funds. This

eliminate unemployment.

market would increase the capability of firms to raise capital, reduce the cost of credit and boost the profits for European firms, and especially those of the financial ones.

Box 3. The 11 principles for pension reform adopted at the Summit in Laeken, December 2001

Broad common objectives and working methods in the area of pensions

In full respect of the principle of subsidiarity and of Member States competence to define national pension policies, the Council proposes to the Laeken European Council that the open method of co-ordination should be used in the area of pensions to help Member States progressively develop their own policies so as to safeguard the adequacy of pensions whilst maintaining their financial sustainability and facing the challenge of changing social needs. In this respect, Member States should ensure that pension systems support broad social and economic goals, including greater social cohesion and integrated labour and capital markets. within this framework, the following broad common objectives are recognised.

- **Adequacy of pensions**

Member States should safeguard the capacity of pension systems to meet their social objectives. To this end against the background of their specific national circumstances they should:

1. Ensure that older people are not placed at risk of poverty and can enjoy a decent standard of living: that they share in the economic well-being of their country and can accordingly participate actively in public, social and cultural life [16];
2. Provide access for all individuals to appropriate pension arrangements, public and/or private, which allow them to earn pension entitlements enabling them to maintain, to a reasonable degree, their living standard after retirement; and
3. Promote solidarity within and between generations.

- **Financial sustainability of pension systems**

Member States should follow a multi-faceted strategy to place pension systems on a sound financial footing, including a suitable combination of policies to:

4. Achieve a high level of employment through, where necessary, comprehensive labour market reforms, as provided by the European Employment Strategy and in a way consistent with the BEPG;
5. Ensure that, alongside labour market and economic policies, all relevant branches of social protection, in particular pension systems, offer effective incentives for the participation of older workers; that workers are not encouraged to take up early retirement and are not penalised for staying in the labour market beyond the standard retirement age; and that pension systems facilitate the option of gradual retirement;
6. Reform pension systems in appropriate ways taking into account the overall objective of maintaining the sustainability of public finances. At the same time, sustainability of pension systems needs to be accompanied by sound fiscal policies, including, where necessary, a reduction of debt[17]. Strategies adopted to meet this objective may also include setting up dedicated pension reserve funds;
7. Ensure that pension provisions and reforms maintain a fair balance between the active and the retired by not overburdening the former and by maintaining adequate pensions for the latter; and
8. Ensure, through appropriate regulatory frameworks and through sound management, that private and public funded pension schemes can provide pensions with the required efficiency, affordability, portability and security.

- **Modernisation of pension systems in response to changing needs of the economy, society and individuals.**

9. Ensure that pension systems are compatible with the requirements of flexibility and security on the labour market; that, without prejudice to the coherence of Member States' tax systems, labour market mobility within Member States and across borders and non-standard employment forms do not penalise people's pension entitlements and that self-employment is not discouraged by pension systems;
10. Review pension provisions with a view to ensuring the principle of equal treatment between women and men, taking into account obligations under EU law; and

---

[16] In this respect, benefits and tax advantages other than pensions should also be taken into account where appropriate.

[17] Member States strategies to ensure sound and sustainable public finances are reported ans assessed in the framework of the BEPG and the Stability and Growth Pact and should be in accordance to these.

11. Make pension systems more transparent and adaptable to changing circumstances, so that citizens can continue to have confidence in them. Develop reliable and easy-to-understand information on the long-term perspectives of pension systems, notably with regard to the likely evolution of benefit levels and contribution rates. Promote the methodological basis for efficient monitoring of pension reforms and policies.

The 'modernisation' of pension systems, implying different degrees of privatisation is intended in most EU countries and well under way in some of them. In the Netherlands and of course the UK the reforms have already gone further, while in France and Austria higher social resistance to the reform has taken place. In the Central and Eastern European Countries (CEEC), due to their special features, which make the situation and the constellation of problems quite different from those in the EU 15, the reform is more advanced than in the EU15: First and foremost the introduction of private pension systems did not have to compete against firmly established, strong and fairly well operating public systems. The traditional pension systems in the former socialist countries were even before the systemic collapse not well operating and they were of course fully affected by this collapse. Briefly the pay-as-you-go system was highly exposed and therefore it was obvious that there were much more urgent reasons for a reform of the pension system in most of the CEECs than in the EU15. This and the general situation of these countries facilitated the pressure from the World Bank towards the rebuilding of their pension systems on lines enhancing strong privatisation. Furthermore, the concern for the development of financial markets through the establishment of capital funded pension systems is quite openly formulated for the CEECs.

Most of the CEECs made significant adjustments to such features of their public social insurance system as retirement age, benefit formulas, the treatment of special categories of workers and the collection of pension contributions. Slovenia and the Czech Republic introduced mainly such parametric changes in their pension systems, the institutional basis of which remained mostly unchanged. In all other CEECs countries a mixed approach was chosen and Hungary, Poland, Latvia, Bulgaria, Croatia, -Estonia and Macedonia have legislated partial pension privatisation since 1997 with Hungary and Poland carrying privatisation particularly far. On the other hand, some of the radical reforms carried out recently are suffering from great problems of implementation. Many critical issues of pension reform à la World Bank have by now emerged and are undermining the broad acceptance by which it was initially met in most countries.

Nevertheless the 'new pension orthodoxy' is by now much more established in the CEECs than in the EU15 and it may reinforce the neo-liberal push for further privatisation in the latter.

The critical points. We have in previous memoranda and in several workshops and conferences elaborated our critique with regard to the current push for the "modernisation" of the pension systems in Europe. We have argued that the thrust of the current reforms seriously damages the basis for a sustainable and fair social welfare system which the EU officially intends to strengthen. The main points of our criticism are (Vienna declaration 2003):

First, the reference to demographic changes which allegedly require a thorough systemic change of pensions systems are false in two respects. On the one hand the threats from demographic changes to the financial viability of PAYG schemes are exaggerated. While such changes indeed raise problems and require political responses to ensure financial stability they do not justify alarmist scenarios of an impending breakdown of such systems which are often used in the political and sometimes also in the scientific debate. Problems of pension financing are at present not exclusively and in many cases not even in the first place the result of demographic changes but of unemployment, low wages and a shift in the distribution of incomes to the disadvantage of the wage side, which is the financial basis of PAYG systems. Future financial burdens resulting from demographic changes would only jeopardise such systems if it is assumed that there will be no or only very low increases in labour productivity in the future – which is a highly unrealistic assumption. Continuous increases in productivity create the basis for rising real incomes both for the working population and the pensioners even under conditions of a higher dependency rate. – On the other hand, even if there were strong problems arising from demographic changes this could be no rational basis for the transition from a public PAYG system to a private system based on financial markets, because the latter is inferior to public systems in all relevant aspects.

Second, the (macro)economic viability and advantages of increasingly funded systems are also usually exaggerated by their proponents. It is assumed that additional private saving through transformation of contributions to PAYG schemes into additional capital stocks will increase economic growth and thus create the basis for the incomes for the greater share of elderly people in the future. But this is by no means necessarily the case and in developed industrial countries like the EU it will probably not be the case. For on the one hand the deflationary impact generated by private contributions to pension funds will in all probability not result in the formation of additional savings but only cause a shift in the allocation of existing savings. On the other hand, even if the introduction of private pension funds would lead to additional savings this will not increase economic growth.. The reason for the economic stagnation in the EU is not the absence of savings as investable funds but the weakness of effective demand. This weakness could even become more pronounced if an increasing part of wage income – which in PAYG systems is transferred directly to the pensioners and thus transformed into private consumption – is taken for the formation of capital stocks and thus diminishes real effective demand. If the shift towards capital funded systems does not create additional growth the only effect will be a more unequal distribution of pensions between those who could afford additional individual savings during their active lifetime and those who could not. This argument must be modified with regard to the CEEC, where there is probably in fact a lack of saving. But even if such saving is generated through the introduction of compulsory capital funded pension systems, it will – in the absence of developed capital markets and strong instruments for capital control – not stimulate economic growth in these countries. The resources will instead be invested on international financial markets.

Third, the shift towards funded systems tends to underestimate their vulnerability and the risks they imply for the future pensioners. These risks, which have recently been acknowledged even by the OECD, arise from the systemic instability of financial markets. They have been clearly revealed in the recent stock market breakdown in general and in the collapse of great companies in particular, in which huge amounts of old age contributions had been invested. Because the ups and downs of financial markets are much more accentuated than the amplitudes of regular business cycles pensions linked to capital markets are exposed to a much higher degree of economic and social insecurity than pensions in a PAYG system. This is not acceptable in a society which assumes responsibility for the social welfare for its citizens.

Fourth, the case for the privatisation of pensions has no economic rationale. The current public systems are efficient and much less costly relative to private sector alternatives and they are for the foreseeable future financially relatively sound. The possible changes needed to keep them solvent over the very long-term are not larger than the changes that have been made in several prior decades. While the perspective to privatise pensions may include the prospect of large profits to the financial sector, it offers little benefit to workers, citizens and future pensioners. Empirical evidence about the consequences of privately funded systems – in Latin America, Great Britain and some CEECs - show that they have no comparative advantage against public PAYG systems and in many cases are clearly inferior. Macroeconomic performance has not improved through capital funded schemes, and in some cases they have been a factor of macroeconomic instability. Public PAYG systems are regularly more comprehensive in their coverage – concerning for instance periods of unemployment and sickness – than privately funded systems which are much more selective and tend to exacerbate instead of mediating social divides and polarisation.

Fifth, it seems that rather than the "demographic time bomb" and the "crisis of the public pension system" the main reasons for the privatisation of pensions are to be found in the financial business interests. They receive very substantial amounts of additional money which they can invest on financial markets and which are the basis for their revenues and profits. Pension funds, mutual funds and insurance corporations therefore have a major interest in the transformation of public PAYG systems in increasingly funded – and private – systems. It is therefore not surprising that powerful financial interests are leading the drive towards privatisation and also transmitting to the professional and public opinion the unsustainable character of the public system. This clear interest of asset managers and the considerable power of financial institutions should not be confounded with the public interest or social welfare in general.

Sixth: All this does not mean that there is no need for action and political adjustment in public pension systems. The most important measure to ensure financial stability and sustainability of these systems is to strengthen the productive basis of the economy through a policy for full employment at high wages, which requires also policies to enhance and stabilise the supply of labour. Because economic activity in general and the enhancement of productivity is based on a tight network of economic and social relationships, it is fair and reasonable to include all kinds of income in a mandatory scheme of contribution to a universal pension system. On the basis of rising labour productivity these contributions can be increased so as to insure a living standard for the pensioners. With regard to changing patterns and increasing irregularity of working careers of individuals it will also become necessary to develop patterns of pension financing which are to some extent de-coupled from the individual's income. In this area many questions concerning the long-term future of pensions as a part of a genuine and sustainable system of social welfare are still open. Further research and public discussion is needed.

The current stampede towards privatisation and capital funding is not the solution but will bring a further exacerbation of the real problems of social welfare in a democratic society. Therefore social protest and resistance against this more harmful than useful way of dealing with the pension problem are mounting and should be supported.

Seventh: With regard to existing private systems increased transparency is needed to expose the high costs and relatively poor performance of these systems, this making them less attractive for the public. In addition strict regulations are necessary to prevent risky investment behaviour and to ensure – especially for the CEECs – that contributions to private pension systems are used to promote domestic growth and employment.

Euromemorandum 2003
Chapter 6

La Politique Agricole Commune: bilan et propositions

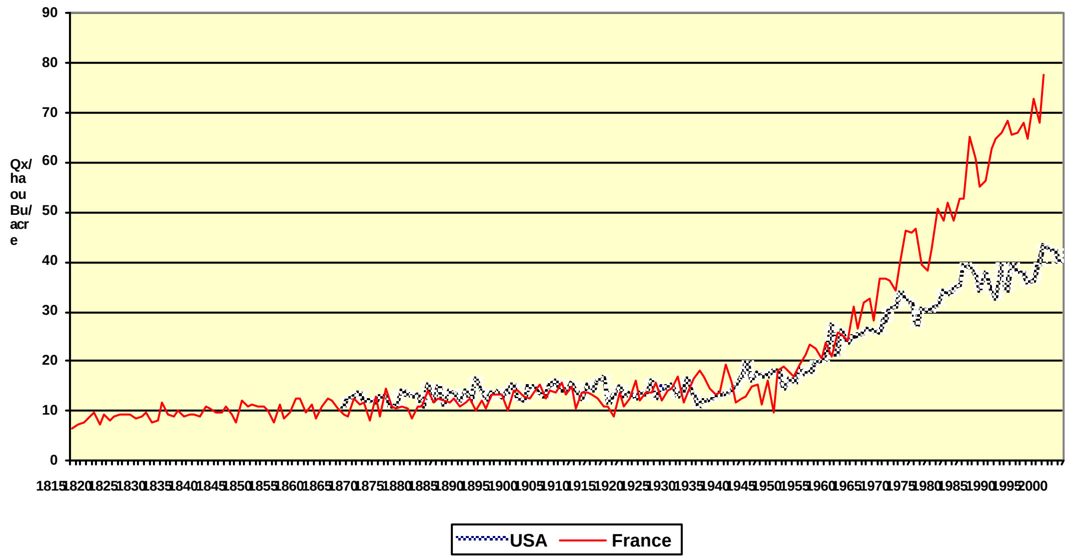
Jacques Mazier

La PAC fait l'objet de critiques d'origines très diverses (libéraux partisans du libre échange, défenseurs des agriculteurs des pays en voie de développement, critiques du productivisme agricole, coût budgétaire jugé exorbitant). Ses partisans sont souvent présentés comme des défenseurs attardés d'intérêts corporatistes et de secteurs en déclin. Pourtant, si personne ne conteste la nécessité de réformes profondes, la situation est plus complexe et nuancée. Il existe des fondements précis aux politiques agricoles et celles-ci ont fait preuve de leur efficacité. D'importants effets pervers sont cependant apparus et ont commencé à être corrigés. Là comme ailleurs, le recours au marché est mis en avant, bien qu'il ne constitue pas une réponse appropriée et n'apporte guère de solution au problème des agricultures des PVD. Des propositions alternatives peuvent être esquissées pour répondre aux différents enjeux mais apparaissent décalées par rapport aux normes libérales dominantes.

1. Les fondements des politiques agricoles

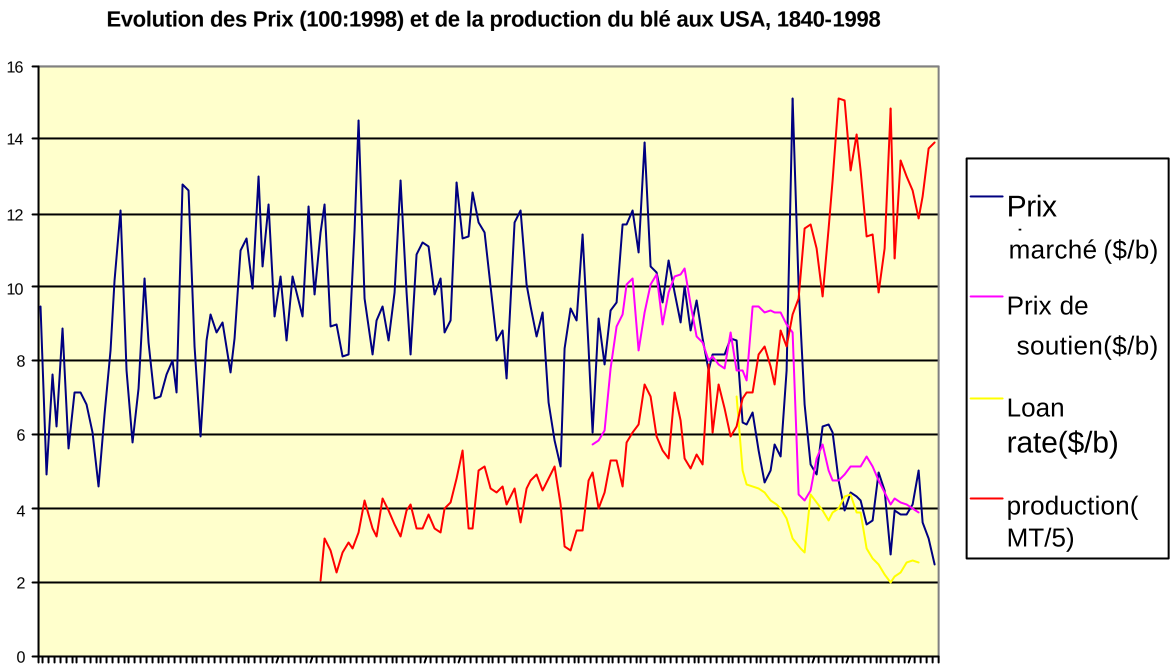
Une des principales justifications des politiques agricoles réside dans le mauvais fonctionnement des marchés agricoles et dans la grande instabilité des prix agricoles qui en résulte. La volatilité des prix agricoles est un constat bien établi qui a des effets très négatifs, moins pour le consommateur des pays riches que pour les producteurs, particulièrement dans les PVD. L'impact des fluctuations de prix est considérable parce que les agriculteurs, spécialement ceux des pays pauvres, ont horreur du risque, notamment du risque de prix. En présence de risque, ils réduisent leur production. Une montée des prix est, au contraire, une incitation à accroître la production.
Les conséquences macroéconomiques de ces phénomènes sont très sensibles (Boussard, 2003). Le graphique 1 ci-dessous montre l'évolution séculaire des rendements en céréales en France et aux USA. La rupture de la fin des années 30 est visible. La croissance des rendements est beaucoup plus rapide après cette date qu'avant, et cette circonstance n'a pas peu contribué à faciliter la sortie des pénuries dues à la seconde guerre mondiale. La raison en est simple : c'est l'institution des prix garantis par Roosevelt aux USA à partir de 1935, celle de l'Office du blé (et des prix garantis) en France en 1936. Des prix plus stables ont permis aux agriculteurs d'accroître leurs revenus, d'investir et d'augmenter considérablement leur productivité.
Il existe deux théories pour expliquer la volatilité des prix agricoles. La première l'attribue à des circonstances exogènes, essentiellement des aléas climatiques. Même si ceux-ci jouent un rôle, ils sont loin de tout expliquer. La seconde théorie renvoie au mauvais fonctionnement des marchés agricoles. Pour les produits alimentaires, et surtout pour les produits de base, la demande est rigide. En cas de pénurie les consommateurs sont prêts à payer des prix très élevés pour satisfaire leurs besoins. En cas d'excédents, ils ne sont jamais disposés à accroître leur consommation, même face à de fortes baisses des prix. Dans de telles conditions

l’équilibre du marché est difficile à trouver. Les prix sont instables et ne reflètent plus les coûts de production. C’est le fameux théorème du Cobweb d’Ezekiel dont les travaux furent utilisés pour justifier la politique de Roosevelt visant, précisément, à déconnecter l’agriculture du marché. Ces questions ont alimenté une très vaste littérature sur le caractère chaotique ou non des fluctuations des prix des produits agricoles (Burton, 1993 ; Boussard, 1996). Elles conduisent à penser que, pour réduire les fluctuations, il faut changer le système de formation des prix.



Graphique 1 Evolution séculaire des rendements en blé aux USA et en France (Boussard, 2003)

C’est ce que confirme l’expérience historique avec la politique américaine des prix agricoles administrés à partir de 1935. La production a explosé. A partir des années 1950, le prix a pu diminuer dans de fortes proportions sans diminuer la production. En définitive, depuis les années 1930, le prix du blé en $ constant a été divisé par 4 dans ce pays. Cela a représenté pour le consommateur un bénéfice énorme, largement supérieur aux sommes pourtant considérables dépensées par le Trésor pour financer la politique agricole. Les consommateurs et les contribuables américains ont été largement gagnants (graphique 2).



Graphique 2 Evolution des prix et de la production de blé aux USA
(Boussard, 2003)

Cette déconnexion de l'agriculture du marché aux USA à partir de 1935, imitée par la suite presque partout dans le monde, et dont nous ne sommes pas encore sortis malgré la montée du libéralisme, a donc été au total un succès réel qui ne doit pas masquer les difficultés rencontrées aujourd'hui. Ces difficultés sont de plusieurs ordres.

-Des prix garantis à des niveaux proches des coûts de production conduisent à des surplus agricoles et à un gaspillage des ressources. Ceci a été observé aussi bien en Europe et aux USA pour les céréales qu'en Côte d'Ivoire pour le cacao. Une réponse possible passerait par des prix administrés, mais couplés avec une régulation de l'offre par des quotas individuels de production fixés de telle façon que la production globale sous quota soit un peu inférieure à la consommation nationale. Le marché se chargerait alors des ajustements marginaux. Les expériences passées montrent que ce schéma est praticable, mais s'applique surtout aux produits de base. Des rentes sont associées à la possession des quotas et, pour cette raison, la méthode est souvent critiquée. Cependant une gestion fine des prix des produits sous quotas permettrait de limiter le montant des rentes.

La PAC, confrontée à la montée des excédents et au coût budgétaire croissant, a d'ailleurs été infléchie depuis les années 1980, d'abord avec l'instauration des quota laitiers en 1984, puis avec la réforme de 1992 qui modifia plus en profondeur le système pour les céréales, les oléagineux et la viande bovine. Les aides furent distribuées proportionnellement au nombre d'hectares ou de bêtes en échange d'une baisse substantielle des prix garantis et avec une obligation de jachères.

-L'agriculture ne produit pas que des produits de base, mais aussi des produits de semi-luxe (fleurs, primeurs,) pour lesquels la régulation est plus complexe. Les notions de « qualité » des produits occupent une place croissante. Plus fondamentalement l'agriculture produit également des externalités (paysages, pollution, etc).
Les paysages et, plus généralement, les produits d'une agriculture multifonctionnelle posent des problèmes d'évaluation considérables (Allaire, 2003). S'agissant de la pollution, un bon système de prix administrés, aussi bien pour les inputs que pour les outputs, pourrait inciter les agriculteurs à adopter des techniques non polluantes. Une telle incitation serait-elle suffisante ?
En admettant que l'on sache définir des solutions techniques pour les différents problèmes, une difficulté majeure apparaît dans la mesure où « la Société ne sait pas ce qu'elle veut ». Le marché n'est d'aucun secours dans ce domaine (personne ne paie pour un beau paysage, par exemple). Les procédures démocratiques sont difficiles à mettre en œuvre. Pourtant les décisions collectives jouent un rôle (pour nettoyer une rivière ou préserver un paysage) mais elles ont un coût. Quel coût est acceptable ? Quelles institutions pourraient être envisagées pour permettre l'émergence d'une volonté collective en matière de gestion de l'espace rural ?

Ces questions ont trouvé un écho partiel dans les réformes de la PAC engagées depuis 1999. Sous l'impulsion de l'Allemagne en particulier, l'Agenda 2000 a mis l'accent sur la recherche de « bonnes pratiques agricoles ». En France la loi d'orientation agricole a reconnu la multifonctionnalité de l'agriculture, chargée non plus seulement de produire le plus possible, mais aussi de veiller aux équilibres écologiques et de produire des aménités rurales. Le financement par l'Etat des « contrats territoriaux d'exploitation » en faveur des agriculteurs s'engageant sur des pratiques plus écologiques ou sur la production d'aménités s'est inscrit dans ce cadre mais, dans les faits, les changements demeurèrent mineurs. La réforme de la PAC récemment adoptée en juin 2003 suit la même logique en ce qui concerne la volonté de davantage financer le développement rural et la protection de l'environnement.

-L'agriculture est à l'origine d'importantes inégalités de revenus et la PAC, avec des aides liées à la production, puis à la surface cultivée, a joué massivement en faveur des grandes exploitations. La PAC a-t-elle pour vocation de traiter ces problèmes d'inégalités ou peut-on considérer que d'autres instruments, les politiques de redistribution, existent pour cela ?

La réforme de la PAC de 1999 intégrait partiellement cette préoccupation en ouvrant la possibilité aux pays membres de moduler les aides en fonction de la taille des exploitations. Cette opportunité fut saisie au Portugal, au Royaume-Uni et en France, mais dans des proportions modestes. D'une manière significative cependant, une des premières mesures du gouvernement Raffarin en France en mai 2002 fut de suspendre le dispositif de modulation des aides financières européennes.

-Enfin le caractère protectionniste de la PAC jouerait massivement au détriment des PVD. Les exemples ne manquent pas. Les producteurs de betteraves sucrières européens empêcheraient le plein développement du sucre de canne, au Brésil et ailleurs. Les accords Euro-Med n'ont libéralisé que les produits industriels, où les pays européens disposent d'un avantage massif, mais les produits agricoles ne sont pas concernés, limitant pour les pays méditerranéens les possibilités de tirer profit de leurs avantages comparatifs dans ce domaine pour tout un ensemble de produits. La PAC n'est pas la seule concernée puisque les aides américaines aux producteurs de coton ont contribué à faire chuter les prix du coton, entraînant la ruine des petits producteurs africains.

Cette argumentation doit être maniée avec prudence. La croisade libérale menée par le groupe de Cairns, où se retrouvent des pays émergents à fort potentiel agricole comme le Brésil ou l'Argentine mais aussi des pays développés comme l'Australie ou le Canada, est très hypocrite. Elle masque, derrière une argumentation favorable en apparence à l'agriculture des PVD, une politique de libéralisation qui, si elle était mise en œuvre, renforcerait bien la grande agriculture des pays émergents richement dotés, comme le Brésil ou l'Argentine, mais pas vraiment les petits paysans du Nord Este brésilien, ni les petits producteurs africains qui seraient, au contraire, balayés. Rappelons, en outre, que, si l'UE est devenue légèrement excédentaire vis-à-vis des Etats-Unis en matière d'échanges agro-alimentaires depuis 1999, elle est déficitaire vis-à-vis de l'ensemble du Monde, avec un déficit croissant et significatif vis-à-vis du Brésil, de l'Argentine, du Mexique et des autres pays latino-américains et un déficit de moindre ampleur vis-à-vis de l'Afrique (Pouch, 2003).
L'agriculture des pays les plus pauvres n'a aucune chance en laissant jouer davantage les mécanismes du marché. A l'opposé, deux orientations devraient être retenues, en reconnaissant que les produits agricoles et alimentaires ne sont pas des marchandises comme les autres. Il faudrait, d'une part, dans les pays pauvres préserver et protéger une agriculture suffisamment rémunératrice pour conserver des activités en zone rurale, tout en inscrivant cette politique dans une stratégie de développement plus globale. Il faudrait, d'autre part, dans les pays développés limiter les quantités produites et exportées, par exemple à travers des systèmes de quotas, ce qui souligne la nécessité d'une réforme de la PAC à ce niveau.

2. Les propositions de réforme

Face à ces problèmes bien réels, les propositions de réforme ont été nombreuses et la PAC a effectivement été infléchie depuis les années 1980. Depuis la fin des années 1990 la pression pour une réforme plus radicale s'est renforcée sous l'effet des contraintes budgétaires croissantes, des enjeux nouveaux liés à l'élargissement à l'Est et des négociations internationales menées dans le cadre de l'OMC. La tendance générale a été de réintroduire le marché, tout en en corrigeant les inconvénients. Un retour en arrière vers des marchés libres serait dévastateur du fait de l'instabilité fondamentale des prix agricoles et ne serait certainement pas une solution pour les PVD. Les espoirs parfois mis en avant dans les marchés à terme (Carfantan, 2002) ne sont pas à la hauteur du problème. Les marchés à terme permettent à un agriculteur individuel de s'assurer, mais ne suppriment aucunement, ni les fluctuations de prix, ni leurs inconvénients au niveau macroéconomique.

En pratique, quatre séries de propositions peuvent être distinguées.

-*La renationalisation de la PAC*, c'est-à-dire sa suppression, est une tentation très présente au Royaume-Uni, mais pas uniquement. Elle se trouve, par exemple, également dans le dernier rapport Sapir, récemment remis à Romano Prodi.
La position britannique est très hostile à la PAC, à droite car la PAC est antilibérale, à gauche par opposition aux « farmers » dont les plus gros bénéficient d'aides indues et en raison des distorsions engendrées par les politiques de soutien. La gauche britannique est dès lors favorable aux libres importations de produits agricoles avec un système de prix garantis pour les agriculteurs, la différence entre les prix garantis et les prix de vente fixés par le marché étant couverte par des subventions qui seraient renationalisées et gérées d'une manière autonome dans chaque Etat. Cette position est, en apparence, habile car, à la fois, ouverte aux importations des PVD et conforme aux principes libre-échangistes.
Elle pose plusieurs problèmes. Les consommateurs supporteraient les effets de la forte instabilité des marchés agricoles, ce qui n'est pas un inconvénient majeur. La fixation du prix garanti est délicate, ainsi que celle du niveau de production. Si celui-ci est libre, on retrouve les risques de surproduction. La définition de quotas individuels serait préférable, mais pose des problèmes d'évaluation et de gestion. Les paiements compensatoires s'inscrivent mal dans le cadre de l'OMC. Enfin, les pays exportateurs de produits agricoles, qui seraient les principaux bénéficiaires, ne sont pas vraiment des PVD.

-*La Commission* cherche à réformer la PAC pour en réduire le coût dans la perspective de l'élargissement, pour retrouver des marges de manœuvre budgétaires dans le cadre d'un budget communautaire plafonné à 1.27% du PIB (le problème étant que la PAC est la seule vraie politique communautaire) et pour rendre la PAC acceptable dans les négociations internationales. La position de la Commission est de modifier la nature des aides en passant d'aides aux surfaces ou par bête à des aides aux pratiques agricoles et à la production d'aménités. Le « découplage » des aides vis-à-vis de la production serait ainsi réalisé et la production, comme les prix, serait orientée par le marché.
Cette position, qui rejoint celle de l'Allemagne (dont l'objectif est aussi de réduire sa contribution budgétaire nette), a le mérite de favoriser les « bonnes pratiques ». Mais sa référence au marché, qui demeure centrale, est problématique puisque l'histoire montre son incapacité à assurer une bonne régulation dans le domaine agricole. De plus, en échange de ce découplage et de ce retour au marché, les agriculteurs qui ont la chance d'être encore en activité recevraient une sorte de garantie de revenu à vie, ce qui est un peu étrange.

Le compromis auquel sont parvenus les ministres de l'Agriculture en juin 2003 est un mélange curieux, peu cohérent, sans doute transitoire et surtout destiné à donner une meilleure figure dans les prochaines rencontres de l'OMC. Le découplage commencera en 2005 ou 2007 selon les pays. Il ne sera que partiel pour certains produits (viande de bœuf et de mouton, céréales). D'autres y échapperont (huile d'olive, sucre). Les prix d'intervention pour les céréales ne seront pas abaissés.

-Dans la perspective de l'élargissement aux Pays de l'Europe de l'Est, les problèmes agricoles occupent une place centrale. Un bilan des coûts (baisse de l'emploi agricole sans compensation suffisante dans les autres secteurs, hausse des coûts liés à la normalisation et hausse des prix, concurrence accrue, risques pour l'environnement) et des bénéfices (modernisation et gains de productivité, aides) suggère que les coûts pourraient l'emporter sur les bénéfices. Les aides communautaires ont été plafonnées à 25% des montants actuels par hectare ou par bête avec une montée progressive pour atteindre 100% en 2013. Ce plafonnement, mal vécu dans les pays candidats, est justifié, du point de vue de la Commission, par les contraintes imposées par l'enveloppe budgétaire actuelle (seul un accroissement du Budget communautaire permettrait de desserrer ces contraintes), par la crainte d'un accroissement incontrôlé des excédents agricoles en cas d'aides plus importantes (la mise en place de quotas de production pourrait être une solution) et, enfin, par les problèmes de redistribution des revenus internes aux pays candidats que poseraient des aides d'un montant trop élevé par rapport à la moyenne des revenus nationaux.

-Les négociations internationales dans le cadre de l'OMC et avec les USA et les PVD soulèvent une dernière série de questions. Au sein de l'OMC le débat est mal engagé avec les pays anglo-saxons qui cherchent à préserver et promouvoir leurs intérêts derrière des propositions séduisantes (acceptation des aides favorisant les « bonnes pratiques », réduction progressive des aides sources de distorsions, défense des PVD par les pays du groupe de Cairns qui ne ferait que favoriser les pays agricoles hautement productifs et nullement les PVD les plus démunis).
Les USA, après l'échec du Fair Act de 1996 qui avait introduit un découplage des aides par rapport à la production et avait entraîné une baisse significative des revenus agricoles américains, ont renoué dans le cadre du Farm Bill de 2002 avec la pratique des prix garantis, même s'ils mettent à nouveau en avant, et non sans hypocrisie, leur volonté de réduire ces aides agricoles et de revenir, à terme, aux mécanismes du marché.
Le caractère protectionniste de la PAC est souvent dénoncé d'une manière trop rapide, même s'il y a des fondements objectifs. Le risque existe que l'on aille vers une agriculture européenne faisant coexister une agriculture productive et performante (en principe mieux contrôlée au niveau de ses pratiques) et une agriculture plus spécialisée dans les « produits fermiers » et autres labels, sans véritablement régler le problème des exportations à bas prix et de la pression qui en résulte sur les pays les plus pauvres. Un démantèlement mal conduit de la PAC au sein de l'OMC aurait des conséquences négatives sur les agriculteurs européens et, plus généralement, sur les économies européennes, sans apporter de remèdes pour les PVD à agriculture traditionnelle.

Proposition alternative

Dans ce contexte il est préférable de revenir aux principes « rooseveltiens » et de clairement reconnaître l' « exception agricole ». Les produits agricoles ne peuvent être régis par les seules lois du commerce international. L'instabilité des marchés agricoles, en accroissant les risques, a des effets très négatifs sur l'ensemble des activités agricoles qui, à moyen terme, dépassent largement les gains résultant de l'exploitation des avantages comparatifs (risque de désertification et de déstructuration des zones rurales des pays européens, absence de toutes activités alternatives à court-moyen terme dans les pays les plus pauvres). Les effets bénéfiques du développement des échanges ne peuvent se manifester que si les effets pervers des marchés libres sont corrigés par des mesures de politique agricole, aussi bien dans les pays développés que dans les PVD. Les leçons du passé montrent que ceci passe par des mesures de soutien des prix, à condition d'empêcher les phénomènes de surproduction par des mesures de contrôle de la production.

Les systèmes de prix garantis doivent donc être couplés avec des quotas de production. Ces prix doivent être suffisamment élevés pour inciter les agriculteurs à produire. Les quotas doivent être individualisés et fixés de telle sorte que la somme des quotas individuels (et nationaux) soit légèrement inférieure à la consommation totale de l'UE. On évite ainsi la surproduction et on laisse le marché libre faire l'ajustement entre la demande intérieure européenne et l'offre intérieure et mondiale. Dans ce cadre les importations sont donc libres. Mis en place au niveau de l'ensemble de l'UE, un tel mécanisme contribuerait à stabiliser le système mondial.

Les prix à la consommation sont déterminés à partir des prix mondiaux, les consommateurs subissant le contrecoup des fluctuations des marchés internationaux. La différence entre prix à la consommation et prix garantis aux agriculteurs est couverte par des subventions publiques.

Les prix garantis sont différents par zones en fonction des niveaux de développement et de productivité. Les quotas de production sont échangeables, mais pas entre zones différentes, pour éviter des phénomènes de concentration géographique, comme cela a été le cas dans des expériences étrangères (lait au Québec). Enfin les quotas individuels peuvent être utilisés pour réduire la production, notamment dans le cas des grosses exploitations.

Les quotas de production sont générateurs de rentes qui peuvent être appréciées à travers les variations des prix des quotas (puisque ceux-ci sont commercialisables). Des négociations régulières peuvent permettre de limiter une hausse excessive de la rente.

Dans ce cadre *l'intégration des pays de l'Europe de l'Est* pourrait s'effectuer sur une base plus équilibrée sans distorsion de traitement entre les pays puisque les mêmes règles s'appliqueraient (prix garantis avec quotas de production de telle sorte que la somme des quotas soit légèrement inférieure à la consommation intérieure totale de l'UE). Les quotas seraient évalués dans chaque pays sur une base historique, avec des productions dont les possibilités de croissance future seraient limitées, ce qui écarterait les craintes de surproduction. Les prix garantis seraient suffisamment élevés pour assurer une progression significative du revenu des agriculteurs et permettre une modernisation des méthodes de production. Ils devraient, en revanche, ne pas l'être trop pour éviter une distorsion avec l'évolution des revenus non agricoles.

De même une solution plus équilibrée pourrait être obtenue au niveau des *Accords euro-méditerranéens.* Le principe de libre importation ouvrirait des possibilités nouvelles aux agricultures de ces pays.
L'importance de ce mouvement ne devrait cependant pas être surestimée puisque les agriculteurs européens continueraient à bénéficier, à travers les prix garantis, d'aides importantes. Les potentialités agricoles des pays méditerranéens, à l'exception de la Turquie,

doivent d'autre part être relativisées. Ces pays ont tendance à avoir une structure déficitaire de leurs échanges de produits agricoles du fait de la montée des importations de céréales, résultant de la pression démographique. Ils sont confrontés à la nécessité de développer une autosuffisance alimentaire, ce qui supposerait la définition de politiques agricoles actives assez éloignées des principes du libre échange. La réforme de la PAC ne semble constituer qu'un enjeu relativement secondaire.

Au total, la solution proposée est assez proche dans son esprit de celle avancée par la Confédération Paysanne (française). Elle pose deux types de problèmes.

-La fixation de prix garantis est toujours un exercice difficile, source de négociations délicates où s'exercent de multiples pressions. L'expérience accumulée au niveau européen par 40 années de PAC ne rend cependant pas l'exercice impossible. L'existence de renégociations périodiques est une garantie que les ajustements nécessaires pourront être réalisés.

-Cette proposition est d'autre part en décalage avec les règles de l'OMC, ce qui ne doit pas surprendre puisqu'elle repose sur l'idée que les produits agricoles ne peuvent être régis par les seules lois du commerce international. Dans le cadre de l'OMC les subventions à l'agriculture ne sont autorisées que d'une manière restrictive. Certaines sont acceptables (« boîte verte » : aides à l'environnement, aides au développement rural, etc) mais reposent sur le principe du « découplage » (pas de lien avec les niveaux de production ou les prix en vigueur). D'autres ne le sont pas (« boîte orange » : mesures de soutien des prix ou subventions liées aux quantités produites) ou devraient être progressivement réduites. La catégorie « boîte bleue » est intermédiaire et correspond au cas où les agriculteurs sont obligés de limiter leur production, ce qui peut être considéré comme le cas avec les quotas.

Références

Allaire G., Dupeuple T. (2003) « De la multifonctionnalité de l'activité agricole à la multi-évaluation de la production agricole », Economie Rurale, à paraître
Boussard J. M. (2003) « Commerce, développement et volatilité des prix agricoles », INRA
Boussard J.M. (1996) « When risk generates chaos », Journal of Economic Behaviour and Organization, 29 (96/05), p433-446
Burton M. (1993) "Some illustration of chaos in commodity models", Journal of Agricultural Economics, 44 (1), p38-50
Carfantan J.Y. (2002) « La mondialisation déloyale », Fayard
Pouch T. (2003) « La PAC et l'OMC : éléments de cadrage », Université de Marne la Vallée, OEP

Euromemorandum 2003
Chapter 5

Regional policies and location firms strategies in the European Union

Hermann Bömer, Jacques Mazier, El Mouhoub Mouhoud

1. The regional dynamics in Europe

Regional disparities and growth

In the EU 15 regional disparities are important, roughly the double of what is observed in the US. Whereas a catching process has been observed regarding the income per capita at the national level since the beginning of the 1980s, the regional configuration is more diversified. Some studies conclude in favor of the lack of regional convergence and of an increasing disparity of the income per capita between the regions (Cappelen, Fagerberg and Verspagen [1999]). Other studies underline the difference of evolution between deciles. The poorest regions, but also the richest ones, have a higher rate of growth than the intermediate ones. Within each country, a general trend cannot be observed. Between 1986 and 1996 regional disparities have increased in Italy, Spain, France and Greece but they have declined in Portugal and the Netherlands (Cour and Nayman [1999]). Since the 1990s the increase of the regional disparities is more pronounced. Regarding the rate of unemployment, the same regional disparities can be observed. A strong negative correlation exists between the regional difference to the national average in GDP per capita and of the rate of unemployment (Davies and Hallet [2001]).

For the accession countries Poland is a good example for the development of regional disparities (Dymarski 2003): after a short period of diminishing at the beginning of nineties then regional disparities began to increase. The transformation process resulted in widening the already big gap in socio-economic development between regions. During the second half of last decade the relation of GDP per capita between the region with highest level and that with lowest one increased from 1.64 in 1995 to 2.21 in 2000. All five regions with GDP per capita in 2000 below 80% of Poland's average are situated in eastern part of Poland, and four of them are spread along eastern and north –eastern border. Regional disparities in unemployment are also considerable in the accession countries. The rate of registered unemployment in Poland ranged from 10.8% to 25.8 % in 2000 and from 13.9% to 28.8% in 2002 (Poland's average was 15.1% and 18.1 respectively).

In a macroeconomic approach, regional growth can be explained by factors such as the share of innovation activities in the region (R&D effort), the potential for exploiting technologies developed elsewhere (diffusion effect), complementary factors like the level of infrastructures, the industrial structure (which can be more or less favorable) or the long term unemployment (which plays negatively). Instead of regional convergence, there exists "growth clubs" which gather regions with similar characteristics and dynamics. The most successful regions are those specialized in services and high-tech industry with a high level of productivity. On the opposite agricultural regions and those specialized in traditional industries are disadvantaged. Investment in innovation activities is a growth stimulus for the more advanced regions and even backward regions may benefit from the adoption of new technologies at a relatively low cost. But many poorest regions have failed to take advantage of this process and R&D effort may play negatively in regions penalised by various blocking factors reflected in long term unemployment and the share of declining activities (Cappelen, Fagerberg and Verspagen [1999]).

These results are coherent with studies on the impact of the systems of innovation on the regional dynamics (Maurseth and Verspagen [1999]). As it will be seen in more details below, there is a high degree of concentration in innovation activities, measured by patenting activities. Knowledge spillovers are more important between regions with similar or complementary specialization patterns and distance matters a lot. Spillovers are more effective when the receiving region lags somewhat, but not too much, behind the more advanced region. Technology diffusion is not automatic and requires a certain level of development to be efficient. It seems to exist a kind of threshold effect. Lastly, national borders matter, which reflects the existence of national systems of innovation.

The impact of infrastructures on regional dynamics appears more ambiguous (Martin [1997]). Public infrastructures in energy, transports and telecommunications are important factors which sustain regional growth and can help the more disadvantaged regions. However, perverse effects may appear when the infrastructures, especially in transport and telecommunications, play in favor of inter-regional trade. They contribute to open to trade the poorest regions, but induce an increasing penetration of products coming from the most developed regions. This process seems to have occurred, particularly in Southern Italy and Portugal. Econometric analysis confirms that, within each national space, public infrastructures, except the telecommunications ones, have a small impact on regional convergence. If infrastructures contribute to the convergence between European countries, at the national level, it is by accelerating the growth of the richest regions in the less advanced countries, without reducing the internal regional disparities. On the opposite, infrastructures which facilitate intra-regional trade play a more positive role by increasing the size of the local market and helping to attract more capital in the less developed regions.

An increasing polarization of innovation activities in Europe

In this section we show how the economic activities and specifically, the knowledge intensive activities, are more polarized in some big European regions. Then we'll try to give some theoretical explanation of these increasing phenomena.

The recent empirical studies show that the innovation activities are more geographically concentrated than the production activities at any regional level and with any innovation indicators (R & D, patents, R & D employees) [1]. The southern European countries, France included seem to be those where both innovation and production activities are the most concentrated by contrast with the northern European countries where the regional

([1]) *for a literature survey see Maurel and Mouhoud, 2001 ; Lallement, Mouhoud et Paillard, 2002.*

development seems to be less unequal[2]. The R&D concentration indicator shows that in 1997, Germany, France, the United Kingdom and Italy represent 75 % of the European R& D expenditures[3]. Furthermore, 20 % of the R&D expenditures are concentrated in only five European regions: one French region (Île de France-Paris), three German regions and one Italian. The R&D expenditures concentration observed in Europe, is also very sharp in the United-States of America. According to *National Science Foundation data*[4], in 1998, the 20 first states realize 85 % of the total US R& D expenditures and the 20 last states represent only 4 %. California occupies the first place with 20 % of the total R&D expenditures.

The patent applications indicator confirms the evidence of regional concentration but shows an amplification of this concentration process[5].

Especially the accession countries seem to be affected very negatively by the given "cognitive division of labor". This fact will be demonstrated again by the example of Poland (see Dymarski, 2003).

a. The number of employees in industrial R&D fell from 42 thousand in 1989 to 15.1 thousand in 2000.
b. The share of total expenditures on R&D in GDP is only 0.7%, nearly three times less than in the UE.
c. The share of high-tech final products in the total value of industrial production is still low (approx. 6%). And a share of ICT products is about 1%. Among forty groups of manufacturing products which production was growing at highest rates in nineties there were only two qualified as high-tech.
d. Only 17% of Polish products have international standardisation norms as compared with 80% in the UE (2001).

Inequalities between countries are much more important in terms of technology (patents granted) than in terms of science (publications). At the local or regional level within the nations, inequalities are more important for science than for technology. The scientific activities polarization could be mainly explained by regional inequalities within the nations

([2]) OST, 2002.
([3]) Germany is at the first position with 30,7 %, followed by France (19,7 %), United Kingdom (15,9 %), and Italy (7,5 %)
([4]) Division of Science Resource Studies, Data Brief, March 23, 2001.

related to historical factors about the location of the universities in the large agglomerations. The technological activities polarization reveals divergence between countries development level. Within the manufacturing sectors, the high technology industries seem to be more concentrated (pharmacy, Kraft industry, computers) than the others.

The polarization factors and the logic of localization of innovation activities

The recent economic geography literature tries to explain and to measure the increasing activities polarization process in the large agglomerations[6]. Polarization forces (economies of scale and positive agglomeration externalities, backward and forward linkages…) are particularly boosted in a large economic integration area as the European Union where many transaction costs have been dramatically decreasing. The knowledge intensive activities are more geographically concentrated because of their knowledge spillover effect. Those knowledge externalities are partly based on the nature of imperfect appropriation of knowledge and constitute for some industries a sharp incentive to the polarization process.

But, this standard literature doesn't take enough in account the specificity of the logic of firm's location strategies which depend not only on the nature of their activity, but also on the type of labor division they implement.

Two types of firms could be distinguished. Some firms implement new patterns of labor organization with a logic of specialization by homogenous knowledge blocs.
Other firms are still organized according to the taylorian division of labor principles. They try to achieve a combination between two opposite strategies: a location strategy based on a low production costs motivation by fragmenting their production process parts on the global level on the one hand, and flexibility with a very fast reactivity to the market fluctuations of demand addressed to their products on the other hand. They tend to invest importantly in the new information and communication technology equipment and in very up to date transports. Those firms which we call "flexible taylorian firms" do not develop the same strategies as the firms which organize and coordinate knowledge intensive activities. [7].

([5]) In 1999, Germany, France and United Kingdom grant more than 70 % of the European patents at the European Patent Organization (EPO).
([6])For a literature survey, see Gérard-Varet et Mougeot, 2001.
([7]) Or firms whic adopt a « cognitive division of labor » concept proposed by Moati and Mouhoud, 1994, 2000.

In a knowledge based economy, firms locate their production units in a range wide of territories according to their capabilities to control and develop some specific competencies. They try to seek the competencies which are specific and complementary with their own competencies. Finally, they are less interested by low wage costs or taxes than by an environment which stimulates their learning capabilities. The location of knowledge intensive activities is also limited by the necessity of managing many constraints related to coordination of the different parts or fragments involved in the production process of a final good or service. The critical phase is, actually, the reintegration of the different fragments.

The high intensity of the relations between the actors involved in the production process means an organizational proximity between them and in some cases a physical proximity of the different partners.

The organizational proximity reacquires two sorts of conditions: the similarity and the "belongings"[8]. Actors which are similar, ie who present the same knowledge absorption capabilities even with different competencies (specialization) are not necessarily constrained by the geographical or physical proximity. The need of proximity is more important in the preliminary phases of the technological development (innovation) which are more concerned by more tacit than codified knowledge.

2. The location firms strategies

The location strategies of the manufacturing production activities are very heterogeneous due to the unequal diffusion of the knowledge based economy in the different industrial sectors. Inside the same firm, some segments of the productive process can be still organized according to taylorian logic, others according to a cognitive division of labor.

The balance between cost factors attractiveness and territorial anchorage

In front of the diversity of the firms location strategies, the local authorities set up policies not enough well balanced between cost factors attractiveness and stability of the production units on their territories.

The logic of organization and of division of labor matters in the strategies of firm's production units location and in the selection of the territories. On the one hand, some firms are engaged in the «cognitive division of labor» logic and are specialized in some homogenous knowledge blocs. On the other hand, certain firms are still organized on the principle of the « taylorian division of labor ». They try to make compatible a « low costs seeking oriented » location strategy with the constraint of reactivity to the market volatility. These « flexible taylorian firms », are particularly present in some sectors, with low barriers to entry and low elasticity of capital / labor substitution. The European "flexible taylorian firms" seem to be very "volatile" and "public subsidies and low taxes seeking". They can decide to locate their production or assembly line units in one European region and relocate it very quickly toward an other one or toward a CEEC region. In those sectors the productive flexibility constraint does not prevent assembly continuing to be relocated offshore, since firms can offset the distance handicap by resorting intensively to the new information and communications technologies.

In the knowledge-intensive sectors where the "cognitive division of labor" is more present, location strategies in the European regions are not prompted solely by costs considerations or the existence of efficient infrastructures. In the case of products which are technology-intensive (electronics and information technology, for example) and have a short life span (less than one year), the decisive factor as regards competitiveness seems to be the speed at which markets react.

The remoteness due to relocation in low-wage countries is not just geographical, but is also cultural and technological. Relocation in the shape of firms sub-contracting in low-wage countries has the effect of arresting the development of the product for a period of time greater than can be afforded by the race to keep ahead technologically (the dominant form of competition in the sector). Relocation and sub-contracting operations are not disappearing, but are being organized differently on the basis of networks of partners which are geographically close. Ireland, Spain and certain CEECS, for example, offer a variety of advantages, combining efficient infrastructures and labor which is skilled, but less costly than in the advanced countries, while they also benefit from externalities deriving from their membership of a large and integrated regional area.

([8]) Gilly et Torre, 2000.

The three types of location strategies

Some recent empirical work about the firm's location shows three types of strategies of location of firms, which could sometimes be found together for some different production process fragments[9] : *productive flexibility, strengthening innovation capacity, strategic flexibility*

Seeking a productive flexibility

In a new context of demand uncertainty, firms try to set up productive flexibility organizations. The logistic considerations could be very important criteria of the productive unit location. In the case of some manufacturing production of heavy products (automobile for instance), firms are often looking for a proximity with the final demand and with their intermediate goods furnishers ; the outsourcing partners agglomerate also around the assembly lines sites of the automotive manufacturers. But it concerns particularly the firms for which the demand is concentrated on a small number of purchasers.

In the case of the firms which face to a large number of purchasers and countries, the localization close to the final demand is often preferred. The rationalization strategies which have been implementing by the large companies lead to a centralization movement of logistic flows and to a reduction of the number of distribution points[10].

Strengthening innovation capability

The strategy of strengthening innovation and learning capability is a new phenomenon, which involves the firms implementing a cognitive division of labor firms. As it's shown by a recent survey with firms processing a permanent and organized R&D activity, generally the higher is the level of the knowledge base complexity, the higher is their inventiveness to locate their units close to their R&D potential partner[11]. The professional researchers endowment is also

---

([9]) Voir P. Moati, 2001.
([10]) H. Molet et P.P.Dornier, « Les mutations de la logistique européenne », Les Échos, supplément « L'art de l'entreprise globale », n° 12, november 27th et 28th, 1998, p. VI-VIII. For instance, the américain compagny of laser jet Lexmark *prefers the direct livraison from the only European base instead of distribution syst dépôtse nationaux. Nike has concentrated on a single location his 25 European centers.*
([11]) This survey was leaded by Carrincazeaux, 2001, with 614 units.

often present in the firm's answers as an important factor of their location choice, after the acceding to the technological resources factor.

Seeking strategic flexibility

In a context of sharp uncertainty on the future of their markets and their technologies, the firms have also to set up organizations patterns and location strategies in order to avoid the irreversibility in their organization choice when some change in the economic environment mean a change in their strategies. Externalization strategies could be the answer to such problems by a transfer of the supporting the uncertainty costs toward the external actors. More generally, the network organization increases the level of the reactivity firm and makes the change easier.

Finally, those studies show that the large firms location is the result of strategic considerations. The firms tend to seek territories which present potentiality to support their competitiveness effort. More generally, the location criteria are very diversified : those criteria depends on the production unit nature and on the type of competitiveness the firms look for. The labor and taxes costs considerations, even if they are not excluded of the firms strategies, are not the most important factors. The variables related to the new competitiveness criteria (labor skill, Research and Development institutions, infrastructures quality) are very important factors of the firms location strategies.

3. The regional policies in Europe

The regional policies are implemented at three different levels, local, national and European. In a restrictive sense, they only concern public interventions with a regional dimension. But the regional impact of national (fiscal policy, social transfers, education, public services) and European policies (research, agricultural policy, competition policy) may be greater and have to be taken into account.

The local policies

The different local authorities (cities or regions) conduct active policies to sustain economic activity and promote employment, following specific ways in each country. The attractiveness policies focus on infrastructures improvement, training, strengthening of the technological potential and development of networks to increase cooperation and spillover effects (Begg 2001).

According to a recent study, three kinds of regional development strategies can be distinguished (Moati 2001). First, some regions concentrate their efforts on the exploitation of their fix resources or of their specific geographic position by developing touristic resources valorization strategy, as cultural or gastronomical, in order to attract the related manufacturing or services activities. Second, other regions take advantage of the history and of the public interventions consisting in the development of *technopoles*. Then, they attract particularly knowledge intensive activities. Third, some regions use their central geographic position and try to become important logistic platforms in Europe. In some cases, they can agglomerate knowledge intensive activities by concentrating their efforts on transport and NTCI (new technologies of communication and information) infrastructures.

Tax cuts and decrease of social charges are also used to attract investments, sometimes at the level of a whole country like in Ireland. Such a strategy is quite more open to criticism, as it leads to a ruinous competition between the sites, without contributing to develop stable employment or strong economic system. Wage pressures are in the same logic, here again to the detriment of a progressive improvement of labor skill.

Regional aids, like subsidies or investment aids, are also criticized because they would alter competition and would finance investments which would have been realized, even without aids. Moreover regional aids might be opposite to regional balance as they could be the more important as the region would be rich. These critics are unequally significant. The possible perverse effects depend of the concrete forms of implementation. Actually, all the regional policies could be criticized as their importance depends directly of the level of development of the region and, in that sense, contribute to increase regional disparities.

Regional policies at the national level

Two kinds of national policy have a regional impact, the regional policy *stricto sensu* and the redistributive effect between regions of the fiscal policy.

The regional policies stricto sensu

The regional policies are twofold, the explicit policies of fiscal transfer in favour of the poorest regions and the public expenditures with a regional dimension.

The explicit inter-regional fiscal transfers in favor of less advanced regions are more or less developed according to the countries (Davies and Hallet [2001]). They are the most achieved in Germany and work between the Federal State, the Länder and the cities, according to a complex mechanism which is periodically adjusted. The German reunification has been a major shock in this respect. . In Spain the process of decentralization and transmission of expenditures to the regions has not been accompanied by an equivalent increase of their capacity to raise taxes. Consequently, the regions depend of transfers from the central government but a fiscal decentralization procedure is in progress. In Italy an Equalization Fund has been created between the fifteen ordinary regions but its implementation is very slow.

Public interventions with a regional dimension take the form in each country of public infrastructures, investment in education and research or aids to private investments, often with a co-financing from the European Structural Funds. The efficiency of these interventions to impulse regional growth and reduce disparities is controversial. Some concentration of the means is necessary to improve the efficiency and avoids dispersion but may increase disparities. The investment programs must be sufficiently lasting but may begin too permanent to promote an endogenous dynamics. Development strategies may lack of consistency.

State aids with a regional dimension are more specifically criticized, mainly because they would alter competition. They used to be important in Germany (0.6% of GDP), in Italy (0.9% of GDP), in Greece (0.8% of GDP) and in Portugal (1.2%). They have been reduced under the pressure of the European Commission and have been brought to roughly 0.3 % of GDP in 1999, as in the mean of the other countries. These critics are again of an unequal value. The concept of regional State aids is less clear than it seams. If subsidies are directly accused, many of the research or training aids, which are better accepted in their principle, are not fundamentally of a different nature.

The redistributive effect of fiscal policy

The fiscal policy induces automatic transfers between regions whose volume is far more important than the explicit regional interventions. Regions affected by a higher unemployment benefit of more social transfers and pay less tax. The tax system is more progressive and the public expenditures system is more uniform, which strengthens the redistributive effect of the fiscal policy. These transfers create a disequilibrium between regional demand and regional GDP which generates a deficit financed by public transfers and intra-regional capital flows. This deficit can be very important. It was equivalent to 46% of Eastern-Germany GDP and 12% of South-Italy GDP in 1999 (Sinn and Westermann [2001]). In this case most of the regional State policy aims to preserve consumption in the less developed regions, without being able to sufficiently sustain the investment effort, with a risk of keeping these regions in a dependant position. All these questions will be discussed in more details later on.

The European regional policy

Since the accession of the Southern European countries, the European regional policy has reached a rather important level, as the Structural funds and the Cohesion funds represented yearly 0.45% of the EU GDP between 1994 and 1999, with financial contributions far higher for the Southern countries (4% of GDP in Portugal, 3.7% in Greece, 2.8% in Ireland and 1.7% in Spain). But, for the period 2000-2006, a decrease has been planned, with 260 billions of euros for the whole structural measures (0.4% of EU GDP each year), 195 billions for the Structural funds, 18 billions for the Cohesion funds and the rest for the applicant countries. Three objectives have been retained for the Structural funds: 1/ promote the development and structural adjustment of regions whose development is lagging behind (with a GDP per capita less than 75% of the EU average) and which would receive an amount of 70 % of the total Structural funds; 2/ support the economic and social conversion of areas facing structural difficulties; 3/ support the adaptation and modernization of policies and systems of education and employment (long term and youth unemployment, persons excluded from the labor market).

The efficiency of Structural funds in reducing regional disparities is questionable (Fagerberg and Verspagen [2000], Fayolle and Lecuyer [2000], Cour and Nayman [1999]). Structural funds invested in infrastructures would have contributed for a third to the reduction of productivity gaps between the Spanish regions during the 1980s. Their impact on private investment would also have been positive for the Cohesion countries. But, in the case of Portugal, this effect would have been more important when the investments were realized in the richest regions. This result confirms Martin (1997)'s conclusion, already mentioned. Public infrastructures have strengthened convergence between countries by accelerating the growth of the most advanced regions of the poorest countries, without reducing internal intra-regional inequalities. The efficiency of Structural funds would be marked more especially as the concerned region is rich.

On a more practical plan, the elaboration and implementation of projects financed by Structural funds suppose complex interactions between the regional, national and European institutions. In many countries the projects management appears too centralized. Due the complexity of the European documents, the control requirements at the national level and the co-financing recourse, the consumption of the Structural funds is often very slow.

4. Lessons and perspectives

The opposition between "technopoles" and "local excellence centers"

The knowledge-based economy doesn't involve only the "technopoles" in the European regions. It also concerns the "local excellence centers" (LCCs), which are less technological intensive and concentrate their efforts on their specific competencies and the innovation behavior of the local actors.

The technological innovation activities are generally geographically more concentrated than the other economic activities. France and the other southern European countries seem to be the countries where this regional concentration of the technological innovation activities is the most pronounced. Technological innovation activities are more concentrated in some large regions because the knowledge intensive activities benefit from large increasing returns and from knowledge spillover. Then, it seems necessary for a region to get a big size in order to organize those activities and to develop intense relationship between the actors within the firms and between the firms and their partners.

But, beside those “technopoles”, which are much more efficient when concentrated in some large agglomerations, local excellence competencies centers exist and are much more scattered within the European countries. Those local competencies centers (LCC), which are some times described as a « local system of production » or a «cluster » are based on specific competencies in different fields : technology, production organization and related activities, as marketing… Those clusters are focused on a specific sector agglomerated to the activities associated to such a sector. A significant example of such local system of production is the « slide cluster » of Aquitaine in the South West of France is a cluster based on a strong connection between firms associated to this large sector (boats, windsurf, surf, surf apparel, diving equipment….). The LCCs competitiveness is based on non price factor competition advantages (innovation, quality, marketing, differentiation, labels…) which permit them to resist to the global competition pressure.

Regional policy makers have trouble finding a balance between strategies consisting in attracting firms seeking to minimize their costs or firms looking for specific skills. The first strategy might lead enterprises to become too « volatile » and the second might result in over-specialization which would jeopardize the adaptation capacity of regions. At the same time, the national and European authorities are faced with the dilemma between policies that promote geographic concentration of activities and policies of regional cohesion.

The main policy recommendation of this paper is that, instead of a policy of « *laisser faire* » inducing a geographic concentration of economic activities, *an alternative European policy toward regions is possible* consisting in helping and consolidating everywhere the local competencies based on local excellence knowledge in various domains which are not be reduced to the technological knowledge.

The local policies

The local policies of cities or regions must not be reduced to attractiveness policies of investments funded on costs reduction or tax cuts which induce a devastating competition and a risk of locking in low range specialization not adapted to the new forms of international competition. The target must be to take advantage of the specific competencies of the local systems (labor skill, know how, networks) through:

-the strengthening of the local scientific basis (links between universities, research centers and firms, technological parks);

-the promotion of marks and labels with a strong territorial specificity (label policy, quality improvement and diversification, aid to inter-firms cooperation and to trading);

-a training policy and an help to new technologies diffusion;

-an improvement of the environment quality (infrastructures and way of life).

Not every region has the vocation of being a scientific and technological pole. The increase of the R&D effort promotes the catch up only in a region with a minimum level of infra structures. Technological diffusion occurs between regions, but with a threshold effect for regions which are not too much lagging at the beginning. But each region can form in its specific fields a local excellence center by identifying and building progressively its specific advantages. The attractiveness of the region is gradually increased for the local, national or foreign investors. In this general framework, adjustable to each specificity, the local policies can be implemented and be supported in a consistent way by the national and European policies.

Regional policies at the national level

The main scientific programs and infrastructures expenditures can favour the technological poles with a national or European size in order to avoid dispersion and allow scale economy and spill over effects. National financing and human resources can sustain the local strategies. But this policy increases the polarisation of technological innovation activities.

At the opposite, more selected and specialised technological programs, innovation or investment aids and training policies can support the specific competences which have been identified at the local level. Such public interventions are destined to be more scattered on the whole territory.

The preservation of public services of quality regarding transports, post, telecommunications and energy supply are necessary conditions to help the less developed regions to restructure and find new growth factors. The improvement of the education system for initial and permanent training, with a national support, is also a necessary condition.

European regional policy

The Eastern enlargement of the EU brings new challenges which have been clearly diagnosed (Begg, 2002). With the entrance of the candidate countries, the average EU GDP per capita will fall dramatically and take many regions currently receiving Structural funds (with the Objective 1) over the 75% eligibility threshold. This will pose a dilemma as a region in Southern Spain or Eastern Germany that will move above the threshold will have its support reduced, without any change in its absolute GDP per capita. According to the Cohesion report (European Commission, 2002), the number of EU-15 regions below the threshold will drop from 46 to only 19.

A distinction can be made between countries with a weak fiscal capacity and the richest ones which believe that they pay too high a net contribution to the EU and regard the Structural funds as a one of the channels through which they can recoup some of their net contribution. The poorest countries, measured with an aggregated indicator, regroup Greece, Portugal and the new entrants. Some countries are not relatively poor, but contain regions which are below the threshold, sometimes significantly, like Spain, Italy and Germany. Lastly, in the other cases, neither the country, nor the region is below the threshold, but there are structural and specific problems which allow Structural funds (mainly through Objective 2). As there is a Treaty commitment that obliges the EU to act to lessen regional disparities, the political challenge in the perspective of enlargement would be to rise the threshold, for instance at the level of the Cohesion funds (90% of EU GDP per capita). But this would raise difficult budgetary constraints with a EU budget limited to 1.27% of the EU GDP.
Regarding the new entrants, the current proposals have put a ceiling of 4% of GDP for the transfers due to the limited absorption capacity. This would give a cost estimated between 0.18% and 0.38% of the EU GDP, according as the estimation is made in current prices or in PPS. On the whole, this cost would be bearable, but this kind of transfers (4% of GDP) would favor the richest new entrants, mainly Slovenia.

In this context, three scenarios can be considered:

-If the EU budget remains to its present level (1.1% instead of the potential 1.27% of the EU GDP), the temptation would be strong to reserve, for the main part, the Structural funds to the new members. In the EU-15 the regional policies would be *re*nationalized, which would be coherent with the fact that regional policies are already mainly financed by the State and local budgets. Moreover neo-liberals consider that regional problems must largely rely on market mechanisms and on private capital flows. However this prospect raises two kinds of problems. The current EU members, especially the richest ones, would be excluded from any European financing. This situation would be difficult to manage in the long term, the richest countries being progressively reluctant to finance a solidarity mechanism, from which they would be permanently excluded. On the other hand, the new members, often reserved with regard to the implementation of any European economic government, would be in a rather paradoxical situation where they would benefit of transfers without accepting the political counterpart.

-In a more favorable perspective the EU budget could be progressively raised to around 5% of GDP at medium term. This would give more room to maneuver thanks, for instance, to an increase of the eligibility threshold for the Structural funds. A larger number of less developed regions could benefit of transfers, including in the more advanced countries of the EU-15.

-These two first scenarios are not the most likely, due to the political environment. A new compromise could be searched in a double direction. As for the precedent institutional changes, new Structural funds could be created and dedicated to the new members, with financing by borrowing through the EIB and the ERDB. The present Structural funds could be shared between the EU-15 members and the new entrants with a re-negotiation of the eligibility threshold, in order to give to both groups of countries a sufficient amount of funds. Lastly, the procedure of the Structural funds could be reformed in order to improve their efficiency. More autonomy could be given to the local, regional and national development plans with the Structural funds playing a complementary role, without a too tight examination of the Brussels bureaucracy. High levels of support for lagging countries would be linked to broad public investment strategies. Objectives for eligible EU-15 regions would be determined by country and regional indicators to increase the consistency.
For the short term we present two proposals to reduce the regional policy conflict between enlargement, budget problems and ongoing cohesion in the EU-15:

- a “0.5% approach (European Economists 1)”: (= 380 bill.€ (2007-2013) for the EU-25 in prices of 1999 (calculation based on basic figures of Eltges, 2003). The EU 15- regions would get as much as in the 2000-2006-period, and there would be another 22 bill. € for example for the general support of the national budgets of the accession countries. In this case the 4%-limit would be lightened.

- a "1% approach (European Economists 2)": (= 760 bill. € (2007-2013) for the EU-25 in prices of 1999). In this case (which also is not more than a 1% approach for regional funds) it would nevertheless be necessary to change the funding process by abolishing the 4%-rule and empowering the global support for the national budgets of the accession countries instead of controlling all projects of and in the "single program documents" which nowadays have to be presented by the regions and accepted by the European Commission.

References

I. Begg (2002) « Regional policy in Europe under EMU », Thematic network EPOC, Workshop Bremen, march.

A. Cappelen, J. Fagerberg et B. Verspagen (1999) «Lack of regional convergence » in J. Fagerberg et alii (1999)

P. Cour et L. Nayman (1999) « Fonds structurels et disparités régionales en Europe », Lettre du CEPII n° 177, mars.

M. Crozet, T. Mayer et J. L. Mucchielli (2002) « How do firms agglomerate ? A study of FDI in France", TEAM, Université de Paris 1.

B. Dalum, M. Holmen, S. Jacobson, M. Praest, A. Rickne et G. Villumsen (1999) "Changing the regional system of innovation" in J. Fagerberg et alii (1999).

S. Davies et M. Hallet (2001) « Policy responses to regional unemployment : lessons from Germany, Spain and Italy », Economic papers n° 161, European Commission, december

S. Dupuch et E. M. Mouhoud (2002) « Divergences structurelles, polarisations régionales et intégration européenne : quel avenir pour les pays périphériques et les PECO ? », CEPN-Université de Paris 13, mars

W. Dymarski (2003) : Some remarks on structural problems of Polish economy, Working paper

Eltges, Markus (2003): Die Auswirkungen der EU-Osterweiterung auf die europäische Strukturpolitik. In: WSI-Mitteilungen, Heft 1-2003

European Commission (2002) « Cohesion report »

J. Fagerberg, P. Guerrieri et B. Verspagen (1999) «The economic challenge for Europe », Edward Elgar.

J. Fayolle et A. Lecuyer (2000) « Croissance régionale, appartenance nationale et fonds structurels européens », Revue de l'OFCE n° 73, avril.

L-A. Gérard-Varet et P. Mougeot (2001) « L'Etat et l'aménagement du territoire », Rapport du CAE, La Documentation Française.

J. P. Gilly et A. Torre (2000) « Dynamiques de proximité », L'Harmattan.

R. Lallement, E. M. Mouhoud et S. Paillard (2002) « Polarisation et internationalisationdes activités d'innovation : incidences sur la spécialisation technologique des nations », Région et développement, n° 16.

P. Martin (1997) « Convergence et politiques régionales en Europe » Lettre du CEPII n° 159, juillet

P. Martin (1999) "Public policies, regional inequalities and growth", Journal of Public Economics n° 73

N. Massard (2001) "Externalités de connaissance et géographie de l'innovation: les enseignements des etudes empiriques", Commissariat du Plan.

P. B. Maurseth et B. Verspagen (1999) "Europe : one or several systems of innovation ?" in J. Fagerberg et alii (1999).

P. Moati (2001) "Localisation des firmes et développement local", Cahiers du CREDOC, n° 159, octobre.

P. Moati et E. M. Mouhoud (2000) «Connaissances et principes de division du travail : incidence sur la coordination et la localisation mondiale des activités productives », dans M. Delapierre, P. Moati et E. M. Mouhoud « Connaissance et mondialisation », Economica

OST (2001) "Sciences et technologie: indicateurs 2001", Rapport de l'Observatoire des Sciences et Techniques, Economica

H. W. Sinn et F. Westermann (2001) « Two Mezzogiornos », NBER Working paper n° 8125

J. B. Zimmermann (2002) "Grappes d'entreprises et petits mondes : une affaire de proximité », Revue Economique, n° 3, mai

Euromemorandum 2003
Chapter 4

Problems of the European Employment Strategy

John Grahl*

1. Origins and Development of the EES

For five years the European Union has been involved in the labour market policies of member states through the working of the "European Employment Strategy" (EES). The EES leaves competence for policy in the hands of the member states but interrogates and seeks to coordinate national policies by an iterative process: each year policies are examined at EU level; recommendations for improvements are made in the form of "National Action Plans" (NAPs); member governments are required to report back and the cycle is then repeated. This is a key example of what has become known as the "open method of coordination".

Coordination objectives are expressed in various targets for the EU labour market as a whole, as well as for individual countries. These targets centre on overall employment rates but also include employment rate targets for women and other groups and for the levels of intervention in support of the unemployed. Several dimensions of labour market policy are included - such as employment regulation, the functioning of job placement services, the interaction of employment and social protection regimes. However, a great deal of emphasis has been placed on "active employment measures", the engagement of the unemployed in work experience, subsidised employment, training courses and so on.

Five years after the EES was launched, in 1997, the Commission has undertaken a comprehensive review which has led to certain changes both in its objectives and in

* This chapter draws heavily but freely from "Problems in European Employment Policy", a paper presented to the European Economists for an Alternative Policy" conference in Brussels, September 2003. The other authors of that paper (Anne Dufresne, Frank Brouwer, Mahmood Meskoub, Ingo Schmidt, Andrew Watts) are not, however, responsible for the views expressed here.

its procedures. From now on there is supposed to be more emphasis on the implementation of national action plans, which will only be subject to basic revision every three years. The number of recommendations is to be reduced, with 18 guidelines being replaced by 10. The quantitative targets associated with the EES have been reformulated.

From the start, the EES has been a field of conflict, with different agents advancing very different views on the evolution of policy. There seems to be little doubt that a key motive behind the EES initiative was a desire to address the acute problems of legitimacy which faced the EU in the run-up to monetary union. The chosen strategy to prepare for the introduction of the euro involved severely restrictive macroeconomic policies which aggravated what were already very high levels of unemployment. The adoption of an "employment" strategy could help to present the EU as contributing to the solution of this key socio-economic problem and thus as closer to the concerns of European citizens. In this respect the pattern of events resembled the launch of certain social policies in the 1980s in order to "balance" what would otherwise have been an strategy completely focused on market integration and the intensification of competition.

The first formulations of the EES were heavily influenced by the newly elected Labour government in Britain. This government in turn had been influenced by US approaches to unemployment and the employment initiatives of the Clinton administration. Persistent unemployment was seen as a question of labour supply, not of the demand for goods and services. The doctrine of the NAIRU, a supposed "equilibrium" level of unemployment associated with a stable inflation rate, determined policy in both these countries. From this point of view, the improvement of employment outcomes over the longer term is seen as a matter of increasing the incentives for labour market participation, of reducing labour market regulation and of adapting the characteristics of job-seekers so that they match more closely the requirements of employers. Essentially, it resulted in a continuation of the drive for labour market "flexibility" which had been the main line of employment policy in many European countries since the 1980s.

The first specification of the EES reflected this approach. The four “pillars” of the strategy were employability, enterprise, adaptability and gender equality. No objection can be made to the last of these; it is still the case that women are at a disadvantage in European labour markets and it is important to address this problem as a question of both justice and of economic efficiency. The other pillars, however, all correspond to aspects of the “flexibility” agenda. The “employability” theme relates very closely to some of the “active” measures which are prescribed in the guidelines: the unemployed are to be made more attractive to potential employers by training courses, work experience and so on. The “enterprise” pillar refers to the creation of new businesses and to business expansion and seeks to reduce perceived administrative and regulatory obstacles to these processes. “Adaptability” thematises the introduction of “atypical” labour market contracts, such as fixed term contracts and the reduction of employment regulations seen as barriers to employment. Thus most of the main themes of the EES corresponded closely to the thinking behind employment policy in the US and Britain, combining “free market” doctrines with an authoritarian approach to the unemployed.

In today’s climate of low inflation, the NAIRU doctrine, which suggested that disinflation might require high levels of unempoloyment, has lost much of its force. But the same policies are increasingly justified in a new way, as a necessary adaptation to the emergence of a global economy. It is argued that new technologies and the entrance of low-wage countries such as China into the international division of labour lead to a decline in the demand for less qualified labour. Wider wage differentials and reductions in minimum employment standards are then put forward as the way to price workers into jobs. This seems to be a highly questionable argument - to the extent that globalisation does have macroeconomic effects on employment, these seem to be more related to demand than to supply factors and there is no evidence that wider wage differentials contribute to better employment outcomes. The adoption of this new rationale for existing, and unsuccessful, employment policies obstructs the fundamental reconsideration of these policies which is increasingly necessary.

Many of the policy prescriptions advanced in the employment guidelines and in the recommendations to individual member states are distorted by this doctrinal commitment to the “flexibility” agenda. The language used is often deliberately ambiguous, but governments have been encouraged to tighten constraints on the unemployed, to reduce levels of social protection and to lower regulatory standards in employment. The latest recommendations to the Swedish government offer a particularly absurd example of this procedure. Sweden already more than meets the EU’s targets for employment and female participation. Nevertheless, the Swedes are enjoined to cut payroll taxes in order to improve the incentives to work. This impertinent suggestion shows a complete misunderstanding of the Swedish social model, within which it is precisely high tax revenues and high levels of government spending which permit high levels of employment in general and female employment in particular.

In spite of these biases in the EES and in spite of the way in which it originated, there have, from the start, been other interpretations of the strategy and contestatory judgements about the policies to be pursued. Trade union representatives, progressive governments and even some forces in the Commission, have stressed the interventionist aspects of the EES as against the orthodox reliance on market forces. They have emphasised the qualitative side of employment relations, insisted on the need for social dialogue and challenged the deregulatory and inegalitarian thrust of the “flexibility “ agenda. Over time, significant modifications of the strategy have been brought about by these pressures. The four pillar schema was replaced, firstly by a more complex and elaborate set of recommendations, then, following the policy review, by ten broad principles (the “ten commandments”) which give a more balanced and comprehensive view of employment policy reform. (It should be noted that these reformulations might have gone even further if it had not been for resistance from certain member state governments.) In particular, the requirement for social dialogue, involving workers’ representatives in the formulation of labour market policies, has been strengthened, as has also the concern with the quality of new jobs. It should be noted, however, that closer cooperation between social partners does not change the direction of economic and social policies within the EU. A change in the balance of power between labour and capital is needed to bring about such a change that would allow for more employment and equality.

Another positive feature of the EES has been a concern to improve the position of immigrant and ethnic minority workers in the European labour force and to encourage member states to intervene more effectively to counteract the disadvantages which they face. To the extent that it encourages member states to treat migration as a labour market and not as a policing issue, the EES makes for a more civilised and practical response to immigration in the EU.

In the clash between different conceptions of labour market reform, one important issue is the nature and the use of "active employment measures." In general these consist of programmes of work experience or training which are meant to complement or replace the mere ("passive") allocation of unemployment indemnities. Although the deliberately ambivalent language used in the employment guidelines disguises the fact, "active" policies follow two completely different logics. On the one hand there are the types of intervention found in the Nordic countries (for example in the working of the Swedish labour market policy as far back as the 1960s. These might be described as solidaristic interventions in favour of the unemployed and disadvantaged. They aim to widen the range of possibilities open to those affected by the misfortune of unemployment. They are often highly redistributive.

On the other hand there are measures which derive from the notion of "workfare" and from the experiments conducted by many of the US states following President Clinton's dismantling of the key Federal welfare programme, Aid to Families with Dependent Children. These are primarily modes of social discipline, or even of social punishment: constraints on unemployed benefit claimants, or on sub-groups, such as single parents, are tightened in order to induce a return to employment even when this is on terms which would otherwise have been rejected. The view taken of individual autonomy and wellbeing is quite different in the two approaches. The first may certainly involve elements of discipline, but seeks in general to widen opportunities for the unemployed. The second focuses on the removal of existing entitlements.

There is no doubt that British employment policies, like many other initiatives of the New Labour government, are heavily influenced by such US precedents. It can be seen from the British government's submission to the review of the EES that measures such as the "New Deal" (an activation programme directed at young people) have, as an explicit target, a tightening of eligibility conditions for unemployment benefit which will induce people to leave the unemployment register - either taking a job they would previously have refused or simply renouncing their claim to indemnities and becoming inactive. Unlike the Nordic interventions referred to above these measures are in complete contradiction with the values and traditions of the European social models. The EES has tended to obscure the profound differences in member states' employment policies by setting undifferentiated activation targets, which specify the proportion of unemployed who must be taken into activation schemes, but fail to specify how these schemes should be designed.

It is a sign of the improvement of the EES that recent recommendations to the British government start to address some of the weaknesses of British policy. For example, there is a new stress on the need to involve the social partners (and hence the trade unions) in the design and functioning of these policies. Also, the latest guidelines raise the issue of the low levels of productivity (and hence, implicitly, the issue of low wages) associated with many of the new jobs in Britain.

There are other signs of a more positive trend in the EES. In the past, deregulatory measures advocated by the Commission have included a relaxation of the constraints on dismissals. This was supposed to reduce the risks to employers of hiring more workers. The Commission's own empirical studies, however, have indicated that such reforms do little or nothing to increase employment but do make it much less stable. Hence this theme seems to be disappearing from the strategy and this is a welcome development.

On the other hand, the EES has done little or nothing to challenge the attack on labour standards which is currently taking place in Germany. The same free market authoritarianism which was seen above to have inspired the original formulations of the EES lies behind proposals from the Schröder government to weaken employment regulation, reduce social protection and undermine the position of the trade unions in Germany. This is a serious threat not only to the German social model, but also, because of the size and importance of the German political economy, to the European social model as such.

The Commission has claimed, in the course of its review of the EES, that the strategy has had a significant impact on the formulation of labour market policies in the member states. This can be doubted because it is not clear that any major change in the direction of member state policies has yet taken place. Firstly, the specification of National Action Plans leaves a great deal of discretion to member state governments, who are able to pursue their own priorities in apparent conformity with common objectives. Secondly, the effective procedures of the strategy have privileged the dialogue between Commission and each member state - the panEuropean “policy community” which, it was hoped, would emerge to compare and contrast labour market initiatives remains underdeveloped.

Finally, it should be stressed that, even if the EES in future takes a more positive direction (and this is by no means guaranteed; in spite of the changes noted above, many member state governments and most employers are wedded to the original path) the strategy as such cannot be a full response to employment problems in the EU. It is in fact misnamed, being a labour market strategy rather than an employment strategy since it has no macroeconomic dimension.

The Commission, in its review of the first five years of the EES, suggested that decisive “structural” improvements had been achieved in terms of labour supply. This claim looks increasingly like wishful thinking. The general reduction in levels of unemployment from the late nineties are better explained by rising levels of aggregate demand, associated with the initial depreciation of the euro and the transatlantic stock market bubble. As these factors have gone into reverse it becomes increasingly clear that there has been no decisive improvement in employment outcomes. In Germany, there has been an alarming deterioration in the employment situation.

The “macroeconomic dialogue,” bringing together the social partners with officials from Commission and ECB, offers in principle a way of correcting the macroeconomic policies of the EU and aligning them more closely with employment objectives. In practice the dialogue has not modified in any way the dogmatic conservatism of the central bank or the equally dogmatic commitment of the Commission to restrictive, often counter-cyclical, fiscal policies. This represents an important failure to bring the policy-making process of the Union into line with its professed values.

2. A New Direction for the EES

In the conflicts over the content of the EES, progressive reforms and the pursuit of social justice are held back by the fact that a dense policy community, involving interactions and debates among all the parties involved has not yet developed. The coordination process in practice has been little more than an interchange between each national government and the Commission, and even this interchange has been distorted by the subordination of NAPs and employment guidelines to the neoliberal priorities of the BEPG.

Nevertheless, the recent review of the EES has led to significant improvements - for example, in a stronger emphasis on the quality of jobs and on the involvement of social partners in labour market policy. Workers' representatives, some member state governments and certain political forces within EU institutions had from the first contested the most negative formulations of European labour market policy and they seem to have increased their influence in the course of the review.

Although the EES has not as yet had a major impact on actual labour market practice, it is, , regarded as potentially of great significance by employers and trade unions alike.

To ensure that the EES begins to make a positive contribution to the future of European social models, the strategy should be developed in two complementary ways. As regards its procedures, it is necessary to make the strategy more democratic by a much wider involvement of social actors and by promoting a genuine European debate within which those countries with highly developed social models can increase their influence. In terms of its content, the EES can best evolve by removing any possibility of regressive or inegalitarian interpretations of its objectives and by making a much more explicit commitment to high labour standards and advanced social policies.

Official accounts of the EES often stress that it is a pioneering exercise in “open policy coordination” which can help to move the EU away from conflicts over competence towards practical cooperation aimed at improving policy outcomes. The open method of coordination is intended to build up a policy community in which decision-makers, the social partners and experts from different countries interact in order to improve the design and the efficiency of policies. The EES is seen here as a model which might be extended to other domains, achieving greater coherence and greater success in various policy fields even when these remain under member state control. This new approach to integration does indeed seem to be a promising development in the functioning of the EU, but it cannot fulfil its potential unless European policy communities do in fact emerge and unless they are able to express the interests of a wide range of social groups and to subject the policy process to effective democratic scrutiny. At present, many member state governments resist this kind of evolution and prefer, rather, to use a narrow dialogue with the EU administration to reinforce their own priorities.

If a comprehensive comparison of social policies, including all their qualitative and quantitative dimensions, were undertaken within the EES, then it would soon become clear that those states, particularly in Scandinavia, which accord a high priority to social objectives, for instance to equality and inclusion, have a far better record than those which subordinate social objectives to the reinforcement of market disciplines and which adopt an authoritarian approach to the poor and disadvantaged. This is not to say that there is a single social model which can be introduced into all countries regardless of their historical, social and political circumstances. But a process of creative emulation, in which labour market initiatives are thoroughly examined in terms of their impacts on individual and social welfare is a promising alternative to the current procedures, which attenuate discussion and comparison and which work to impose a single, extremely narrow, interpretation of labour market outcomes.

A further procedural issue concerns the relationship of the EES to other EU policies. In principle, a close relationship between EU economic and social policies is highly desirable - to guarantee the coherence of EU strategies as a whole. However, the present situation is that the employment policy gudelines are subordinated to the negative and regressive economic thinking expressed in the broad economic policy guidelines, which have been repeatedly criticised in detail in these memoranda. What is required is an integrated approach in which the economic policies of the EU are oriented towards social objectives as much as the reverse and where social constraints are placed on the choice of economic instruments and on the way these instruments are used. This in turn requires the effective presence of the social partners in the process of economic policy formation. The macroeconomic dialogue could contribute to this reorientation, but only on the condition that it cease to be a sterile "exchange of views" and become a genuine debate over all aspects of policy, including the monetary policies which are at present shielded from democratic influence by the provisions of the Maastricht Treaty.

These procedural changes would work to support the necessary substantive changes in the EES. As regards the objectives of the strategy, ambitious targets for the reduction of unemployment should certainly be maintained although it is necessary at the same time to recognise that labour market reforms in themselves are insufficient to achieve such targets. However, the objective of the EES should no longer be formulated in terms of simple targets for employment. There needs to be a recognition that, when people do not participate in the labour market, this occurs in various ways and for various reasons. EES targets have usually been set in terms of employment growth rather than unemployment reduction. Employment targets have the merit that they discourage the excessive use of early retirement, when what is needed are better employment prospects for older workers, and an excessive resort to sickness and incapacity benefits, when what is needed are effective programmes of rehabilitation and, again, wider employment opportunities for the older workers who are often parked in sickness benefit regimes. On the other hand, non-participation for other reasons, such as education or the provision of care to the old and infirm, has a completely different social significance and may often be something to be encouraged by social policies. Considerations of work-life balance may also make periods of non-participation desirable. Also, as some recent changes in the EES in fact recognise, quantitative employment targets abstract from the qualitative considerations which impact on welfare and wellbeing. The objective, in most cases of unemployment, must be to improve the circumstances of the individuals concerned, not to drive them willy nilly into any job available.

Similar considerations apply to the targets for female labour market participation. A statistical increase in female employment may represent a genuine improvement in the economic position of women. But it is also possible that it signals increased pressure on low income families. Only more complex assessments of changing labour market outcomes and more carefully specified policy objectives can guarantee that rising employment reflects a real improvement in the status of women workers.

The quality of employment has many dimensions, not all of which can be priorities for European policy. On the other hand, the thinking behind the EES has often been that quality and quantity are opposites, that employment is to be promoted by sacrificing labour standards. To illustrate how better employment could be pursued in parallel with more employment, three aspects of quality can be mentioned. Firstly, there is the issue of job security. The “flexible” employment promoted by orthodox policies over the last two decades has all too often been insecure employment. Yet the Commission itself now recognises that deregulation to make dismissals easier and cheaper for employers has not in fact made them more ready to expand their payrolls. Employment has been made more unstable by these measures but there has been no lasting increase in the number of jobs. In these circumstances the EES should include job security as a key objective and recommendations to member state governments should take this into account.

The theme of skills and training has been present in the EES from the start and indeed early specifications of the strategy referred to the need to address the “skills gap”. The EU is closely concerned with educational and training issues. In practice, however, the requalification of workers has been subordinated to “activation” measures which often take the form of training courses of various kinds. These in turn are often presented as obligations on the unemployed or as new conditions of entitlement to unemployment indemnities. Given the wide disparities in educational and training provision across member states, it would be valuable to begin to introduce training and requalification rights, to be enjoyed by all workers and not only by the unemployed. This would start to give substance to the objective of “life-long learning”. Active employment measures tend to be relatively short-run programmes. In itself this is quite appropriate because these are often emergency programmes designed to respond to sharp rises in unemployment in particular localities or among specific groups. But just for this reason it is necessary to formulate long term labour market policies independently of the design of activation measures.

A third central quality issue relevant to the EES is the organised representation of workers. Social partnership and social dialogue are central to conceptions of social Europe. But effective employee representation is also a necessary condition for the successful implementation of labour market reforms aimed at enhancing the quality of working life. The “flexibility” agenda has tended to undermine representative structures in the workplace by destabilising employment and disaggregating employee interests. In so doing, it has also contributed to the grossly excessive dominance of employer groups in the formulation of policy at both EU and member state levels. The EES should challenge these political and economic imbalances by insisting on the active involvement of workers in the implementation of every aspect of labour market policy.

There are various interpretations of the European social models and, in any case, these take very diverse forms in different countries. But it is surely an essential characteristic of the social models that they attempt to combine successful economic performance with high labour standards and ambitious social objectives. Although EU leaders always give lip service to the importance of social Europe, in practice they have often pursued economic strategies completely inconsistent with, and dangerous to, the development of the social models. This is a key aspect of the legitimacy problems of the integration project and of the problem of democracy in the EU. Although original formulations of the EES were heavily influenced by negative views of labour standards and employment rights, debates around the strategy point to the possibility of a more constructive agenda, which gives a high priority to overcoming unemployment not by sacrificing established standards but by enhancing the quality of working life and strengthening the social and economic position of European workers.

Euromemorandum 2003
Chapter 3

From EU 15 stagnation to EU 25 recession ? – The need for a new macroeconomic policy regime

Malcolm Sawyer

With the accession of eight Central and Eastern European Countries (EEC) plus Malta and Cyprus to the EU in May 2004 the current dismal macroeconomic situation will become even more complicated. The differences in GDP, per capita income and productivity which are already rather sharp in the EU15 will become much sharper within the enlarged EU25. It is therefore crucial that European economic policy should support and accelerate a dynamic catch-up process of the new member countries to achieve a narrowing of the economic and social disparities. This requires, firstly, that the prevailing uniform pattern of a one-size-fits-all policy is abandoned and replaced by a much more differentiated yet co-ordinated approach and, secondly, that the harmfully restrictive orientation of fiscal and monetary policy is given up in favour of more expansionary and employment oriented strategy. Without such changes the old EU will remain caught in stagnation with deflationary tendencies and growing social polarisation, and the continuation of the current positive macroeconomic developments in most accession countries will be blocked.

Consideration of the future economic development of the Central and Eastern European countries (CEEs) within the EU25 has inevitably to take account of the specific patterns of development evolving during the 1990s. The "transition period", when these countries moved from the command system to market economies, was a period of large and crucial institutional changes. It is therefore not surprising that the uncertainties and structural novelties associated with these changes caused a deep downturn in economic activity in the first years of the transition. Subsequently divergent paths of development emerged. While the richer central European economies (Hungary, Poland, Slovakia, Slovenia, the Czech Republic) managed to recover from the downturn until 2002 (in terms of real GDP levels), the south eastern economies (Bosnia-Herzegovina, Romania, Croatia, Bulgaria, Macedonia, Serbia-Montenegro with the exception of Albania) up to 2002 have not been able to get back to their production levels in 1990. But even within the group of accession countries the overall economic indicators show large differences in per capita income, ranging from almost 1:10 in terms of current exchange rates and 1:4.5 at purchasing power parities.

While the 1990s have been a difficult period with rather mixed growth performance in the transition countries and with generally steady, although low, growth paths in EU15 economies, the picture changed definitely at the beginning of the new century. Western European economies experienced ever slower growth from 2001 onwards and some countries have by now slipped into recession. In the CEECs, production increased rather steadily and in most countries keeps on growing much stronger than in western countries. To illustrate the continuing differences within the enlarged EU, we make calculations based on the growth in western economies (EU 15) at an annual rate of not more than 2% while the growth rate for the CEECs is taken as 4% per annum (which is a highly optimistic rate and unlikely to be achieved. The following results for 2015 emerge : In terms of GDP per head of the population (at purchasing power parities), Slovenia would (under the stated assumptions) have almost caught up to the average of the EU-15 (arriving at 93% of the EU-15 average) and the Czech Republic will arrive at about 80% of the EU 15 average. Hungary and Slovakia will then reach about two thirds of the EU 15 average. The south eastern economies will need much longer to approach these standards. Until 2015 they will only get into a range between 25% (Ukraine) and about 50% (Croatia) of the average GDP per capita. of the EU 15. Whenever considerations of policy coordination are of the type of crossing the border towards the (south) east, it is therefore crucial to keep in mind, that even in the long run (i.e. within 12 years from now on) and even in terms of purchasing power, only the more developed accession economies will slowly approach EU-15 levels, and the less developed economies will still be far away from these levels by then.

The establishment of a new macro-economic policy framework conducive to growth and employment is essential to enable the accession countries to continue their catch-up process. It is equally important to enable the old EU15 to overcome its present stagnation and to avoid a long lasting crisis following the Japanese pattern.

The past two years have witnessed sharp reductions in economic growth, rising unemployment and most countries of the EMU moving close to or into recession. The ability of macroeconomic policy to respond to rising unemployment and slow growth has been much constrained by the policy framework of the EMU. The effects of the economic slowdown have lowered tax revenues and pushed up budget deficits, towards and over the 3 per cent of GDP limit imposed by the Stability and Growth Pact (SGP). This impact of economic slowdown on the budget deficits was fully predictable, and it should have come as no surprise to anyone that an economic slowdown pushed budget deficits in many countries over the 3 per cent limits. The European Commission and a number of the smaller countries have strongly criticised those countries who failed to fulfil the imperatives of the SGP, though have pulled back from the imposition of sanctions on countries for ‘excessive’ deficits . But even without the actual impositions of sanctions, governments have been heavily constrained in their ability to use discretionary fiscal policy to respond to rising unemployment. It is no doubt a matter of regret to the advocates of the Stability and Growth Pact that the commitment to ‘fiscal discipline’ has been undermined, and the credibility of the pact brought into doubt. Yet the dangers of inappropriate fiscal policies remain – if national governments continue to be pushed to reach balanced budgets in the years ahead, then economic activity will be restrained and high levels of unemployment will remain.

We have argued previously that the time has come to make some ***fundamental changes to the Stability and Growth Pact*** to prevent it becoming an instrument for the continuation of recession : and we have to repeat that call again and with even more intense urgency in the face of the coming enlargement. Many have recognised the deflationary impacts of the SGP and the straightjacket which it imposes, but the members of the European Convention and others have not taken the opportunity to propose serious alternatives. The imposition of a ‘one size fits all’ fiscal policy prevents national governments from adopting policies which are appropriate for each country. It would be advantageous for national fiscal policies to be developed in a framework of close co-operation and co-ordination, but not one of subordination to the SGP and the dictates of neo-liberalism.

The ***European Central Bank*** has been slow to respond to the economic slowdown and has varied from denying the slowdown was occurring through to calling for more so-called reforms to the labour market in the pursuit of ‘labour market flexibility’. However, monetary policy is constrained in what it can do in the face of economic slowdown because interest rate cuts do little to stimulate the economy. The pursuit of an inflation objective of 0 to 2 per cent also limits the actions of the ECB, especially when (as over much of the past few years) the rate of inflation has exceeded 2 per cent and has shown marked differences between countries. But it is still important that the objectives of the ECB be reformulated in such a way that is not exclusively focused on price stability but also include a target for growth and full employment following the model of the US Federal Reserve. This would be an important signal that the EMU gives importance to high levels of employment.

The problem of the absence of any ***democratic control over macroeconomic policy making*** is difficult to resolve, because there is no supranational economic policy authority with a clearly established legitimacy. But it is possible to enhance the responsibility of the ECB to the European Parliament and to the Council and to broaden and intensify the dialogue with the national political authorities. The ECB would maintain an operational independence in day-to-day activities but with a broader set of objectives (to include full employment and sustainable growth) and with accountability.

The ***co-ordination between monetary policy and national fiscal policies*** should become much more effective, and focus on the creation of high levels of economic activity. There must be a move away from the *sub*ordination of national fiscal policies to the artificial budgetary limits imposed by the Stability and Growth Pact and to the dictates of monetary policy and the ECB. The strengthening of the status of the Euro-group – in a stronger way than intended in the draft Constitution - would transform the latter into the main partner of dialogue for the ECB with regard to the conduct of monetary policy. If the principle of the Broad Economic Policy (BEPG), that governments should formulate their strategic choices and this should lead to pluri-annual programmes for public finances is to be of any use, the very narrow content has to be overcome. Monetary policy should be explicitly included and the effects of policies conducted by other countries should be taken into account in order to better analyse the gains which can be attained by co-ordinated action.

In the current context of increasing risks and obvious economic deterioration in the EU15 and first positive signs of catch-up in the accession countries, macroeconomic policy needs to be thoroughly re-oriented, so that it makes full employment its central objective and takes monetary and fiscal policies as tools to achieve this goal. In the short term, immediate measures are necessary and possible to stimulate economic activity and employment. But more ambitious medium-term reforms are also required to avoid European economies ending up with inadequate rates of development and with more unemployment and exclusion. It is also necessary to deal with the inadequate levels of both democracy and efficiency which characterise the conception and implementation of macroeconomic policy at the European level.

Progress in the implementation of fiscal policies will however remain relatively limited because of the great complexity of the problems which must be resolved. There will be no sustainable solution without the creation of a federal budget which provides on the one hand the tools for stabilisation or recovery on a European level in case of common shocks and on the other hand the tools for interregional redistribution and structural policies in order to cope with growing asymmetries within the enlarged EU. With regard to the existing strong ideological resistance only a moderate increase up to a level of 5% of European GNP until 2007 can be envisaged. It would mark a break-through with regard to the present blockade. It could be based on a reform of own resources and on the introduction of new taxes on a European level. This would also be a good response to other urgent problems: against tax competition a European tax on incomes on savings and on corporate profits would help: financial instability could be mitigated with a Tobin tax, and a tax on CO2 emission would held to protect the environment. With these additional resources new expenditure could be financed, like a European fund for employment stabilisation (in the order of 1% of European GNP, which should be transferred to countries affected by an more than average increase of unemployment), or the extension of the European Structural Funds and financial measures envisaged for the eastern enlargement and the co-operation with Mediterranean countries, a strengthening of research and innovation policies etc.

With accession all new members will have to follow the rules of the Stability and Growth Pact. For the majority this will create no new situation because they have already fulfilled these rules in recent years in an effort to meet the conditions for accession. But the experience of the EU 15 has very clearly shown that such efforts are not sustainable over a longer period of time. Today two thirds of the members of the old EU do not meet the convergence criteria of the Maastricht Treaty, and the Stability and Growth Pact plays a very counterproductive role. The harm done by the application of the deficit rules will be multiplied for the new countries. Therefore it is in the common interest of East and West Europe to abandon this pact and develop a tightly coordinated macroeconomic policy for full employment and sustainable growth. The idea of an institutional consolidation of this policy co-ordination in a European economic government becomes even more important with accession.

The nature of the ***exchange rate regime EMS 2*** in which the new members will find themselves will be of considerable importance. New member countries should not try to buy themselves into the Eurozone through the pursuit of deflationary measures designed to meet the Maastricht convergence criteria on budget deficits and inflation. Because of the real appreciation following such policy, it would not be sustainable in the long run. Because entry into the EMS at an inappropriately high exchange rate would condemn the new member countries to economic difficulties, an ability to adjust the exchange rate in light of evolving economic conditions (notably differential inflation rates) must be retained. To protect themselves against massive short-term currency speculation the new members should have the right to impose temporary capital controls. Furthermore, to avoid currency crises in the new countries a common governing body – an economic government – should be responsible for exchange rate policy with the purpose to smoothen the necessary and ongoing adjustment in the productive structures of the Central and Eastern European (CEE) countries.

An important basis and framework for effective macroeconomic policies are stable and well functioning ***financial markets***. We have argued in previous memoranda that the way the EU is pushing for a single European financial market via the "Financial Services Action Plan" must be criticised. It concentrates almost exclusively on extending the reach of this market, enhancing the speed of financial business and cutting transaction costs, thereby disregarding all social aspects and costs which highly liberalised and deregulated financial markets generate in terms of less consumer and worker protection, and harmful effects of financial investors decisions on regional and local interests. This critical argument need to be reinforced with enlargement. In the CEECs financial markets are still very small in absolute and relative terms, compared to the EU average. They are more bank-based than the financial systems in the EU15, and they are mainly in foreign hands. The theoretically stabilising effect of the second factor will in practice be offset by the third factor, because the development of the specific financial systems will depend mainly on the strategic orientations of foreign financial corporations. This and the small size make financial markets in the CEECs much more vulnerable than their equivalents in the EU15. To create a favourable financial market environment for macroeconomic development in the CEEC it is therefore certainly important to give the financial systems in the CEECs a larger dimension by integrating them into the European financial system. At the same time it becomes even more important to reshape this system in a way which guarantees on the one hand overall financial stability as a public good and on the other hand takes into account the social dimensions of financial markets which, if appropriately regulated, constitute an important element of social cohesion.

Euromemorandum 2003
Chapter 2

Broad Economic Policy Guidelines 2002 & 2003-2005

Marica Frangakis

1. Macroeconomic Trends 1991 - 2004

In 2002, economic growth came to almost a standstill in the EU and especially in the euro zone, while it remains very anaemic in 2003. Its most sluggish component is investment (GFCF), which in fact declined, as opposed to private consumption, which registered a positive, albeit low, contribution. Trade has also registered low rates of growth, as the world economy is going through a prolonged trough.

Table 1
EU GDP growth components
(annual % changes)

	EU – 12					EU - 15				
	1991-2000	**2001**	**2002**	**2003**	**2004**	**1991-2000**	**2001**	**2002**	**2003**	**2004**
GDP	2.1	1.6	0.9	0.4	1.8	2.1	1.7	1.1	0.8	2.0
Private Consumption	1.9	1.8	0.5	1.3	1.6	2.0	2.0	1.2	1.5	1.8
Government Consumption	1.7	2.5	2.9	1.7	1.3	1.6	2.3	2.7	2.0	1.4
GDCF	1.9	0.0	-2.6	-1.0	2.4	2.0	0.6	-1.9	-0.4	2.7
Exports	7.0	3.1	1.5	0.1	5.2	6.9	2.7	1.2	0.3	5.3
Imports	6.4	0.9	0.0	1.9	5.2	6.4	1.3	0.6	1.7	5.2

2003: estimates; 2004: forecasts
Source: Statistical Annex of European Economy, Autumn 2003

Against these developments, government spending in relation to GDP has been increasing, due to cyclical factors, as well as due to the effort made by governments to counteract some of the social effects of falling economic activity. As a result, however, government budget deficits increased especially in the euro area, moving closer to the 3% of GDP upper limit allowed by the SP and away from the "close-to-balance or surplus" medium term objective. Public debt, on the other hand, remains at around 70% of GDP on average in the euro area and a little over 60% in the EU as a whole. I.e., it has not yet been affected by increased government spending.

Table 2
EU average government budgetary position (% GDP)

	EU – 12					EU – 15				
	1991-2000	**2001**	**2002**	**2003**	**2004**	**1991-2000**	**2001**	**2002**	**2003**	**2004**
Net borrowing (-)/lending (+)by gen. Government	0.1	-1.6	-2.2	-2.8	-2.7	0.9	-0.9	-1.9	-2.7	-2.6
Gen. Gov. consolidated gross debt	70.3	69.4	69.2	70.4	70.7	64.2	63.0	62.7	64.1	64.4

Source: Statistical Annex of European Economy, Autumn 2003

Following the above trends the rate of increase in employment is slowing down and it is expected to become negative in the current year, while unemployment is steadily increasing.

Table 3
EU employment and unemployment

	EU – 12					EU – 15				
	1991-2000	**2001**	**2002**	**2003**	**2004**	**1999-2000**	**2001**	**2002**	**2003**	**2004**
Employment (% annual changes)	0.6	1.4	0.4	-0.2	0.3	0.5	1.2	0.4	0.0	0.3
Unemployment (% labour force)	10.2	8.0	8.3	8.9	9.1	9.6	7.3	7.6	8.1	8.2

Source: Statistical Annex of European Economy, Autumn 2003

The sluggish effective demand by the corporate sector, households and the government is reflected in a declining rate of inflation, which is predicted to continue to fall well into 2004. Again, this tendency is clearer in the euro zone, by comparison to the EU-15. At the same time, the rate of increase in real compensation per employee remains low, at less than 1% annually, having further declined in 2002. In fact, the share of wages in GDP is steadily decreasing and it is forecasted to decline further, by comparison to the 90s.

Table 4
EU prices and wages (annual % changes)

	EU – 12					EU – 15				
	1991-2000	**2001**	**2002**	**2003**	**2004**	**1999-2000**	**2001**	**2002**	**2003**	**2004**
GDP deflator	2.6	2.4	2.4	2.1	2.0	2.7	2.4	2.5	2.2	2.0
Real compensation /employee	0.9	0.5	0.4	0.6	0.5	1.1	1.1	0.5	1.2	1.1
Adjusted wage share*	68.7	67.4	67.3	67.2	66.9	69.2	68.6	68.5	68.3	68.1

***** *Compensation /employee as % of GDP at factor cost per person employed.*
Source: Statistical Annex of European Economy, Autumn 2003

Overall, the EU economy, and in particular that of the euro zone, appears to have entered a phase of no-growth. The boom-&-bust pattern of the stock market is slowing down the rate of adjustment of the corporate sector, which has responded to financial pressures by reducing investment, inventories and debt. Exports remain weak, as demand from the world economy shows now signs of recovery, while the continuing appreciation of the Euro weighs heavily on the export performance of the euro area. Furthermore, in spite of its delayed response, unemployment is on an upward trend. On the whole, the EU economy appears to be dangerously close to getting caught in a deflationary spiral. This is a prospect that is refuted by the Commission as being non-realistic, while governments are being scolded for financing measures to relief some of the social effects of increasing unemployment, to the extent that such financing is not in accordance with the SP fiscal rules.

2. Broad Economic Policy Guidelines: 2002 Implementation Report

The 2002 BEPGs Implementation Report was adopted by the European Council in March 2003, as part of the "Implementation Package", according to the Council's recent (3/12/2002) agreement on streamlining policy co-ordination procedures. Generally, the Report follows the line and format of previous reports, reviewing developments in 2002 and assessing them by comparison to the guidelines set for that year.

For the second year running, the forecasted annual growth rate of the EU was not achieved. In particular, in 2002 the actual trend of GDP growth amounted to 50% of that forecasted (0.9% against 1.8%). In 2001, the growth rate was again below that forecasted by about 40% (1.5% against 2.5%). Thus it would appear that as the recession deepens, the EU member-states and the Commission have an increasingly greater difficulty in predicting the rate of growth of the EU economy! This is perhaps not surprising in view of the diagnosis for the ills of the EU economy offered by the BEPGs, which appears almost unchanging from year to year.

In 2002, as in the previous year, the reasons given for the observed divergence between forecasted and actual trends fall into two categories. (I) Exogenous, negative factors, making for uncertainty and (ii) Inadequate implementation of policy guidelines by member-states, due to "policy inertia and backtracking", as the 2002 Implementation Report plainly points out (p.8).

More specifically, the reasons given by the Report for the deteriorating performance of the EU economy in 2002 are as follows.

- Weak domestic demand, depressed by a further collapse in confidence following accounting scandals in the USA
- Continuing stock market losses
- Mounting global political tension

- "Sticky" inflation – that is, persistently high core inflation, especially in the services sector. In particular, "sticky" inflation is seen as the result of (a) sustained wage growth in excess of productivity and (b) fiscal loosening by member-states.

In other words, the economic paradigm on which current EU economic policy is based is not questioned in any way. If anything, it is clear that the Commission considers current economic policy failures as the outcome of the inadequate implementation of its recommendations.

The main elements of this paradigm are the following.

(1) Macroeconomic policies

- Close-to-balance or surplus budgetary positions, whereby recessionary situations are to be dealt with on the basis of the automatic stabilizers built into the fiscal system.
- Maintaining a non-inflationary environment, in order to safeguard profitability. Should productivity slow down – as is the case at present – wages need to adjust accordingly.

(2) Structural reforms

  - Increased competition, through greater flexibility and liberalization, as well as through privatization, with regard to product, labour and capital markets.
  - Reforming the pensions system, both in terms of payments and in terms of contributions, in the name of long-run budgetary sustainability.
  - Special emphasis on R&D and on ICT usage, to be financed largely by the private sector.
  - Setting up the necessary incentives for market participants to respect environmental sustainability.

More specifically, the BEPGs Policy Strategy contains 8 policy areas, which are assessed in terms of member-states' compliance with the guidelines set for 2002. These are summarized in **Table 1.2** below.

New Points of Departure?

Although the BEPGs 2002 Implementation Report bears many similarities with previous years' reports, both in terms of appearance and in terms of content, there are certain differences, or points of departure, which are worth noting.

Thus, with regard to wages, the Report notes their significance as a means of supporting household expenditure. Furthermore, it is pointed out that their increase in 2002 was compatible with price-stability. However, the Report goes on to state that at a time of falling productivity, wage growth should also decline, so as to safeguard profitability and by implication investment. In this way, the Report's timid suggestion that income, as a determinant of domestic demand, matters is quickly put aside.

A yet clearer point of departure concerns public finances. It should be noted that the 2002 budget balance of the EU-15 was equal to –1.9% of GDP, which is nearly twice that forecasted (-1.0%). In spite of this development, however, it is noted that achieving the close-to-balance or surplus budgetary objective by 2004 is very difficult to ensure "without jeopardizing the recovery" (p.14). Hence, the medium term objective would appear to be temporarily suspended, although by no means eliminated, to the extent that member-states which have not yet reached it are expected to pursue a continuous adjustment of the underlying balance by at least 0,5% of GDP annually.

Lastly, the 2002 BEPGs Implementation Report contains a new section, entitled "Summary Assessments of Implementation by the Member States", which includes a table depicting the "Degree of progress made in implementing the country-specific parts of the BEPGs in 2002". More specifically, member-states are rated with regard to the progress they have made in attaining the BEPG recommendations in three areas – public finance, labour and product markets. Such progress is rated as "good", "some" and "limited". In spite of the warning mentioned in the Report – to the effect that such rating does not concern the absolute performance of member-states and the improvements therein – such an approach would appear to narrow down even further the EU economic policy framework, to the detriment of its social content.

The 2002 BEPGs Implementation Report concludes with a strong policy statement, expressing disappointment over member-states' performance and prompting them "to act more decisively … match words with actions …. develop a new sense of urgency … strengthen the necessary growth–supportive, supply-side framework conditions" (p. 8). This is indicative of the Commission's inflexibility in interpreting contemporary economic and social conditions in the EU.

Overall, the 2002 BEPGs Implementation Report carries no surprises. This is perhaps to be expected, insofar as the economic policy framework stipulated by the European Council in Lisbon in 2000 – the so-called Lisbon Agenda – sets out quite clearly the objectives of policy and the means to be employed over a 10-year period, stretching to 2010. However, the continuing decline in economic activity and the limited, if any, prospects of recovery at present appear to have had some, if only slight, bearing on the Commission's assessment of member-states economic performance. On the other hand, the Commission's conclusions as to where member-states go wrong and what they are called upon to do to correct their course leave no doubt as to its adherence to the basic neoliberal paradigm, implicit in the BEPGs.

3. Broad Economic Policy Guidelines: 2003 – 2005 Guidelines Report

The Commission's Recommendation with regard to the BEPGs for the 2003-2005 period was endorsed by the Thessaloniki European Council in June 2003. According to the Council's recent agreement on streamlining policy – co-ordination procedures, the BEPGs cover a 3-year period. At the same time, they represent an attempt to provide a comprehensive and consistent policy framework, built around the central policy objective set by the Lisbon Agenda. To this effect, 23 guidelines are specified. These are divided into 3 groups:

⇒ Macroeconomic or short-term policies (3 guidelines);

⇒ Structural or medium-term policies (11 guidelines); and

⇒ Sustainability or long-term policies (9 guidelines).

In addition, the Report contains a special section devoted to the Euro area. Four policy guidelines are recommended in this respect, in response to what are seen as the "central challenges" for the 12 Eurozone member-states.

On the other hand, no special reference is made to the particular problems of the new EU member-states. These are going to dealt with as part of the 2004 upgrade of the present guidelines, as noted by the Report.

The proposed guidelines for the period 2003-2005, as well as the Commission's forecasts for 2003, are summarised in **Table 2.2** below.

With regard to the Euro area, the economic slowdown is rather obscurely attributed to its "low rate of potential growth, which limits the scope for a sustainable high rate of economic growth" (p. 14). More specifically, this is taken to be the result of weak domestic demand, the revival of which however does not figure in any significant way amongst the Commission's recommendations. Such recommendations pertain to 3 policy areas, considered to represent an equivalent number of challenges for policy.

- Macroeconomic policy mix
- Inflation differences between eurozone member-states
- Policy co-ordination

These are also summarized in **Table 2.2**. Generally, they follow the same reasoning as that of the guidelines for the EU as a whole, although they address problems that are pertinent to the Euro area.

A more balanced approach?

With regard to forecasts, for the first time, since the onset of the current downturn, the Commission not only acknowledges the problem, but also takes a guarded view with regard to future developments. Having noted for the second year running that "economic growth has turned out to be significantly weaker than anticipated" (p.4), the Commission goes on to predict 'sluggish' growth for 2003, picking up only towards the end of the year, if at all. No predictions are made regarding the rest of the 3-year period.

The BEPGs under discussion are characterized by a strong asymmetry between the economic aspects of policy, on the one hand and the social and environmental ones, on the other. More specifically, economic considerations not only outweigh social ones, but also they define them to a considerable extent. Thus, "confidence" appears to be a key concept. This is directly related to the need for stability as a prerequisite for investment and growth. Stability, in its turn, is related to the need for wage adjustment vis-à-vis productivity, as well as for flexible work organization, "properly balanced by due security in employment relationships", although what is meant by "due security", or how this may be obtained is not specified (p. 6). Similarly, long-term economic sustainability is linked to the so-called "impact of aging", which is expected to exert "increasing pressure on public finances" (p. 10). Hence, the prospect of the reform of pension systems in the EU appears practically non-negotiable. According to this linear type of argument, business and consumer confidence becomes a significant determinant of policy, as opposed to e.g. full employment, or social welfare.

On the other hand, the social aspects of policy are discussed only in relation to the long-run. In this respect, the main concern is about poverty and social exclusion, pertaining to unskilled and low-skilled workers and to less-developed regions. Even in this case, however, the relevant guidelines are very general in nature, as no specific thresholds or policy measures are presented. Thus, what constitutes an "adequate level of social protection" is not defined, neither how it is to be financed, or what kind of public support should be given to regions lagging behind.

The recommendations made in relation to environmental sustainability are equally general in nature. Furthermore, they are expressed in largely, if not exclusively, market terms.

Overall, the 203-2005 BEPGs attempt a comprehensive approach to policy formulation. The inclusion of social and environmental sustainability issues on the same footing as economic sustainability ones is significant from the point of view of a more balanced approach. On the other hand, the prevalent considerations are still economic in nature, defined in market terms and oriented towards stability, to be obtained mainly through increasing labour market flexibility. Furthermore, the concern with social sustainability is not accompanied by any social norms or thresholds to make it practicable, or funds to support it. In this sense, the mid-term plan of action outlined by the BEPGs has many loose ends, while economic considerations clearly prevail in terms of policy formulation, issues discussed, objectives pursued and means proposed for its implementation.

TABLE 1.2
2002 BEPGs Implementation Report - Summary

POLICY AREA	2002 BEPG's POLICY GOALS	2002 BEPGs IMPLEMENTATION ASSESSMENT
1. Macro environment Policies: • Monetary • Fiscal • Wages	• Ensure growth and stability-oriented macro policies • Sound budgetary positions • Wage developments in line with price stability and profitability	⇒ Growth: 0.9% (forecast 1.8%). Eurozone: 0.8% (forceast 1.8%) ⇒ Unemployment: 7.6% of labour force (up by 0,2%) ⇒ Inflation: 2.2% approx. ⇒ Interest rate: ECB reduced its key rate from 3.25% to 2.75% in Dec.2002 ⇒ Wages: Increase by 2.5% in nominal terms, contributing to high core inflation ⇒ Budget Balance: -1,9% of GDP (forecast -1,0%). Eurozone: -2.3% (forceast – 1.1%)
2. Public finance	• Make tax and benefit systems more employment friendly • Enhance efficiency of public spending • Improve long-term sustainability • Reform pension policies so as to safeguard the adequacy of pensions, maintain financial sustainability and meet changing social needs • Pursue tax co-ordination	⇒ Composition of public expenditure remains largely unchanged. Social transfers represent largest share – 34.5% of total expenditure in EU. Public investment is stable at 4.8% of expenditure and 2.3% of GDP. Interest payments account for 7.4% of expenditure, down from 7.6% on 2001. Public expenditure efficiency difficult to assess due to lack of data. ⇒ Public expenditure on pensions crowds out other social transfers and/or public investment. Need pension system reforms to ensure long-term sustainability. Also raise employment levels and pursue sound public finances to prepare for impact of ageing. ⇒ Tax package: agreement on standard format to be used for exchange of information.
3. Labour markets	• Adapt tax/benefit systems to make work pay • Improve efficiency of active labour market policies • Facilitate labour mobility (occupational, geographical) • Promote flexible work organization and review employment contract regulations • Remove barriers to female participation	⇒ Employment rates in 2001: 64% on average, 54.9% for female workers and 38.6% for older workers. Generally, some progress with labour market reform, but momentum less than that of 2001. ⇒ No comprehensive reform of taxes and benefits to make work pay have been launched. ⇒ No major restructuring of pensions and early retirement schemes. ⇒ Effectiveness of ALMP: not regularly monitored. ⇒ Mobility: few new measures taken to encourage it. ⇒ Female labour force participation: gender pay gap persists.

4. Product markets	• Implement the Internal Market – cut internal market legislation transposition deficits, eliminate technical barriers to trade, create an effectively functioning internal market in services and further open up public procurement market • Ensure effective competition • Accelerate reforms in the network industries	⇒ Slow down in process of European economic integration: ratio of total trade/GDP and share of FDI flows/GDP declined in 2001, for first time since 1993 ⇒ Rate of transposition of Internal Market directives declined from 98% to 97.9% ⇒ Value of public procurement calls for tenders published in Official Journal: approx. 15% of total. Remained constant in 2001. ⇒ State aid: constant at approx. 1% of GDP. Share of horizontal measures increasing. ⇒ Network industries – Telecommunications: incumbents' market share high at over 80%. Electricity: market liberalization continues. Energy sectors: competition remains limited. Agreement reached in Council on date of opening up of markets for household consumers and non-discriminatory tariff system for cross-border transactions. Interconnection infrastructure (railways, air and postal services): liberalisation process less advanced.
5. Financial services markets	• Fully implement FSAP by 2005 • Speed up implementation of RCAP • Improve cross-border and cross-sector co-operation among supervisory and other relevant authorities • Encourage removal of barriers to efficient cross-border clearing and settlement	⇒ FSAP – 32 of 42 measures finalised. Proposed directives on prospectuses and pension funds delayed. Commission preparing set of indicators for quantifying trends in integration and efficiency of EU financial services market. ⇒ RCAP – Measures to relax constraints – regulatory, fiscal and legal/administrative – being taken by member-states. Faster progress deemed necessary. ⇒ Cross-sector/cross-border co-op for prudential purposes: Several member-states have reformed arrangements for financial supervision to increase cross-sector co-operation. Proposal to extend the 4-level regulatory approach to banking, insurance and financial conglomerates. ⇒ Cross-border clearing and settlement: complex and fragmented. Need to remove barriers.
6. Entrepreneurship	• Create a business-friendly environment • Take action on the European Charter for Small Enterprises • Improve access to finance	⇒ Final Report by High-level Group of Company Law Experts was published (accounting standards and rules on corporate governance). Directive for VAT on e-commerce adopted. ⇒ Representation of Small Enterprises on European Charter for Small Enterprises limited. ⇒ Access to finance dealt with on basis of RCAP.
7. Knowledge-based society	• Stimulate R&D and innovation • Promote access and use ICT • Strengthen education and training	⇒ EU catching up with USA, although gaps regarding business R&D and patenting persist. ⇒ R&D expenditure approx. amounts to 1,9% GDP. (USA 2,6%). Target: 3% GDP by

		2010. Business to fund 2/3's against 55% now. ⇒ European Research Area initiative: co-ordinating national research activities. ⇒ ICT use by businesses remains modest, as opposed to use in public services sector. ⇒ Ratio of students/on line computer: improved from 25 to 17. ⇒ Public education expenditure declined from 5.2% of GDP in 1995 to 5.1% in 2000, although its share in total public spending increased by 1%. Private investment in education is low, approx. 0.2% of GDP for 3rd level education, compared to 1.6% in USA. European Credit Transfer System aims at facilitating student mobility.
8. Environmental sustainability	• Provide environmental impact analyses of economic and social policy measures • Increase effectiveness of market based policies • Reduce subsidies etc. with a negative environmental impact • Integrate externalities • Deliver Kyoto obligations esp. with regard to energy and transport demand • Energy taxation at EU level • Enhance energy efficiency	⇒ Guidance document to be produced in 2003. ⇒ Progress in structural reforms and price-setting was modest. ⇒ Emissions trading and ratification of Kyoto Protocol is proceeding. ⇒ Disclosure of environmental information in company accounts is being implemented. ⇒ Germany is the only country to have reduced subsidies with a negative environmental impact.

TABLE 2.2

2003 – 2005 BEPGs Guidelines Report – Summary

2003 FORECASTS	❖ GDP growth: will continue to be sluggish. Recovery possible in second half of 2003. This is likely to be weak due to increase in unemployment and weak balance sheets. ❖ Unemployment: Likely to continue to increase. ❖ Inflation: Around 2%. Uncertainty due to oil prices.
EU STRATEGIC GOAL FOR CURRENT DECADE: LISBON AGENDA	"To become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion"

A. GENERAL GUIDELINES

I. MACROECONOMIC POLICIES	
I. BUDGETARY POLICIES	**1.** Maintain budgetary positions of close to balance or in surplus throughout the economic cycle, and as long as this has not yet been achieved, take all the necessary measures to ensure an annual improvement in the cyclically-adjusted budget position of at least 0,5% of GDP.
	2. Subject to this, and particularly when growth resumes, avoid procyclical policies that counteract the full and symmetric play of the automatic stabilizers over the cycle. Reinforce the coordination of budgetary policies.
II. WAGE DEVELOPMENTS	**3.** Ensure that nominal wage increases are consistent with price stability and productivity gains. In particular, wage developments should remain moderate in the context of a possible cyclical recovery in productivity or oil-price-hike-induced increases in inflation to allow for a restoration of profit margins so as to underpin job-creating investment growth.

II. STRUCTURAL POLICIES	
III. EMPLOYMENT	**4.** Improve the combined incentives of taxes and benefits: reduce high marginal effective tax rates in order to eliminate unemployment and poverty traps; cut the tax burden on low-paid labour; improve the administration of eligibility criteria for benefits whilst reserving an adequate level of social protection; ensure the efficiency of job search assistance for benefit recipients.
	5. Ensure that wage bargaining systems allow wages to reflect productivity, taking into account productivity differences across skills and local labour market conditions.
	6. Promote more adaptable work organization and review labour market regulations, notably those relating to employment contracts taking account of the need for flexibility and security.
	7. Facilitate labour mobility, both geographical and occupational, especially by promoting the recognition of qualifications and the transfer of social security and pension rights, by eliminating obstacles to mobility related to the housing market and by promoting lifelong learning.
	8. Ensure efficient active labour market policies that are targeted towards individual needs with special attention to people facing the greatest difficulties in the labour market,.
IV. ECONOMIC ENVIRONMENT	**9.** Foster competition in goods and services markets by (I) increasing the transposition rate of Internal Market directives and eliminating remaining barriers (incl. barriers created through the fiscal system) to cross-border and market entry in goods and esp. services markets; (ii) further opening up public procurement; (iii) giving adequate resources to competition and regulatory authorities; (iv) continuing efforts to reduce the overall level of state aid, whilst reorienting aid towards horizontal objectives of common Community interest and targeting it to identified market failures; and (v) encouraging market entry and effective competition in network industries while pursuing a greater connectivity of national markets and ensuring access for consumers to services of general economic interest.
	10. Accelerate the integration of EU capital markets, in particular by implementing the Risk Capital Action Plan by 2003 and the Financial Services Action Plan by 2005 (2003 for securities markets); ensuring consistent enforcement of EU rules and removing barriers to efficient cross—border clearing and settlement.
	11. Generate a supportive environment for entrepreneurship and for SMEs to start-up and grow by reducing the administrative burden on business; by increasing the efficiency of the public sector; by simplifying the corporate tax system; and by improving the regulatory environment, notably entry and exit mechanisms. Improve the access to finance for small and medium-sized entreprises.

	12. Agree on and implement measures to strengthen corporate governance rules, at national and at Community level. Further improve arrangements at national and Community level to deliver efficient cross-sector and cross-border financial supervision and financial crisis management.
	13. Promote investment in knowledge and innovation and make progress towards the 3% of GDP objective of total R&D investment by: (I) developing framework conditions conducive to R&D and innovation and realizing an affordable, legally-certain, Community patent; (ii) promoting access and use of ICT in line with the e-Europe 2005 Action Plan; (iii) facilitating the development of the Union's satellite navigation system Galileo; and (iv) improving the quality and efficiency of education and training systems, including lifelong learning and active labour market policies.
	14. Enhance the contribution of the public sector to growth by : (I) redirecting, i.e. while respecting overall budgetary constraints, public expenditure towards growth-enhancing investment in physical and human capital and knowledge; (ii) increasing the efficiency of public spending, inter alia, by introducing mechanisms to assess the relationship between public funds and policy objectives and to help control spending; and (iii) establishing an appropriate framework for joint public-private initiatives.
III. SUSTAINABILITY ISSUES	
V. ECONOMIC SUSTAINABILITY ⇒ **PUBLIC DEBT**	**15.** Ensure a further decline in government debt ratios; Member States still having government debt ratios above the 60% of GDP reference value, should in the first instance ensure a satisfactory pace of government debt reduction towards that value. Other Member States should ensure a sufficient reduction in the debt ratio to further strengthen public finances in view of the costs of ageing, including higher age-related spending.
⇒ **PENSIONS**	**16.** Design, introduce and effectively implement reforms of pension systems. Encourage longer working lives by modifying incentives embedded in pension and tax-benefit systems that encourage early withdrawal from the labour market and by restricting access to early retirement schemes. Make the pension system cope better with demographic development and expected increases in life expectancy. Increase funding and improve, where necessary, access to supplementary pension schemes. Adapt pension systems to more flexible employment and career patterns as well as to individual needs, including the portability of pension benefits.
VI. SOCIAL SUSTAINABILITY ⇒ **UNSKILLED/LOW SKILLS WORKERS** ⇒ **LESS DEVELOPED REGIONS**	**17**. Whilst ensuring an adequate level of social protection, take steps to modernize social protection systems and to fight poverty and exclusion with a view to supporting the broad Lisbon objectives, notably on employment, in order to achieve an inclusive labour market and a more cohesive society.

	18. Improve the functioning of markets so that they are conducive to private investment in regions lagging behind, particularly by taking steps to allow wages to reflect productivity taking into account differences in skills and local labour market conditions.
	19. Ensure that public support , incl. from EU sources, in regions lagging behind is strongly focused on investment in human and knowledge capital, as well as adequate infrastructure, and that investment programmes are designed and administered efficiently so as to maximize their impact. Strengthen co-operation between the Commission and the European Investment Bank.
I. ENVIRONMENTAL SUSTAINABILITY **POLLUTER PAYS PRINCIPLE**	**20.** Reduce sectoral subsidies, tax exemptions and other incentives that have a negative environmental impact and are harmful for sustainable development. Ensure, inter alia through the use of taxes and charges, that pricing of the extraction, the use and, if applicable, the discharge of natural resources, such as water, adequately reflects their scarcity and all resulting environmental damage.
	21. Reduce energy subsidies, promote market instruments, further broaden the coverage, and ensure taxation to deliver a more sustainable mix and level of energy consumption and further enhance competition and network interconnection in energy markets.
	22. Adjust the system of transport taxes, charges and subsidies to better reflect environmental damage and social costs due to transport, thereby reducing distortions in the demand for transport services and the choice of transport modes, and an increase in competition, e.g. through accelerated market opening in transport modes such as freight railways to make them more competitive.
	23. Renew efforts by member-states to meet their commitments under the Kyoto protocol. To this end, implement the EC greenhouse gas emissions trading scheme: draw up national allocation plans; establish national allowance registries; set up systems to adequately monitor, report and verify emissions at installation level. Prepare new and immediately implement existing policies and measures for those sectors not covered by allowance trading and set up systems to report on those policies and measures and their prospective effects on emissions.

B. GUIDELINES FOR THE EURO AREA

MACROECONOMIC POLICY MIX	1. Ensure a stance of monetary policy, budgetary policy and wage growth that is compatible with price stability and the need to enhance confidence among business and consumers in the short run as well as with economic growth close to potential in the medium term.
INFLATION DIFFERENCES	2. Strengthen competition in product and capital markets, improve the functioning of the labour market, intr alia by tackling impediments to wage flexibility and encourage geographic mobility.
POLICY CO-ORDINATION	3. Deepen the analysis of and discussion on economic developments and policy requirements, exchange of information on envisaged policy measures to the largest possible degree, and strengthen the external representation of the euro area.
	4. Improve the efficiency of the existing co-ordination procedures in the area of structural reforms that aim at strengthening the euro area's growth potential and its resilience to shocks.

Euromemorandum 2003
Chapter 1

Constitution and enlargement – new challenges for alternative economic and social policy in Europe

Klaus Dräger, Jörg Huffschmid, Jacques Mazier, Pascal Petit

1. Introduction

Institutions of the EU, member countries' governments and – to a considerably lesser degree - European citizens are currently engaged in a discussion on a European constitution. Based on the mandate of the Laeken European Council (December 2001), the "Convention on the Future of Europe" has proposed a "Draft Treaty establishing a constitution for Europe". At the start of its work, the European Convention aimed primarily at reshaping the EU´s institutional structure to make it fit for enlargement, to clarify the division of competencies between the Union and the member states and to make the EU Charter of Fundamental Rights a legally binding and integral part of the Treaty. While for a long time using such terms as a "constitutional treaty" to characterise the final purpose of its work, the European Convention invented just in the final phase the term of "constitution for Europe". However, attempts to have this draft adopted at the Brussels summit in December 2003 failed, revealing the strong divides and mutual distrust amongst the member states of the EU. New – more informal - talks have begun and are going on. They are mainly relating to institutional questions and to the weight of the individual countries in the voting procedures of the Council. While these issues have some financial implications the main economic and social policy contents of the draft constitution are not touched by the new negotiations, and it can safely be assumed that they will be part of any outcome of these. They will be the focus of the critical analysis in this chapter, which will be followed by some considerations about the options for further European integration under the present circumstances of internal divides and enlargement.

2. The draft constitution: more shadow than light

General structure: no break-through for democracy

The draft of the European Convention goes well beyond tackling only the so called leftovers from the Nice Treaty. The President of the Convention, Valerie Giscard D´ Estaing, takes the view that the core content of this constitution should remain unchanged for a period of 40 to 50 years from now on. While governments and leaders of European institutions may disagree on this very long term perspective, it is evident that the very term of a "constitution for Europe" aims at a qualitative leap forward towards defining the "finality of European integration". Obviously, the project intends to overcome the process of regular gradual changes and adjustments of the Unions' Treaties, from the European Single Act (1987) Maastricht (1992) to Amsterdam (1997) to Nice (2001).

Concerning the basic institutional structure of the European union, the draft constitution proposes to dissolve the present three-pillar structure of the inherited EU architecture (EC with its three Communities EC, EURATOM, ECSC; GASP and Area of Freedom, Security and Justice) and to replace it by one uniform constitution, attributing a legal personality to the European Union as a single entity. The Convention´s draft integrates the Charter of Fundamental Rights into the constitution, making it legally binding and establishing an obligation of all EU policies to respect the fundamental rights guaranteed in it. It establishes the primacy of the constitution and EU law over the law of the Member States and provides a framework clarifying the division of competencies between the Union and the Member States in various policy areas. It provides a procedure for the voluntary withdrawal of a Member State from the European Union, which had not existed before. It proposes changes and additions to the shaping of the European institutions: composition of the European Commission (2009), size of the European Parliament, new voting procedure (double majority) in the European Council (2009), creation of the post of a President of the Council, establishment of a European Minister of Foreign Affairs (as Vice President of the Commission), possibility to create the post of a European Public Prosecutor etc.. It establishes a simplification of the Unions instruments and actions (European laws, framework laws, delegated regulations, decisions etc.). The number of Council procedures where qualified majority voting is required was increased and the procedures requiring codecision of the European Parliament were more than doubled. By abolishing the distinction between obligatory and non-obligatory expenditures concerning the EU budget, the draft would give to the European Parliament final codecision over the whole range of the budget. It clarifies the contribution of member states national parliaments to the legitimacy of the European design, including a protocol on the subsidiarity principle. If national parliaments feel that the subsidiarity principle is negativly affected by a proposal from the Commission, they can deliver an opinion to the Commission, the President of the Council and the European Parliament within 6 weeks after the publishment of the proposal. The Commission can withdraw, change or keep its original proposal after that. Member States and the Committee of the Regions shall have the right to appeal to the European Court of Justice on issues relating to the subsidiarity principle and the division of competencies. The draft constitution also commits the EU institutions to the principles of “representative democracy” and "participatory democracy", enhancing transparency and facilitating access to relevant EU documents (EU citizens right to information and access are to be regulated by European laws, including restrictions to access and information). Finally the draft envisages a right to launch "citizens initiatives" calling for a proposal from the Commission to stipulate legal acts with a view to implement the constitution.

With regard to the (democratic, institutional etc.) finality of EU-integration, the draft constitution still places the European Union somewhere in between a supranational structure and a fully fledged European confederate or federal state. The European Parliament still gets no right to initiate EU legislation on its own. It would get the right to elect the President of the European Commission, but this right would be very restricted, because it could only be exercised on a proposal of the Council which the Parliament can accept or reject. Thus the draft constitution avoids any politicisation of the European Commission, with the President and the majority of the Commission having to come from the political majority in the European Parliament as expressed in the results of European elections. While there is certainly some progress in the draft constitution through the extension of codecision and budgetary rights of the Parliament, more qualified majority voting, and the integration of the Charter of Fundamental Rights, the more structural democratic deficit of the European Union has in the last instance not been overcome.

The main focus of the work of the Convention has been on reforming the institutional architecture with a view to a proper functioning of an enlarged Union, the division of competencies, the regulation of justice and home affairs and the enhancement of a common foreign and security policy and a common defence policy biased towards the improvement of military capacities. With regard to the latter point the problem is obvious that provisions in the draft could be used to more easily enable the establishment of "coalitions of the willing" for military missions out of

EU area. The new instrument of "structured cooperation" enables a smaller group of member states to develop a common "defence identity" and cooperate accordingly in coordinationg and shaping common military capabilities. A constitution is certainly not the place to establish a "European Armaments, Research and Military Capabilities Agency" and to oblige Member States "progressively to improve their military capabilities". These provisions of the draft constitution (Article I-40, Articles III-210 to III-214 on Common Security and Defence Policy) tend to propel the Union towards an increased reliance on military means to resolve conflicts or to preserve the Unions' assumed "strategic interests". Without denying the possibility of a joint European contribution to peace-keeping missions under the umbrella of the UN, it must also be seen, that the orientation towards improving military capabilities might lead to more armaments spending in Europe, thus abandoning a general international policy of disarmament and leading to even severer cuts in social spending and public investment in the Member States in the context of European and national austerity policies.

Soft formulations and hard neoliberal design: social and economic policy content

In the assessment of the draft constitution with regard to economic and social policy implications a distinction must be made between part I and part III. The first part contains some progressive and encouraging formulations which are, however, kept very vague and do not give orientation as to their concretisation, part III is essentially a copy of the existing neo-liberal Maastricht and Amsterdam design. There is no transposition of the progressive formulation of part I into concrete policy rules in part III, but there is a shard rupture between the two parts.

Progressive formulations without concretisation. Article I-2 on the Unions' values refers to the traditional bourgeois-democratic values of the French Revolution (respect for human dignity, liberty, democracy, equality and the rule of law), but fails to refer to Post World War II general welfare state principles and the more recent value of preserving the ecological integrity of our planet. It is to be welcomed that "sustainable development", "a high level of protection and improvement of the quality of the environment" are maintained as general objectives of the European Union, which shall be "based on balanced growth" (instead of simply "non-inflationary growth", as in the old Treaty).

The draft constitution introduces the objective of a "social market economy, highly competitive". What is meant by the notion of a social market economy is a highly contested issue between the conservative and the left side of the political spectrum. With reference to the tradition of German ordo-liberalism, which invented the term, many conservatives and liberals tend to equal "social market economy" with "open and free market economy". The broader left side identifies the term with the "class compromise" of social regulation and the welfare state, which emerged after World War II in Europe. Thus the interpretation of the objective of a "social market economy" will heavily depend on the future relationship of political forces in the Council, the European Parliament and the European Commission, and progressive forces will certainly push for the second interpretation. .

The objectives of "equality between women and men" and "full employment and social progress" are certainly progressive elements in part I, although "full employment" should be further specified by the requirement of "high quality of work". In addition the objective of providing "efficient and high-quality social services, public services and services of general interest" should be listed in Article I-3, as has been demanded by the Social Europe working group of the Convention. It is a step backwards that, unlike the current Treaty ("a high degree of social protection"), Article I-3 only stipulates the promotion of "social justice and protection".

Article I-14 provides for the coordination of economic and employment policies (by the traditional channels of the Broad Economic Policy Guidelines and the European Employment Strategy) and opens the door towards a coordination of social policies. No mention is made of the European Sustainability Strategy. While this might provide an initial lead-in towards an institutional link and equal status of the coordination processes, the draft nevertheless avoids establishing a coherent streamlined design for the coordination of economic, employment and social policies - putting them all on an equal footing and reconciling conflicting targets between them instead of giving primacy to the BEPG´s - with the objective of sustainable development as their central "leitmotif".

Neoliberal design in part III. It must be strongly criticised that Part III of the draft constitution fails to provide a coherent and consistent transposition of the Unions' objectives (full employment, social market economy, social progress etc.) into the economic and monetary, employment and social policies of the Union. Instead, the outdated "Maastricht & Amsterdam design" stays fully intact: economic and monetary policy are linked to the principle of an "open market economy with free competition", employment policy to the objective of a "high level of employment", the Broad Economic Policy Guidelines (BEPG) keep primacy over the European

Employment Strategy (EES), provisions on the ECB and the priority of price stability, the deficit rules and convergence criteria for European Monetary Union (EMU) etc. remain unchanged. The position of the European Parliament in socio-economic governance remains unchanged and weak ("information" with regard to the BEPG`s; "consultation" in employment and social policy coordination processes). Services of General Interest (Article III-6) are still kept under the auspices of single market regulation and competition policy. They shall operate on the basis of (economic and financial) principles and conditions which enable them to fulfil their missions. Article III-6 provides for European laws that define these principles and conditions. This opens the door towards a European regulation of services of general interest - either on a path of extended liberalisation or on a path of exempting them from single market regulation and competition rules on the basis of specified economic and financial principles shaped to their functionality and specific missions.

That all the counterproductive provisions in the Treaties of Maastricht and Amsterdam have without any changes been taken over into part III of the draft is all the more disappointing because the real economic development in Europe during the last decade provides the strongest empirical evidence against these neo-liberal positions. One effect of this has been that public criticism is growing and even official authorities and high-level politicians have begun to question publicly the wisdom of e.g. the deficit rules to the extent that the president of the Commission qualified the SGP as a “stupid” pact. . To lock these provisions into a constitution seems to be an attempt to establish barriers against the process of democratic discussion, which could lead to more flexible policy and legislation.

In this context the more general question must be raised to which extent a constitution as the common basis for very different positions should contain detailed provisions about specific policy areas, be it military, monetary or fiscal policy – as is the case in part III of the draft. A constitution is intended to last for very long term and should only be revised at great intervals. Regular laws and regulations must should be much more open to scrutiny, revision and correction in accordance not only with new knowledge but also with the change of political forces and priorities, which are quite normal in a democracy. Would it therefore not be much more appropriate to describe the mission of particular institutions or policy areas in rather broad and general terms within the framework of a constitution and leave the concretisation to legal acts on a lower level ? Such an approach would certainly give more room for flexibility, for relevant political discussion and democratic decisions and if necessary corrections of taken decisions. This would for instance mean that the constitution of the EU would define the mission of the European System of Central Banks (ESCB) to establish an efficient and smooth payment system, provide the economy with a sufficient amount of credit and guarantee the stability of the financial system. It would be embedded in a set of economic policy institutions and be obliged to cooperate with these in the pursuit of policy objectives which are formulated and decided by the competent parliamentary and governmental bodies. As a good example for such a broader policy framework one could refer to the Federal Reserve System in the USA which has to take on responsibility not only for price stability but also for the level of interest rates, for high employment and economic growth and which has during the last two decades constantly kept the US economy on a path of growth well above that of the EU.

With regard to the existing draft the following proposals for changes are made, based on the critical evaluation and on the recommendations of previous memoranda, to enable progress towards a Social Europe and to reformulate the draft constitution accordingly:

- include the protection of public goods, the provision of high quality public services and services of general interest (socio-cultural, economic) into the objectives of the Union (Article I-3); provide for the primacy of the public interest and democratic decision making over the principles of the Internal Market and competition rules as guiding principles for the provision of services of general interest (Art. II-6);
- change the specification of the internal market in Art. I-3 towards a "internal market with a high degree of economic efficiency, a sufficient level of competition, a high degree of social minimum standards and of environmental and consumer protection";
- stipulate the objective of "full employment with quality of work" as an objective of the Union (Art. I-3) and transpose this objective to Part III of the constitution (replacing "high level of employment", e.g. Art. III-99, III-103); reinstate a "high level of social protection" as an objective (Art. I-3);
- transpose the objective of a "social market economy", "social progress" and "balanced growth" into part III of the constitution (replacing "open market economy with free competition", e.g. Art. III-69, III-70, III-77)
- provide for a coherent streamlined design of the coordination of economic, employment and social policies, putting them on an equal footing, with the promotion of sustainable development as an overarching objective (Art. I-14); delete the primacy of the BEPG´s over the EES in part III (Art. III-100);

- provide for a clarification of the democratic accountability and transparency of the ECB, because as a Union institution the ECB should be bound by the "principle of participatory democracy" on the same footing as all other institutions listed in Part I of the constitution;
- provide for a clarification of the independence of the ECB in the sense of "operative independence" and concerning the cooperation of monetary policy in relation to the coordination of economic and employment policy (Art. I-29, Part III)
- extend the objectives of monetary policy to "price stability, balanced growth and full employment" (Art. I-29, III-77)
- abandon the Stability and Growth Pact, redraft the EMU convergence criteria towards real economy convergence criteria (Art. III-92) and redraft the definitions on excessive deficits (Protocol on the excessive deficit procedure);
- reintroduce "shared competencies" and unanimity voting in the Council on international agreements on commercial treaties, especially concerning trade in services and agreements on investments (Article III-217).
- consider positively the proposals of European environmental organisations (Green G8) on implementing the objectives of sustainable development in the provisions of Part III of the constitution.

3. Perspectives for further integration in an enlarged and divided Union: three scenarios

With regard to economic and social policy the failure of the first attempt to adopt the draft constitution is not of very high importance. Although the adoption would have given progressive forces some general formulations to support their demands the hard core of the constitution has remained neo-liberal, which would have been elevated to constitutional law. However, what is important about the failure of the Brussels summit is that it reveals the deep rupture and mistrust amongst groups of member countries. This divide has earlier in 2003 even more openly and harshly manifested itself in the sharply opposed positions with regard to the US-war against Iraq. Most recently the rift has been deepened by the resolve of some member countries to further cut the EU budget below the line of 1,0% of EU-GDP, thus blocking every perspective for active economic policy for growth and employment on the European level.

With enlargement the contradictions are growing and substantial integration towards a genuine European Social Model will certainly become much more difficult. Firstly, the majority of the acceding countries have openly taken positions in favour of the American intervention thus strengthening the positions of the UK, Spain and Austria in the old EU. Secondly, the disparities in productivity, income and welfare will considerably grow and thirdly the resources which are given by the EU to support a catch-up process are on the one hand insufficient and one the other hand they will be taken away from countries which were hitherto recipients of EU support and still need it. This, too, will not contribute to promote solidarity and cohesion within the larger EU.

Which are the options for the further development of the EU under these rather unfavourable circumstances? Three distinct scenarios can be conceived:

The free trade area scenario: Under this option which seems to be the most realistic one the Treaty of Nice remains in force and no constitution is adopted. Further integration would be reduced to market opening measures. Structural policies on a European level – regional, technology, social - would be downsized and some probably be phased out. Most importantly, while the monetarist rule of the ESCB and the Stability and Growth pact would survive as a welcome framework for preventing governments from expansionary measures, all attempts to develop a positive common fiscal policy on the European level and to contain and terminate tax competition amongst EU members would be abandoned. Strong economic competition would be complemented by regulatory competition with a tendency for a race to the bottom. The further perspective for this scenario is a large European Free Trade Area – a late victory of the early EFTA-concept of negative integration over the even earlier concept of a European economic and political union. The EU would not have any strong political capacity for economic control and intervention, This will not only be a competitive disadvantage with regard to the US, Japan and China. It will lead to increasing redistribution, diminishing cohesion, weaker growth, in other words economic and social descent and paralysis.

The multi-speed integration scenario. To avoid this paralysis the old concept of integration at different speeds (variable geometry) has been set on the agenda for discussion again. The idea behind this concept is that several "pioneer" countries, acting within the framework of the EU-Treaty (or constitution) establish tighter and more binding rules and arrangements for specific policy areas, which the rest of the members are not prepared to share. Provisions to facilitate such procedures of "enhanced cooperation" have been introduced for the first time into the Treaty of Amsterdam. They have been broadened in the Treaty of Nice and further extended in the draft constitution. The hope behind the idea is that initiatives of this kind will create such dynamics and spill-over effects, that after a while other members join and deeper integration will thus be achieved. While this concept obviously has elements of logic it should also be seen that it could also work in the opposite direction, creating an ever stronger divide between pioneer countries and the rest, leading to an increasingly core-periphery structure of the EU. This would probably be the case with the set-up of “centres of gravity” inside or outside the Treaty, as has been proposed by the German foreign minister in 2001. On a less general and theoretical level one would like to know which are the policy areas and projects in which enhanced cooperation with the effect of integration at different speeds is envisaged. One could think of strong projects and joint investment programmes for the stimulation of growth and employment amongst a certain number of countries (technological programmes, trans-European transportation infrastructures, European research centres). Or the termination of capital tax competition and the agreement of tighter cooperation between certain countries in the control of financial flows. Another area would be the introduction of minimum standards for social expenditure or the public services sector. These objectives may turn out to be at the centre of some initiatives taken by European countries and one should certainly support them. On the other hand one has to recognise that most multi speed scenarios are driven in the present wave of neoliberalism by some kind of neo-imperialism. After the discussions during the last year about the necessity to strengthen the role of the EU in world politics the most favoured field for enhanced cooperation seems to be foreign and military co-operation. Multi-speed integration in this sense may result in deeper integration amongst some countries and the power radiating from this centre may even create strong dynamics. But the deeper EU-integration created in this way is not the kind of integration for which progressive forces are fighting. Therefore while the use of the provisions for enhanced cooperation amongst a group of member states should not be excluded for all future and is to be welcomed for strong progressive projects, under the present circumstances, where the strong projects are neo-liberal ones, the multi speed scenario is a risky one and a strong mobilisation would be required to turn it around. Without such a turnaround it is not a viable way to promote European integration in a progressive direction.

The all-European social model scenario. This option does not count on the development of progressive integration projects by particular groups of governments on their own initiative and against the rest of the EU for the foreseeable future. Instead it counts on growing political and social resistance against the current neo-liberal pattern of integration and on strong pressures from social movements and democratic public for the correction of the current and development of alternative economic policy approaches. For the time being the main challenge for progressive forces is to promote such movements and pressures. In doing this it would be unrealistic to assume that the situation all over Europe is so bad that the neo liberal tide will soon brake down and give way to progressive policies. The diversity of situations in different European nations makes such universal u-turn quite unlikely. For progressive economists this means to contribute to and support different and varying progressive projects, proposals and solid arguments wherever they emerge. Their common denominator should be to contribute to the defence of the diminishing stock of social achievements reached in the past and to the development of an all-European social model and alternative economic policies aiming at full employment, sustainability, welfare and social justice and fair international cooperation. On the basis of a certain strength of such movements for alternative policies their proposals reach the level of parliaments and of governments to enact and to implement them. At this point of time the question of different speeds and variable geometry may come up and cannot be categorically rejected. But the current state of the (old and new) EU is very far from this potential point of time. With regard to social movements there is no reason to believe that social movements in some countries are less interested in alternative development patterns of the enlarged EU or less progressive than in other countries. Even under the present circumstances which undoubtedly have, under the pressure of deep political differences and deeper disparities following enlargement, become much more difficult than before an all-European conception appears to be the most appropriate and most promising framework for the development of alternative economic and social policy proposals in and for the EU.