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

In memoriam Egon Matzner (1938 –2003)

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Summary

The European Union is at a critical point of development. It faces four big challenges, and it is not well prepared to meet them. First it is caught in a prolonged economic stagnation with rising unemployment and social polarization. Second, additional severe economic social and political problems arise with the coming enlargement. Third, the EU is grappling with a draft constitution which is intended to consolidate European unity and lead to a specific European identity in a time when, fourth, strong geopolitical pressures generate severe political dissent and conflicts in the world as well as amongst member states of the Union.

The responses of the Union to these challenges are completely inadequate and will not resolve these problems but in many respects exacerbate them. The Commission maintains its restrictive economic policy orientation and reinforces the neo-liberal thrust through a wave of privatisations and a very narrow approach to the concepts of the public interest and public services. This restrictive framework is an obstacle to growth and employment and it does not leave room to manage in an acceptable way the additional problems of inequalities and disparities arising with the accession of 10 new members to the EU.

The strong and progressive role which the EU should play in the present world of conflicts and tensions cannot be reached through a new military build-up, it must be based on the development of a strong and democratic European Social Model, which is a credible and convincing alternative to the model of a superpower with poor social standards. The cornerstones of an all-European development strategy with this goal are full employment, a high level of social welfare, equity, ecological sustainability and international cooperation. The following are basic elements of such a strategy for the current situation:

1. The EU should immediately take up and implement the proposal for a big public investment programme in infrastructure. It should have at least the size of 1% of EU15-GDP and be complemented by a similar programme for the new member countries. Finance could be provided through the European Investment Bank.

2. Following such an immediate initiative the EU should take steps to reshape the institutions and tools of macroeconomic policy to support full employment and sustainable growth (including gender mainstreaming).

3. With regard to the coming enlargement the discrimination against the new member countries must be removed and the financial target for structural policies raised from 0.4% to 1% of EU-GDP to allow more help for the newcomers without causing harm to the present members.

4. The Constitution should give more democratic power to the European Parliament and loosen the present restrictive economic policy framework of the Maastricht Treaty by at least transposing some positive approaches in part I into concrete provisions in part III of the draft.

5. The narrow view of the public sector as an exception from the general rule of markets and competition should be replaced by the concept of a strong and accountable public sector as one of the main pillars of a democratic society alongside the market sector.

6. The Broad Economic Policy Guidelines should give full employment, gender equality, welfare and ecological sustainability the same weight as growth within the general economic strategy and remove all elements of authoritarian pressure from the Employment Strategy.

Introduction

The European Union is currently facing four severe challenges, and it is not in a position to meet them in a convincing, democratic and appealing way. The first challenge is the prolonged economic stagnation with mounting unemployment and social polarization. The second is the European constitution which is currently under deliberation and which aims at the formation of a democratic European identity. The third challenge is the coming enlargement, i.e. the accession of ten countries, which will strongly increase the heterogeneity in economic performance, social welfare and political culture within the greater EU. To these three must be added the fourth challenge of strong geopolitical pressures which were created by the increasingly unilateral and hegemonistic policy of the United States and which have generated deep political divisions also within the EU.

The predominant market- and competition-oriented approach to integration and unity in Europe has contributed considerably to the present dismal economic and social situation in the EU and it is certainly not capable of overcoming these problems, which it will further exacerbate in the enlarged Union. The recent Swedish referendum on European Monetary Union (EMU) should be a strong warning against the continuation of such one-sided policies, since it highlights the difficulties of attracting people in a Europe apparently hostile to welfare provision and social solidarity and without a genuine democratic legitimation. It is therefore very problematic that the Maastricht and Amsterdam design of economic policy is completely locked into the draft constitution and that according to this draft the European Parliament would still not have the democratic right or authority to change this design by legislative initiatives. Instead, the search for European identity and for a strong position of Europe in the world focuses strongly on the military side, aiming at the build-up of military capabilities which go far beyond the requirements for territorial defence and support of UN peacekeeping missions. We think that this is an inadequate and dangerous political choice.

In our view a better way to overcome the present problems and achieve a European identity which is appealing for the people of Europe is to promote an all-European development model with full employment (including gender equality), a high level of welfare, social equity, ecological sustainability and comprehensive international cooperation as its cornerstones. Such a social model could play the role of an appealing and powerful alternative to the US model of military power with poor social standards. It does not emerge automatically or as the result of liberalised markets and competition. Its implementation will be met by resistance from those groups and powers who benefit from the present situation. It therefore requires energetic political intervention. The quality of such intervention depends on its development in a broad social movement and open public debate, that is on its democratic character.

This memorandum is a contribution to such a debate. In the first section we criticise the lack of an adequate European economic policy response to the obvious deterioration of the economic and social situation and make proposals for more efficient and democratic policies which in the short term lead to more employment and sustainable growth and in the longer perspective can achieve full employment, gender equality and a high degree of social cohesion. On the basis of an assessment of the additional problems accompanying the enlargement the second section makes proposals to loosen the restrictive regional policy of the EU to be able to manage these problems in a smooth and efficient way. The third section deals with the democratic deficit and the economic dogmatism of the draft constitution and gives recommendations for an alternative orientation. The current stampede for privatisations and the much too restrictive approach of the European authorities to “services of general interest” are the object of criticism in the fourth section which contains the outlines of an alternative approach to the public sector not as rare exception to the rule of competition but as a basic pillar of every democratic society. In the last section the recent developments of the Broad Economic Policy Guidelines and the European Employment strategy will be examined and changes with regard to predecessors will be evaluated.

There are many other fields of economic and social policy in the EU which must be criticised and for which alternatives must be proposed. We have dealt with some of these areas in previous memoranda and other publications. A particularly important area of neo-liberal counter-reform is the ongoing “modernisation” of social security systems, which is high on the agenda of the EU. The essence of this process is the privatisation of public systems. This is wrongly presented as unavoidable under the threat of a “demographic time-bomb”. In reality it is the withdrawal of employers from the co-financing of social security and above all it is a huge subsidy to the insurance industry and other institutional investors on the financial markets. We have extensively analysed and criticised this process and refer to our declaration: ***“Privatisation and Financial Markets Cannot be the Solutions of the Pension Problem”*** which can be found on our homepage (www.memo-europe.uni-bremen.de).

We are aware that critique of wrong and harmful policies and the development of proposals for better policies aiming at full employment, social justice, sustainability and welfare are necessary but not sufficient elements for social and political change. The policies we criticise are harmful for the majority of people in Europe, but they are beneficial for a powerful minority of corporations and high income groups. They will defend their positions and interests against any demand for a more equitable distribution of income and power. Therefore strong political and social movements are necessary to overcome this resistance. We regard our memorandum as a scientific contribution to the strengthening of these movements through the clarification of arguments.

1. In the face of stagnation, higher unemployment and social polarization – the need for an economic policy initiative

In the second half of 2003 the European economy has remained in a phase of stagnation, and it becomes dangerously close to getting caught in a deflationary spiral. Economic activity in the Eurozone even declined in the second quarter of this year. The strong ambitions and projections made at the Lisbon summit in March 2000 – the EU economy should within a decade become "the most competitive economy of the world", with an average growth rate of 3% during the current decade – now appear as rhetoric bubbles which were not underpinned by equally strong economic policies.

We have repeatedly criticized the lack of efficient macroeconomic strategies to fight unemployment and stimulate sustainable growth and we have predicted that on this inadequate basis there was no positive perspective for economic development and more social welfare. Our analysis has proved to be much more correct than that of the EU authorities. In November 2002 the European Commission's forecast for growth in the Eurozone was 1.8%. It was revised to 1.0% in the Spring 2003 (cf. table 1) and again corrected downwards to 0.4% in October. And it still appears that even this modest figure is very optimistic.
The most sluggish GDP growth component is investment (GDCF), which in fact declined in 2002 and will decline in 2003, as opposed to private consumption, which registered a positive, albeit low, increase. Trade has also registered low rates of growth, and could not give the EU economy a stimulus from the world economy.

Table 1: EU-GDP growth components
(annual % changes)

	EU - 12 (Euro area)					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	1.7	2.3	2.7	2.0	1.4
Investment (GDCF)	2.0	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	6.3	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, and remains relatively high this year due to cyclical factors (automatic stabilisers), as well as 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 Stability and Growth Pact (SGP) and away from the “close-to-balance or surplus” medium term objective. Following these trends the rate of unemployment rose for the second year running since 2001 to more than 8% in the EU-15 and to almost 9 % in the Eurozone, while employment, which had slightly grown in 2002 is expected to record zero growth in 2003 and even decline in the monetary union. The sluggish effective demand by the corporate sector, households and governments is reflected in a declining rate of inflation, which is predicted to continue to fall further in 2004. 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 to 68,1% of GDP in 2004, by comparison to 69,2% on average in the 1990s. Thus, in a climate of overall stagnation the creeping increase of inequality in income distribution continues.

Much of the economic decline in the EU-15 and the Eurozone is due to developments in Germany, by far the largest economy of the Union. The policy of the red-green government has been considerably more fundamentalist in its restrictive attitude towards public expenditure and the alleged “non-affordability” of the welfare state than that in most of the other EU members. Consequently the German economy in 2002 realized the second lowest growth rate in the whole of the EU, and this had obvious harmful effects for the neighbouring countries, particularly the Netherlands and France. For 2003 zero-growth is now officially expected and also for 2004 the outlook for the German economy remains bleak. Through deep cuts in the systems of unemployment benefits and social welfare – undertaken under the pretext of boosting employment and growth through a further reduction of labour costs – even the working of the automatic stabilizers will be severely hampered in the future.

Revealing developments have taken place with regard to the Stability and Growth Pact. On the one hand the adherence to this pact continued to be one of the major obstacles to more employment and growth for most countries in the EU. On the other hand the 3% of GDP limit for public deficits was transgressed in the two largest economies of the EU, in Germany and France, and it will again be missed in 2004. But this is not the result of deliberate political measures to give priority to growth and employment over balanced budgets. It was and will be the involuntary result of a policy which on the one hand reduces taxes particularly for corporate profits, capital gains and higher incomes and on the other hand gives deficit reduction highest priority in a situation of weak growth and stagnation – thus further curbing growth and prompting even more unemployment. The SGP was not renounced - as it should be – it was simply broken and it will be broken again in the years to come, as a consequence of misguided and harmful fiscal policies under the rules of the SGP.

The Commission has, departing from its previous stance, at last recognized the dismal development of the economy and the refutation of its forecasts and projections by the real course of events. However, it has not taken this as a challenge to thoroughly re-examine the adequacy of its economic policy concept. Instead the largest part of the difference between forecast and reality is attributed to developments in the world economy. While the latter has obviously developed at much lower pace in the last three years than in the second half of the 1990s, this is not an acceptable explanation of the development within the EU. Firstly, the challenge for European economic policy is to counter adverse external developments through active economic policy measures, for which there must be a concept and adequate preparation before the event. This was and is not the case in the EU. Second, the EU herself is the largest and second strongest block in the world economy, and the reference to the bad shape of the world economy has strong elements of self-reference. If the EU took efficient measures to stimulate sustainable growth and employment in Europe, the world economy would be in a much better shape than it is today.

However, amongst the great number of problematic and backward oriented developments we see one positive step in the Italian proposal "A European Action for Growth". It is based upon the recognition of the fact that the share of public investments in GDP has fallen in the 1990's to 2,3%, half a point less than in the previous decade (lagging well behind the US performance). Thus an urgent need is seen to accelerate the volume of public investments in infrastructure, bringing them to the pace initially targeted by the Delors Plan in 1993. The July 2003 Ecofin Council has given a mandate to the European Commission and the EIB to present a proposal for implementation and financing of such a programme, which should be discussed and adopted at the 2003 December summit.

We welcome the fact that the Council has at last taken the initiative for an immediate emergency programme to stimulate growth and employment and to finance this through the European Investment Bank – both elements of a wider economic policy package which we have proposed since many years. With reference to this proposal we make three additional recommendations:

1. The size of the programme should at least reach the upper figure of the proposal, i.e. 1% of EU-GDP, i.e. about € 90 billion.
2. An additional programme should be launched for the new member countries. It should be relatively larger than the one for the EU15 to enable new members to catch-up to the current EU members; and it should be financed via the EIB and the European Bank for Reconstruction and Development (EBRD) with interest subsidies from the EU budget.
3. In addition to the infrastructure projects in the Council proposal the whole area of environmental protection, repair and clean-up should be given high weight to reconcile economic growth and ecological restructuring and bring the European economy onto a path of sustainable development.

At the same time we wish to underline our recommendations with regard to further steps to free economic and social policies in the EU from inadequate and harmful restrictions and to transform the emergency programme into a consistent economic policy pattern for steady and sustainable growth with the aim of full employment, social cohesion and general welfare. There are at least six cornerstones for such a necessary macroeconomic policy change:

First: The mission and structure of the ***European System of Central Banks*** should be broadened to include the objectives of sustainable growth, full employment and social cohesion.

Second: The ***Stability and Growth Pact should be abandoned*** or at least be changed in a way that leaves fiscal policies of member states the flexibility to act in a way which promotes these agreed objectives.

Third: The ***EU budget should be considerably increased*** to give the EU room for manoeuvre to counteract asymmetric shocks and strong regional inequalities within the EU. In order to finance this expansion European taxes should be introduced, e.g. a tax on financial market turnovers or ecological taxes.

Fourth: ***Tax competition should be terminated*** and replaced by a high level of tax harmonisation and strong tax policy co-operation where and as long as complete harmonisation is not possible.

Fifth: ***Economic policy co-ordination*** should acquire a more systematic, broader and more binding character than today; therefore we advance the concept of a legitimate European economic government as a counterpart to the ECB. The European Parliament should play a greater role in decisions about economic policies including fiscal policies.

Sixth: The ongoing formation of a single ***European financial market*** must focus on ensuring systemic financial stability and consumer protection as main objectives and in this sense enhance the scope of financial supervision on the European level through harmonisation, closer co-operation and regulation.

These reforms are all the more necessary with regard to the upcoming enlargement of the EU. Without a more expansionary monetary policy the new members will have no chance to catch up. Their obligation to fulfil the convergence criteria on their way to monetary union becomes a plain absurdity and an unacceptable discrimination against the new members in view of the fact, that the majority of the current EU and Eurozone members does not fulfil these criteria. The SGP will strongly contribute to the continuation of the economic backwardness of the new members, and the simple opening up of their very weak financial markets has on the one hand already brought the majority of financial institutions under foreign control and on the other hand has made these markets extremely vulnerable without strong supervision.

2. A more favourable economic policy framework to manage enlargement

In May 2004 the EU will have ten new Member States, eight of them Central and Eastern European Countries (CEECs). They have managed the transformation process more or less successfully, but still suffer from major macroeconomic imbalances, in particular high unemployment (from 6% in Slovenia and Czech Republic to 19 % in the Slovak Republic and 20 % in Poland), growing poverty and regional disparities. The entry of the new members will increase the population of the EU by 75 million persons, i.e. one fifth of the current population. The per capita income of the newcomers (in purchasing power parities PPP) is less than half (47,7%) of that in the old EU. The share of agricultural employment in total employment is more than one fifth (21.5%) against less than one twentieth (4,3%) in the EU-15, and the productivity of the agricultural sector of the EU-15 is five times higher than in the CEECs. Even if one assumes the very favourable but rather unlikely case of growth rates of 2% per year in the EU-15 and 4% in the CEECs the new members would need about two decades to reach on average 60-70% of EU-15 per capita income, with greater or lesser differences between the countries.

After enlargement (including the accession of Bulgaria and Romania in 2007 or 2008) three groups of countries will exist in an EU of 27 in terms of GDP per head: The present EU-15 members without Spain, Greece and Portugal, form the first group of 12 countries with GDP per head of 120% of the EU-27 average, i.e. one fifth above the new average (which is about 90 % of the present EU-15 average). The second group of seven countries will consist of the three remaining countries of the current EU plus Cyprus, the Czech Republic, Slovenia and Malta, with GDP per head between 68% (the Czech Republic) and 95% (Spain) of the EU-27. The third group will be formed by the remaining eight accession countries, with a GDP per capita on average of 40% of EU-27 (56-58% for Slovakia and Hungary). Enlargement will more than double the population living in regions with GDP per head of less than 75% of the present EU average from 71 million to 174 million, or from 19% of the EU-15 total to 36% of the EU-27 total. So regional disparities will double with enlargement.

From these data it should be obvious that enlargement will change many parameters for economic policy in the larger EU, and these changes affect not only the new but also the old members. But the EU is not prepared to deal with these changes by a corresponding adjustment of its economic policy orientation. Instead it is maintaining the current very restrictive macroeconomic policy framework and is set to impose an even more rigid and restrictive pattern for structural policies. This marks a complete change from previous enlargement rounds which were accompanied by a substantial expansions of the Structural Funds. Similar measures were also taken after the adoption of the Maastricht Treaty: A Cohesion Fund was created to help the poorest countries mitigate the pressures of increased competition on the way to monetary union. Nothing of this kind will happen this time, although the scale of the enlargement is the largest ever. Not only will the Structural Funds not be expanded to cope with rising disparities; the German government has even proposed to reduce the upper limit for the EU budget from the presently 1.27 % to less than 1.1 % of EU-GDP. This extremely restrictive approach is likely to generate deep economic, social and perhaps even political crises in large parts of the EU.

Two further scandalous forms of discrimination against the new members aggravate the situation: Firstly, it was decided by the "old" EU that new members would, at the beginning of their membership, only receive 25% of the agricultural subsidies to which they were entitled as regular members of the EU, and that this share would be increased slowly to reach 100% after ten years. At the same time, however, the new members are required to pay the full amount of their contributions to the EU budget as regular members from the first day of their membership onwards. Secondly, in order to participate in the European Monetary Union (EMU), new members must fulfil the Maastricht Treaty's convergence criteria, although the majority (seven out of twelve) of the present members of the EMU currently fail to meet these criteria. This is a plain absurdity – which nevertheless will generate very severe and harmful economic consequences for the new members.

To cope successfully with the challenges set by this enlargement thoroughgoing changes are necessary in both the macroeconomic and structural policies of the EU.

The requirements for a more democratic and more efficient macroeconomic policy have been discussed in the previous section of this memorandum. With particular regard to the new members it should be added that the nature of the ***exchange rate regime EMS 2*** in which they will find themselves also will be of considerable importance. It would be most undesirable for the new member countries if they were obliged to buy themselves into the Eurozone through the pursuit of deflationary measures designed to meet the Maastricht convergence criteria on budget deficits and inflation. The real appreciation following such a policy would make such a policy unsustainable in the long run. Because entry into the EMS 2 at a too high exchange rate would bring considerable economic difficulties to the new members, the ability to adjust the exchange rate in the light of evolving economic conditions (notably differentials of inflation) must be retained. Therefore it seems reasonable to regard entry to EMU as a medium target and link it to convergence criteria in real terms. 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 of smoothing the necessary and ongoing adjustment in the productive structures of the CEECs.

Such a macroeconomic policy would make it possible to expand the structural funds and to resolve the problems and conflicts that are being generated between some of the EU-15 and the new members, as a result of the eligibility threshold for so-called Objective-1 regions, for which per capita income must lie below 75% of that for the total EU. It would ease the dilemma that some regions for example in Southern Spain or East Germany will find themselves above this threshold and the support they receive will be reduced, or phased out, without any change in their real problems or the absolute value of GDP per capita. According to the Cohesion Report the number of EU-15 regions below the threshold will drop from 46 to only 19. Many of the present Objective-2 regions and cities, especially old industrial areas like the Ruhr or Pay de Calais, must retain the chance to get funds in the future, too, because their economic and social problems are not really resolved until now.

According to available information for the next period of interinstitutional agreement on the EU budget (2007-2013) the Commission proposes to assign a share of 0.45 % of EU-25 GDP to the Regional Funds. In this case a total of € 344 billion for the EU-25 (in 1999 constant prices) would be available assuming an annual GDP growth of 2.5% in the EU-15 and 4.0% in the CEEC-10 plus Bulgaria and Romania. The EU-15 regions would then get € 197 billion, i.e. € 14 billion less than in the present period. The German government seems to prefer an even more restrictive model, in which only about 0.4% of EU-GDP is made available for Regional Funds. In this case the EU-15 regions would get about € 87 billion less than in the present period!

Against these unacceptable scenarios we propose the following three alternatives:

(1) The most modest proposal is that Regional Funds should be set at **0.5% of EU GDP.** This would generate € 382 billion (in 1999 constant prices) for the EU-25 during the period 2007-2013. The EU-15 regions would get the same amount as in the 2000-2006 period (€ 211 billion), whereas the new Member States would get € 171 billion. In this case the provision that

Structural Fund resources should not amount to more than 4% of GDP of the recipient country would have to be relaxed.

(2) The more ambitious but still moderate **1.0% approach** would result in € 764 billion (2007-2013) for the EU-25 and would resolve the problem of regional disparities much better. In this case it would be necessary to change the funding process by not only abolishing the 4%-rule but also by assigning subsidies partly as a general subsidy to the national budgets of the accession countries rather than the present procedure whereby all projects have to be set out in a "single programme document" that has to be presented by the regions and accepted by the European Commission.

(3) In a still more favorable perspective the total EU budget could be progressively raised to around 5% of EU-25 GDP in the medium term. This would give the EU considerably more room for maneuver and enable it, for instance, to change the eligibility threshold for the Structural Funds and to raise the subsidies for agriculture in the CEECs to the regular level. A larger number of less developed regions could benefit from transfers, including some in the more advanced countries of the EU-15.

Due to the political environment the second and third proposals are not the most likely ones. New interim compromises could be sought in various directions. Firstly, new Structural Funds could be created and dedicated to the new members, with financing by borrowing through the EIB and the EBRD. 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 ensure that both groups of countries receive a sufficient amount of funds. Another measure to support the CEECs could be a reduction in the necessary share of cofinancing. Also the procedure of applying for 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 too tight examination from Brussels. High levels of support for poor countries should be linked to public investment strategies.

3. More democracy and less Maastricht needed – A Critique of the draft constitution

The EU is currently deliberating – and renegotiating – the draft constitution which the European Convention has elaborated. It is the ambition of the president of the Convention that the result of the negotiations should be signed by all member governments before the coming enlargement in May 2004, and that it should govern European unity for a very long period, i.e. for 40 to 50 years. In this view the constitution marks a decisive leap forward in the definition of the "finality" of European integration. 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. This constitution is not a step forward towards a social Europe.

With regard to the democratic character of the Union we see some progress but also some big deficiencies in the current draft. We welcome the proposal that the charter of fundamental rights will be part of the constitution. We also welcome the fact that the draft increases the number of Council procedures where qualified majority voting is introduced and more than doubles the procedures requiring co-decision with the European Parliament. By abolishing the distinction between obligatory and non-obligatory expenditures in the EU budget, the European Parliament achieves final co-decision power over the whole range of the budget. These are progressive provisions. On the other hand the basic democratic deficiency remains that the European Parliament still lacks two powers which are fundamental for any democratic parliament: It has no right to initiate EU legislation, and it has no right to select the president of the European executive power, the European Commission (EC). Although it does formally elect the President of the EC, this is in reality no more than a formality, since it is the European Council who proposes the respective candidate and the Parliament can only accept or reject this proposal. In our view the draft should not try to avoid any "politicisation" of the European Commission, with the President of the Commission having to come from the political majority in the European Parliament as expressed in the results of the various European elections. Such politicisation is the essence of the democratic process. The downgrading of the election of the Commission president at the European Parliament level to a confirmation of a pre-selected candidate amounts to a continuing contempt or at least suspicion of all Euro-

pean democratic structures and procedures – and it is a phenomenon which the EU quite correctly criticises in other parts of the world.
We are also concerned about the increasing degree of militarization which the draft envisages. It provides for the establishment of a European Armaments, Research and Military Capabilities Agency and obliges Member States "progressively to improve their military capabilities". These provisions (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 protect and enforce the Unions assumed "strategic interests". We think that this would be a politically dangerous development. Apart from this the orientation towards improving military capabilities will lead to higher expenditure for armaments in Europe, and as all experience shows much of such an increase will be financed through deep cuts in social spending and public investment by the Member States.

As a network of European Economists, our main focus is on the provisions for economic, employment and social policies of the Union. 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 fact that "sustainable development" and "a high level of protection and improvement of the quality of the environment" are maintained as objectives of the European Union, which shall be "based on balanced growth" (instead of simply "non-inflationary growth", as in the current Treaty). We also 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, including the provision of public goods and public services on the other hand: 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 therefore recommend that the objective "efficient and high-quality social services, public services and services of general interest" should be listed in Article I-3, as demanded by the Social Europe working group of the Convention. 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).

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 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.

Based on this critical evaluation and on the recommendations of our previous memoranda, we propose to include into the current negotiations on the draft the objective of the European Social Model and make the following amendments to enable progress towards this goal.

Social and economic policy **objectives:**

- The protection of public goods and the provision of high quality public services and services of general interest (socio-cultural, economic) should be included in the objectives of the Union (Article I-3); serving the public interest and democratic decision making should have priority over the principles of the Internal Market and competition rules as guiding principles for the provision of services of general interest (Article II-6);
- The specification of the single market in Article I-3 should be changed to "a single market with a high degree of economic efficiency, an adequate level of competition, a high degree of social standards and of environmental and consumer protection";
- "Full employment with high quality of work" should be an objective of the Union (Article I-3) and carried forward to Part III of the constitution, replacing "high level of employment", e.g. Articles III-99, III-103);
- The goal of a "high level of social protection" should be reinstated as an objective (Article I-3);
- The objectives of a "social market economy", "social progress" and "balanced growth" in part I should be carried on into part III replacing that "open market economy with free competition", etc. Articles III-69, III-70, III-77);
- The objective of high social standards should be included in the constitution and it should explicitly be declared that no measure by the European authorities could reduce the current social rights in member countries.

Social and economic policy **coordination**:

- ***Employment and social policies should have the same weight and status as economic and monetary ones*** in the constitution. Also, there should be provisions for the coherent coordination between them with economically, socially and ecologically sustainable development as an overarching objective (Article I-14).
- With regard to the ***European Central Bank*** (ECB) the objectives of monetary policy (Articles I-29, III-77) should be extended to include "price stability, balanced growth, social cohesion and full employment". The democratic accountability and transparency of the ECB must be clearly pointed out: as an institution of the European Union it should be bound by the "principle of participatory democracy" like all other institutions listed in Part I of the constitution. The independence of the ECB should be operative independence, while in the defini-

tion of price stability and in the assessment of the respective economic situation and need for political action the ECB should act in co-ordination with other policy actors.

- The EMU convergence criteria should be redrafted towards real economy convergence criteria (Article III-92) and the definitions of an excessive deficit (protocol on the excessive deficit procedure) should be dropped.
- For the adoption of international agreements on commercial treaties, especially those concerning trade in services and agreements on investments (Article III-217) the previous principles of "shared competencies" and unanimity voting should be re-introduced.
- The proposals of European environmental organisations on the insertion of the objectives of sustainable development in the provisions of Part III should be followed.

4. A strong public sector as a pillar of the European social model – Critique of the "Green Paper on Services of General Interest"

In the past few years a growing number of people and social groups throughout Europe have become increasingly concerned about the continuing thrust of the EU towards the liberalisation and privatisation of the public sector including core parts of public services such as the provision of water, health and educational services. In some EU countries this concern has developed into a protest and resistance against plans for further privatisation. This is also true for the CEECs. Comprehensive and precipitated privatisation, which was one of the main levers of the systemic transformation process has often resulted in the destruction of whole industries and the takeover of others by foreign corporations. Further privatisation particularly of public services is therefore regarded with caution and sometimes scepticism by an increasing part of the population - as in the present EU.

The European Parliament has on various occasions taken up the matter and asked the Commission to formulate a concept of public interest for the EU. At last the Commission has responded to this demand and in May 2003 published a "Green Paper on Services of General Interest" (SGI). We welcome the publication of this paper, because – although it represents not an official position of the EU - it clarifies the main lines of thinking within the Commission and exposes it to public debate. This debate should extensively take place and is to be expected that during its course many different views will be formulated and the challenge will be to bring the elements together which are the basis of the European Social Model. With regard to the Green Paper we wish to stress and explain our view that the position laid down there is not an appropriate basis for the development of a concept for a European public interest and a public sector corresponding to this interest. The reason for this is the very narrow and biased approach of the Commission to the notion of “general interest”.

Although the paper mentions the “European model of society” and it even deplores the absence of an elaborated concept it does nothing to overcome this deficiency. Instead it becomes very clear in the course of the Commission’s line of argumentation, that the internal market and the rules of competition are the driving principles of European integration and unity. It is conceded that there are and should be exceptions to these rules, and therefore “services of general interest” have a right to exist. But this right is that of an – increasingly contested - exception, which requires specific justification with regard to the overall rule. This is a very biased position. A more balanced and more helpful alternative approach would be to define public services and the public interest as an area of genuine own rights and strengths and give it equal weight and status with the rules of markets and competition. Such parallel development of public and private areas has been characteristic of the historical formation of the public sector, public services and the constitution of the “general interest” in most European welfare states, and much of the outcome of this process has been preserved until today.

Although many of the areas thus defined as areas of public interest are the same or very similar in most countries of the EU, this has not led to the formulation and formation of a corresponding ***European*** public interest and a development model based thereupon. Instead, European integration has taken place mainly by way of the removal of tariff and non-tariff barriers to markets and the rules of competition have become the framework and governing principles of integration. With the launch of the internal market project these rules have started to backfire against the hitherto strong and mostly unchallenged status of public services in the member states and they have dominated the negotiations for the upcoming enlargement. It is accepted that such services may continue to exist on the national base - but only as long as no cross-border activities and no enterprises are involved. Because there is no “hard” and constitutionally or legally binding European general interest beyond rhetoric all cross-border activities become subject to competition. And since competition refers to all types of enterprises all public services carried out by (public or private) enterprises must be exposed to competition, too. Although public administration in every country may exempt certain undertakings from this rule, these exemptions must be justified and are subject to continuous monitoring and scrutiny by the internal market and competition directorates within the Commission. The objective of this scrutiny is to terminate the exceptional character of the service and to transfer it to the area of competition. The stampede towards privatisation during the last decade is the consequence of this lack of a strong definition and of implementation of a European general (or public) interest. With enlargement it will not become easier to overcome this deficiency.

This *Green Paper* implicitly states that the European Union, as currently conceived, has embarked – and should remain - on a path likely to lead to a world characterised by a uniform set of institutions. Contrary to its repeated proclamations that variety and diversity are welcome and will even be promoted, the *Green Paper* is set to prevent the continuation or development of those qualities, for example by imposing on "public undertakings" the same rights and obligations as on private businesses. This precludes the creation of institutions specifically designed to fulfil a well-defined *public* purpose. The "respect" for "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" (Green paper, p. 5) is, by the virtue of this conditionality, eliminated. The authority of the respective electorates is thus transferred to the evaluation industry.

To correct the overwhelming bias towards competition in the current approach to European unity and to establish a more balanced approach between markets and the public sector it is essential to consider what the basic components of such a European model should be. They must be derived from the values and commitments which all member states – including the new ones - share. According to available and expert opinion, the essence of such a model lies in the private/public dimension. Europe, i.e. all European regions and cultural traditions, have at least *four elements* in common, which differ in an important way from the EU's currently preferred benchmark model, namely present-day US capitalism:

(1) ***Private property***, a basic institution in any contemporary society, has in European history been closely associated with social obligations and responsibility. This linkage was essential to feudal property and it is inherent both in catholic social philosophy and in socialist thought. In the CEECs private property had been largely abolished with the ambition of introducing social responsibility without any linkage to private property. This attempt failed for many reasons. In the USA, by contrast, private property is essentially conceived as the basis of indi-

vidual autonomy; it is without any restriction available to rational, industrious person and precluded to the lazy.

(2) In the European tradition the ***social contract*** encompasses every citizen. The weak, the poor and the helpless must be taken care of and their unconditional legal entitlement to this support is the basis of the European welfare state. In the USA, on the other hand, the idea of a redistribution of income or wealth contradicts “true American values”; these rather favour voluntary charity.

(3) ***The public sphere***, also known as ***res publica***, is a feature more or less common to all European nations, and the development and preservation of a public space against the dynamics of private markets for instance in the area of media, education and science is seen as one of the basic requirements for a democratic society. In the USA it is traditionally less important; today, most of it has been whittled away.

(4) ***The role of the state*** carries greater weight in Europe than in the USA. While in the USA the state is often perceived as an adversary, if not an enemy, of the citizen, the European tradition rather views the state as supportive of a “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 a traditionally positive attitude towards the state by strong social movements and public control of state activities.

All these particular features of a European development model as different and opposed to the US model are currently under heavy neo-liberal attack in the “old” EU, and privatisation, liberalisation and deregulation are amongst the most efficient weapons of this attack. In the CEECs the idea of the public sector and public interest has been discredited by the overwhelming importance and the often bureaucratic and non-democratic character of this sector which ignored and often suppressed individual aspirations and freedom. In the decade following the collapse of this model the pendulum has often struck towards the opposite extreme of complete privatisation and unfettered competition in all areas of life.

Historical experience, not the last in the CEECs has clearly shown that for the constitution of a genuine public interest and public sector the mere transformation of private into public property is not sufficient and even not the decisive factor. The decisive criterion is whether the society is organised democratically. This requires on the one hand strong employees participation in enterprises and it requires on the other hand that the public sector is set-up and organised in a democratic way, supported by broad and continuous public discussion with transparent decision procedures. The challenge for a progressive all European development model is now to re-instate a balance between private interests and activities including economic and entrepreneurial activities on the one hand and on the other hand the formulation and formation of a public space and general interest which regulates basic areas of social life and at the same time defines the framework and rules for private activities. Such a challenge cannot be met through rapid technocratic measures, it requires an intense and concrete discussion about social values and priorities of a European social model which is appealing and strong enough to resist the neo-liberal attacks and temptations. We believe that the principles mentioned above could serve as cornerstones and guidelines of such a common search for a progressive, democratic and social European development model in which the public sector is no exception to the rule of the markets but a strong pillar of democratic society alongside with markets. Therefore it is our view that all aspects of social security and education, culture etc. should be governed by the public sector. In addition large parts of the provision of infrastructure – roads, railroads, school transportation services, etc. – as well as public utilities – electricity, water, gas etc. – and network sectors like telecommunication and mail services should belong to the public space in the sense that they are regulated by political discussions and decisions and not by the pursuit of private profit. Public regulation should also be largely extended to the pharmaceutical sector, and other areas which are basic suppliers to the direct public providers of health and care services.

The draft constitution opens (in Article III-6) a perspective for European laws with regard to services of general economic interest. This perspective should be taken up in three ways. Firstly a very broad interpretation of services of general economic interest should be applied so as to include the public space mentioned above. Secondly a European law should provide that certain areas of social life, mainly those mentioned above should belong to the area of public interest and should not be submitted to the rules of competition. Thirdly the same law shall under the principle of subsidiarity allow member states to make further exemptions according to national, regional and local traditions and preferences.

5. Broad Economic Policy Guidelines and Labour Market Policies

We have at many occasions criticized the Broad Economic Policy Guidelines (BEPGs) and the European Employment Strategy (EES) for the following main reasons :

Firstly it is not acceptable that the EES is clearly subordinated to the BEPGs instead of having the same weight and importance for a European strategy to enhance economic development and welfare.

Secondly neither the BEPGs nor the EES contain a genuine and explicit macroeconomic employment strategy. Instead it is assumed that the opening up of markets, wage moderation and higher flexibility and adaptability of the labour force would automatically lead to more growth and employment. This assumption is false for theoretical reasons and it has been refuted by the factual developments.

Thirdly the BEPGs and the EES contain in varying degrees authoritarian and disciplinary elements which would, if realized, deteriorate the situation for the weakest parts of society.

This critique remains valid also with regard to the recent streamlining of the BEPGs and the EES. On the other hand, certain changes pertaining to the shape and the content of both conceptions can be observed, some of which are to be welcomed.

The Broad Economic Policy Guidelines (BEPGs) 2003-2005

The Commission's Recommendation with regard to the BEPGs for the 2003-2005 period was endorsed by the Thessaloniki European Council in June 2003. They are considerably more comprehensive than previous BEPGs in two respects: For the first time they cover a three-year-period, and they represent an attempt to provide a comprehensive, consistent and more balanced policy framework, built around the central policy objectives 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).

Furthermore, 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 countries which have joined the Economic and Monetary Union. On the other hand, no special reference is made to the particular problems of the new EU member-states. For the Commission it seems sufficient to deal with these problems in the 2004 upgrade of the present guidelines. In our view this is highly inadequate.

As far as forecasts are concerned, for the first time since the beginning of the current recession the Commission not only acknowledges the problem, but it 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" (BEPG 2003-05: p.4), the Commission then 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.

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). In addition, 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: macroeconomic policy mix, inflation differences between Eurozone member-states and policy co-ordination.

Contrary to the aspirations of the Commission the new BEPGs do not represent a more balanced approach to the economic and social problems of the Union by comparison to the previous BEPGs. They remain characterized by a strong asymmetry between the economic aspects of policy on the one hand and the social and environmental ones, on the other. In particular, "confidence" appears to be a key concept, directly related to the need to secure a stable environment, fostering investment and therefore growth. According to this linear type of argument, business and consumer confidence constitute significant determinants of policy. This concern leads to a constant preoccupation with price stability and that, in turn, to the recommendation that wages adjust downwards, as productivity falls. The downward adjustment of wages is further deemed necessary for employment to increase. Lastly, long-term sustainability is linked to the so-called "impact of ageing", which is expected to exert "increasing pressure on public finances" (p. 10). Hence, the need for the reform – i.e. downsizing and privatization - of pension systems appears to be more or less unquestionable.

On the other hand, the social aspect of policy is explicitly mentioned only in relation to the long-run. In this respect, the main concern seems to be about poverty and social exclusion, linked to unskilled and low-skilled workers and to less-developed regions. The relevant guidelines are however very general in nature, as no specific thresholds or measures are presented. Thus, what constitutes an "adequate level of social protection", how this is to be financed, or what kind of public support should be given to regions lagging behind are some of the issues left unspecified.

In particular, no reference is made to the gender mainstreaming issue, i.e. a strategy that aims to make gender equality, a regular part of the mainstream policy process. Underlying the concept of mainstreaming is a recognition that women and men do not have the same situations, needs and resources and that these differences can affect the way in which women and men can access everything from labour market participation to public services. A further implicit acknowledgement is that while real gains have been made in terms of legislation outlawing gender discrimination, the achievement of equality requires a shift or transformation in the policy-making process, recognising how gender as a factor structures opportunities and access. By taking account of the different needs and situations of women and men, policy-makers can ensure better policy targeting, more effective delivery and greater equality.

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

Overall, the 2003-2005 BEPGs attempt to develop a more comprehensive approach to policy formulation remains unsatisfactory. On the one hand the recognition that social and environmental sustainability issues should be included in policy formulation 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 greater labor 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 their implementation.

European Employment Strategy (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, 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.

The open method of coordination is intended to build up a policy community in which decision-makers, social partners and experts from different countries interact in order to improve the design and the efficiency of labour market 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.

Five years after the launch of the EES in 1997, the Commission undertook a comprehensive review which has led to certain changes both in its objectives and in 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.

The first basic point to make about the EES is that it is misnamed. This is by no means an “employment” strategy; it is concerned only with employment and labour market regulation. Only on the untenable assumption that Europe’s unemployment is entirely due to labour supply problems, to “rigidities” and so on, could this series of measures be described as an employment strategy.
Similarly, the assessment made of the strategy in the five year review is deeply unrealistic; a decline in unemployment and a rise in employment over these years is, in complete disregard of macroeconomic realities, attributed to “structural” improvements in the functioning of labour markets. In fact, it was the partial recovery of aggregate demand over these years which

improved the employment situation, just as the current economic slowdown puts all these improvements at risk. The appeal to the concept of a NAIRU (non-accelerating inflation rate of unemployment), a kind of equilibrium level of unemployment supposedly brought down by supply-side reforms, rests on completely unconvincing empirical foundations since, in statistical terms, the NAIRU is little more than a moving average of actual unemployment rates.

From the start the EES has involved intense conflicts and major differences of interpretation. Some member state governments, notably that of Britain, supported by most employers' representatives and by economic policy-makers in the Commission, have favoured a regressive approach to labour market reform, where the basic objective is to tighten both administrative and market disciplines on the most vulnerable workers and to promote employment on the basis of lower labour standards, increased job insecurity and widening wage inequalities. Such views seem to have been particularly influential when the EES was launched at the Luxembourg summit of 1997 in the wake of Labour's electoral victory in Britain.

These approaches have been resisted by trade union representatives, by governments such as those of the Scandinavian countries concerned to raise labour standards and by forces in the Commission and the European Parliament determined to enhance the concept of social Europe. The outcome is that the EES is marked by deep ambiguities. Some of the targets it has promulgated are to be welcomed. These include the improvement of child care provision in order to reduce gender inequalities in the labour market and many of the measures proposed to secure a better integration of immigrant workers into mainstream employment. In other areas the language of the EES is so ambivalent that the strategy cannot be assessed without a detailed investigation of the actual policy practice with which it is associated. An example is provided by the employment targets themselves. An increase in labour market participation rates is not in itself an unqualified good, independent of the ways in which participation is promoted or of the quality of the employment which is achieved. Participation promoted by reduced levels of social protection, by tighter eligibility rules for unemployment indemnities or by the sacrifice of established working conditions represents a threat to European social models. Similarly, while it is highly desirable to prevent labour market discrimination against older workers, the reduction of pension entitlements for less qualified workers can only increase social inequalities, especially in the light of the major differences in life expectancy between more and less advantaged workers.

In all these areas the EES can be interpreted in completely opposite ways. The same applies to "labour market activation". According to some of the US models which have inspired the British government, activation is essentially a method of social discipline, or even social punishment - placing huge pressures, for instance, on single parents for whom social protection is curtailed. In the Nordic countries, by contrast, activation measures, although they certainly involve certain disciplines, are essentially solidary interventions in favour of disadvantaged groups.

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 neo-liberal priorities of the BEPGs.

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

In our view, 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 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.

To: **European Economists for an Alternative Economic Policy in Europe**

Declaration of support

I support the general direction and main arguments and proposals in the Memorandum 2003:

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

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

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Please return this form as soon as possible – **not later than 30th November 2003** – by fax or e-mail to: Prof. Dr. Jörg Huffschmid, fax: +49-421-218-4597, e-mail:Huffschmid@ewig.uni-bremen.de or Jacqueline Runje, fax: +49-421-218-4597, e-mail:jrunje@ewig.uni-bremen.de .