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

Confronting the Crisis: Austerity or Solidarity

– EuroMemorandum 2010/2011 –

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Declaration of support

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Summary

Economic growth resumed in the EU in the second half of 2009 but output in 2010 was below pre-crisis levels and the financial system remains fragile. Following the financial crisis and the subsequent economic crisis, EU states have been faced with rising fiscal deficits as a result of the cost of rescue packages for the financial sector, expansionary fiscal policies and lost tax revenue. The failure of the EU to respond promptly to Greek difficulties in refinancing its public debt led to speculation against the euro and created a crisis atmosphere in which first Greece and then Spain and Portugal were forced to introduce severe austerity programmes. At the end of the year Ireland, which had introduced a severe austerity programme in 2009, was forced to agree to an even more severe programme in return for financial support from the eurozone's Financial Stability Facility.

The difficulties in peripheral European countries are linked to a growing polarisation in the EU, especially the eurozone. Germany has for over ten years followed a policy of low wage growth and built up a large current account surplus. The peripheral eurozone countries, by contrast, have run up large current account deficits and are being forced to eliminate these deficits through adopting policies of deflation. It will be impossible to increase output and reduce unemployment in the EU without addressing these imbalances. Ultimately, the weakness of the deficit countries will hold back the surplus countries and a continuation of current policies will threaten deflation and risk a breakup of the eurozone.

Unemployment in the EU increased in 2010 although, due to the end of the recession, not as rapidly as in 2009. The situation is also polarised. While unemployment is very high in one group of counties, most notably in Spain and the Baltic countries, there is another group of countries, which includes Germany, Austria and the Netherlands, where unemployment is much lower. Throughout the EU, unemployment is higher among migrant workers, young people and those with lower levels of education. Following the widespread introduction of austerity programmes in 2010, unemployment looks set to rise further.

EU states have been vulnerable to the crisis partly due to the decline in revenues as tax competition has driven down personal and corporate tax rates over the last ten years, with particularly low rates in many Central and Eastern European states. There has also been an increase in the share of indirect taxes in the total tax take, which has a regressive impact on income distribution.

The long-term decline in the share of wages in national income was temporarily reversed in 2009, but only due to the collapse of profits. The dispersion of wages continues to increase nearly everywhere, even the Nordic countries, and is most marked in Britain and the Central and Eastern European countries. This unequal distribution of income has increased the risk of poverty. In total 84 million people in the EU live in poverty; scandalously 19 million are children. At the same time, both the number of wealthy and the value of their wealth have increased, reflecting the increased polarisation within countries.

Europe did nothing to prevent the failure of the Copenhagen conference on climate change at the end of 2009. If global warming is to be kept below 2°C, global emissions must fall from 2011 and by some 90% by 2050. The destruction of biodiversity, which provides a buffer against climate change, must end. A belief in technological fixes has crowded out serious discussion of structural change, while market mechanisms have failed to achieve a significant reduction in emissions. A growing material flow from South to North has been accompanied by biopiracy in the form of intellectual property rights. The developed countries of the North which are primarily responsible for climate change must honour their climate debt.

Critique of EU policy – Policy in the EU has reverted to a more nationally based approach. The debt crisis was presented as a Greek problem, although banks in Northern Europe were also exposed as a result of large loans to peripheral countries. The EU has introduced financial reforms but these are even weaker than those in the US. There is to be no restriction on banks' proprietary trading, and big financial institutions that operate across Europe will continue to be supervised by national authorities. While banks are once again making large profits, there is no effective mechanism to wind down sys-

tematically important institutions that go bankrupt. The so-called *Basel III* proposals rely on increased capital requirements for banks, but this will encourage regulatory arbitrage and make banks more dependent on capital markets.

The *Stability and Growth Pact* is the EU's only instrument for coordinating macroeconomic policy, but it is highly restrictive and is incapable of addressing the current imbalances in Europe. The call to exit from the emergency measures introduced to combat the recession, and return to deficits below 3% of GDP by 2013 is quite arbitrary. The only way forward is a budgetary union with fiscal transfers. Germany is opposed to this and its proposal to make bond holders share in losses led to an immediate increase in interest rates for peripheral countries and deprives weaker states of credit on the same terms as their European partners. By failing to deal with imbalances, Germany is exercising a powerful contractionary influence on the EU, and especially the eurozone, even though it is one of the euro's greatest beneficiaries.

The *European Employment Strategy* focuses on structural unemployment and is therefore incapable of addressing cyclical unemployment. The newest version, set out in *Europe 2020,* aims to increase the employment rate, but it is a step backwards from earlier drafts: it substitutes flexicurity for an active labour market policy, and gender mainstreaming has disappeared. There are 6.6 unemployed workers for each employment vacancy, but the EU does not recognise that it is deficient aggregate demand that is the key cause of unemployment.

Disparities in the EU meant that while some older member states could cut taxes as part of their response to the recession, many Central European Countries had to raise rates. In contrast to the EU's obsession with its target for fiscal deficits, it has completely failed to develop a programme for tax harmonisation. It has said little about the loss of revenue from tax avoidance schemes, tax evasion and the existence of tax havens within Europe. The zeal with which it has pursued excessive public borrowing is in complete contrast with its neglect of large-scale off-shoring by banks and global accountancy firms on behalf of their clients.

The year 2010 is officially designated the *European Year of Combating Poverty and Social Exclusion*. But the EU's new strategy document *Europe 2020* has just a single target for reducing poverty: to cut the number affected by 20 million. But it proposes no policies to achieve this, just a flagship programme which will rely on the so-called 'open method of coordination'.

Europe 2020 is ambiguous on environmental policy. It sets out various strategies but leaves decisions for the future. It stresses the importance of competition but also expresses concern for the environment and the depletion of natural resources. Most seriously, it does not recognise the need for structural changes in the model of unlimited economic growth. The 'greening' of economic policy must be linked to explicit discussions and policy decisions, not left to the play of market forces. The EU has set a target of halting the decline in biodiversity by 2020, but it is not clear that this will priority will be imposed on agricultural and trade policy. The ambitious 7th Environmental Action plan will provide the basis for mainstreaming environmental concerns in all areas of the EU's and member states policy, but progress is currently delayed by the European Commission.

Alternatives: Towards greater solidarity

Finance – The European Central Bank should be subject to greater democratic accountability and shift from its obsession with 2% inflation to focus on employment, the maintenance of purchasing power and the stability of the financial system. The new European Council for Systemic Risk must be equipped with binding powers. Control on banks should be tightened: instead of simply raising capital requirements, as in *Basel III*, banks should be subjected to stringent rules that prevent them from taking excessive risk and externalising risk to the shadow banking sector. Off-balance sheet transactions should be banned. Public sector and cooperative banks should be promoted with at least one major public bank to ensure financing for socially and ecologically desirable projects. Ratings agencies must be brought under public control. There should be a prohibition on bank lending to hedge funds; on off-shore financial centres; and on over-the-counter derivatives. A financial transactions tax should be introduced to curtail harmful speculation and to raise finance for social and ecological transformation.

Macroeconomic Policy – The discredited *Stability and Growth Pact* should be replaced by a commitment to expand macroeconomic demand to promote full employment. In the medium term this will

require new institutions. In the short term existing institutions, such as the European Investment Bank and the European Financial Stability Facility can be used to finance EU-wide investment projects. Interest rates for credit-worthy borrowers are even lower than before the crisis, signalling that there is no general crisis in public finance. EU bonds guaranteed by all EU governments would signal a determination to reach a collective solution based on solidarity. Large scale investment projects should also be based on a coordinated use of national budgets and should be led by surplus countries. Transfers are economically necessary for the survival of the monetary union, and socially necessary to ensure social cohesion. The EU should take over and guarantee a percentage of each member states' debt. The public debt incurred in rescuing the financial sector should be recuperated from the private sector through a wealth tax.

Full employment and good work – The large gap between the job vacancies and the number of unemployed indicates that employment policy should focus on creating jobs. These should be what the ILO designates 'good jobs' and should promote ecological sustainability and gender equality. Public investment should create jobs especially for young people, the long-term unemployed and other vulnerable groups. A key component of employment policy is a reduction in working time, and as a first step the maximum working time in Europe should be reduced from 48 to 40 hours a week. The recent initiatives to raise the age of retirement should also be reversed.

Taxation and anti-poverty programmes – Tax rates in Europe should be harmonised to counter disparities. In particular, a minimum rate for personal and corporate tax should be introduced to stop the current downward spiral. Greater fairness should be introduced though making tax rates more progressive, and through taking steps to eliminate the tax avoidance industry. The marginal rate of taxation on higher incomes should be raised and flat rate taxes should be abolished. The top rates of personal and corporate tax should converge and wealth taxes in the EU should be harmonised. Tax haven should be closed and tax arbitrage by corporations should be prevented. An effective anti-poverty programme that targets specific groups (children, women, the elderly, the unemployed) should be implemented, and steps must be taken to counter in-work poverty. Countries with the lowest child poverty are those that have the highest taxes.

Sustainable development – A concerted approach is urgently required by the EU and its member states to reduce the EU's ecological footprint. This could also help to unblock the lack of progress in global negotiations. Action is required to reduce energy consumption, material flows, unnecessary transportation, and the negative international impact of the EU on developing countries. This should be accompanied by a broad pattern of consultation and extensive political participation in order to ensure that it results in a meaningful change in patterns of consumption and life styles. The European Investment Bank and the European Bank for Reconstruction and Development should be drawn on to meet the cost of the necessary investment. Market instrument have shown themselves to be unreliable and wasteful means of achieving ecological change. Instead there is a need for a strong public component in investing in infrastructure, public services, and employment that supports local and regional sustainability. The centrepiece of the policy should be a European Plan for Sustainable Development, which seeks to mainstream economic, social, and environmental sustainability in all areas of policy in the EU and the member states. This should be funded at a European level but outside the current limits on EU spending, and a competent public service should be established to implement its work.

Introduction

Three years after the onset of the financial crisis and two years after a deepening of the crisis led to the most severe economic slump since the 1930s, the global economy is registering an uneven recovery. Output in the developed capitalist countries remains below pre-crisis levels and financial systems are still marked by considerable fragility. In the US, the impact of the government's stimulus package and of corporate restocking appear to have been largely exhausted and, as economic growth and job creation weaken, the Federal Reserve has announced plans to inject a further $600bn into the economy through purchasing bonds in a new round of so-called quantitative easing. In the European Union there has been a major widening of divergences, with tensions between the dominant Northern economies and those of the European periphery erupting in a crisis that was triggered by Greece's sovereign debt but which, in the face of official intransigence, threatened to develop into a currency crisis. The strongest growth has been recorded by developing countries, most notably in Asia, although many of these remain very dependent on world trade and several are also struggling to control large inflows of highly liquid capital resulting from the expansive monetary policies in the developed world, especially the US.

Despite the fragile nature of the recovery, European economic policy in 2010 has been dominated by a widespread shift away from the expansionary measures introduced at the height of the crisis. Several EU member states in Central and Eastern Europe, notably Hungary and the Baltic countries, which were not protected by membership of the Euro area, were obliged to adopt highly restrictive fiscal policies in 2008 as a condition of receiving financial support. Then in 2009, Ireland became the first Euro area country to introduce major cuts in wages and public expenditure as the government struggled to reduce a massive fiscal deficit, incurred principally from attempting to rescue its disastrously over-extended banks.

In 2010, the failure of Euro area governments to respond rapidly to the debt crisis led to a crisis atmosphere in which first Greece, and then Spain and Portugal were all required to introduce swingeing cuts in public sector pay and pensions. Shortly after, the larger member states began, one by one, to announce plans for reducing their fiscal deficits, principally by cuts in spending. And, as the year closed, Ireland was forced to adopt yet another, even deeper austerity programme. Extraordinarily, even the International Monetary Fund – normally the most vigilant guardian of financial orthodoxy – was moved to warn of the risk that such concerted fiscal contraction could drive Europe back into recession.[1] Europe therefore looks set for, at best, a protracted period of slow growth in which unemployment – already at 20% in Spain and close to that in the Baltic states – will remain high in many countries. Even Germany, which has basked in an export-driven spurt of growth, partly reflecting demand from Asian markets, continues to remain strongly dependent on demand from its European partners and will not be able to insulate itself from a weakening in other EU economies. Germany's banks, furthermore, have a large exposure to some of the EU's most troubled member states.

These economic developments are occurring in the context of the profound challenges raised by ecological and environmental concerns. Discussions of economic policy must therefore be

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[1] International Monetary Fund, *World Economic Outlook,* October 2010, chapter 3, 'Will it hurt? Macroeconomic Effects of Fiscal Consolidation.

embedded in a broader perspective encompassing environmental sustainability and the impact of material reproduction on the planetary biosphere. This does not mean disregarding social concerns. On the contrary, it offers new possibilities for addressing problems of unemployment by providing for the neglected needs of ecological reproduction, or using competences which have been overlooked – caring work, provisioning work, work spent in sustainable uses of natural resources – which are not appreciated in mainstream economics. This awareness of the ecological aspect of all economic processes points to the importance of using broader measures of development, such as the *United Nations Development Programme's* human development index, or the proposals put forward in France by the Stiglitz Commission. It will also help to give new meaning to the economic objective of full employment, stressing the importance of what the *International Labour Organization (ILO)* has called 'decent work' and making the link between environmental, social and economic sustainability.

In the case of the EU, such a perspective will unavoidably be focussed on the imperative of reducing Europe's ecological footprint, which is clearly way out of proportion when compared with many other parts of the world. The central challenge will be how to reduce the footprint without damaging the productive and pro-active role that the EU and its member states could play in a global context, and without diminishing the economic wealth and social well-being of European societies. This is something that will only be achieved by distinguishing between the sustainable economic wealth generated through European creativity, and unjust transfers gained from exploiting relations of dependency.

The EU's approach to these issues is set out in its new programmatic document, *Europe 2020.*[2] This is the successor to the ill-fated *Lisbon Strategy*, which was unveiled in 2000 and aimed to make Europe the most competitive knowledge-based economy in the world by 2010. The targets set out in the earlier programme, which included strengthening innovation, employment and social inclusion, have not been met, and were not on course to be met even before the outbreak of the crisis. But the new programme does not even raise the question of why this was the case. Instead, the programme is replete with marketing-like jargon, calling for 'smart', 'sustainable' and 'inclusive' growth, and announcing a range of 'flagship' programmes. But, as in the *Lisbon Strategy*, the main thrust is based on the belief that creating competitive markets is the principal key to promoting growth and jobs, and that public intervention is, for the most part, an obstacle.

A more general problem with the EU's initiatives is that they continue to suffer from a widespread lack of political legitimacy. Within the EU, political participation is seriously restricted; it frequently occurs through the prism of national debates and, when it does occur at the European level, is dominated by a political-technical elite that is subject to little democratic accountability. Recent developments also pose a challenge to the EU's much vaunted respect for human rights. The EU's notion of rights, as expressed in the Charter of Fundamental Rights, includes a broad constellation of fundamental rights including, for example, the right to work and fair working conditions, to social security and social assistance as well as to health care. Despite the European Charter's appeals to solidarity and equality, the conditioning of EU support for member states on the introduction of severe austerity programmes means that many countries are being driven to introduce cuts that will bear disproportionately on some of Europe's least privileged citizens.

[2] European Commission, *Europe 2020. A European strategy for smart, sustainable and inclusive growth,* 2010.

Europe, along with other regions of the world, has been shaken by the most serious crisis of capitalism since the 1930s.[3] Over some three decades a more virulent, unbridled form of capitalism showered wealth on a tiny minority. Now, it is the ordinary citizens that are being required to pay for the huge public bailouts that were needed to prevent a collapse of the financial system. In all this, however, the overwhelming majority of mainstream economists have been in denial. They completely failed to anticipate the crisis and, since it occurred, they have not even begun to raise serious questions about why it occurred and what it implies for their approach. There are, however, some signs of discontent. In Italy, some 200 economists put their names to a public rebuttal of the government's policies; in France, a group of economists has issued a 'Manifesto of the appalled economists'.

This *EuroMemorandum* is a contribution to developing that critical debate. The first part outlines some of the key economic and social developments in Europe in the last year; the second part is a critique of the policies adopted by the European authorities; and the third part is a contribution to the debate about possible alternatives.

1 Macroeconomic imbalances, widening polarisation and the challenge of climate change

1.1 The onset of the debt crisis in Europe

Economic growth in the European Union (EU) resumed in the second half of 2009, but the cost of rescue packages for the financial sector, expansionary fiscal programmes and lost tax revenue resulted in a sharp rise in fiscal deficits. For the EU as a whole, the deficit increased from 0.9% in 2007 to 6.8% in 2009. In the case of Greece, where tax revenues had long been weak, the deficit increased from 6.4% to 15.4% over the same period.[4] Fears about Greece's ability to service its public debt were stoked by ratings agencies downgrading its debt and from late 2009 the interest rate on Greek government bonds began to rise strongly above those of other eurozone countries. At the same time, concern that other eurozone governments were unwilling to stand by troubled members led to a steady decline in the value of the European currency.

The crisis came to a head because Greece was due to refinance part of its debt in mid May, and rising market rates of interest made this prohibitively expensive. As initiatives within the EU to provide support for Greece were blocked, principally by Germany, extensive speculative selling began to drive the value of the euro further downwards. Eventually, after a joint visit by the chiefs of the International Monetary Fund (IMF) and the European Central Bank (ECB) convinced German premier Merkel of the seriousness of the situation, the eurozone countries agreed at the start of May to provide Greece with up to €110bn support. In return Greece was required to agree to strict cuts in spending. The IMF contributed €30bn of the financing and was assigned responsibility for ensuring Greece complied with the conditions. But this did not stem the crisis.

[3] Some would say that – because of the intertwining of the economic and ecological dimensions – the crisis is the worst *ever* faced by capitalism.

[4] Revised Eurostat figures from November 2010.

In the first week of May speculation against the euro intensified, prompted by fear that Greece could still default and compounded by concern at the level of Spain and Portugal's need for external financing – in both cases largely due to private rather than government debt. Banks which had lent much of this money, predominantly in Northern Europe (table 1), began to see their share prices fall and the cost of insuring bank bonds rose to levels last seen following the failure of Lehman Brothers in 2008. With mounting pressure to act, including from the US government, eurozone governments agreed at an emergency meeting to establish a €440bn European Financial Stability Facility. This would raise funds by issuing bonds, to be guaranteed by eurozone governments in proportion to their size, and provide finance – with conditions – for member states facing problems. Together with an additional €60bn from the EU for balance of payments support and €250bn from the IMF, the total packet amounted to an unprecedented €750bn.

Table 1: International bank exposure to Greece, Ireland, Portugal and Spain, March 2010 ($ billions)

		Bank nationality									
		Germany	Spain	France	Italy	Other euro	Britain	Japan	US	Rest of world	Total
Greece	Public sector	23.1	0.9	27.0	3.3	22.9	3.6	4.3	5.4	2.0	92.5
	Total	51.0	1.6	111.6	8.8	47.9	16.5	5.9	41.2	12.7	297.2
Ireland	Public sector	3.4	0.2	8.7	0.9	3.8	7.3	1.8	1.9	1.8	29.7
	Total	205.8	16.2	85.7	28.6	92.5	222.4	22.9	113.9	55.8	843.8
Portugal	Public sector	9.9	10.6	20.4	2.2	11.5	2.6	2.3	1.6	1.7	62.9
	Total	46.6	108.0	49.7	9.4	29.1	32.4	4.0	37.3	6.0	322.4
Spain	Public sector	30.0		46.9	2.3	19.1	7.6	12.5	4.9	4.4	127.6
	Total	217.9		244.2	42.5	200.6	141.7	30.0	186.4	39.3	1,102.6
Total	Public sector	66.4	11.7	103.0	8.7	57.3	21.1	20.9	13.8	9.9	312.7
	Total	521.3	125.8	491.2	89.3	370.1	413.0	62.8	378.8	113.8	2,566.0

Source: Bank for International Settlements, Quarterly Review, September 2010.

Shortly after the package was announced in the early hours of Monday, 10 May, the European Central Bank made a decisive contribution to stemming the crisis by announcing that, for the first time, it would begin to purchase government bonds. This step, opposed by the head of the German Bundesbank because of the supposed inflationary risk, effectively ended the immediate threat of default, but doubts remained about the stability of many eurozone banks. Imitating a measure launched earlier in the US, the ECB initiated so-called 'stress tests', designed to probe the ability of banks to withstand future crises. These revealed important weaknesses amongst a number of Spanish regional savings banks ('cajas') and German Landesbanken, but were widely criticised for not investigating the impact of a sovereign debt default. As a result the tests had only a limited success in their broader aim of re-establishing confidence in the European banking system. The most recent IMF estimates of bank losses have been revised slightly downwards but banks still face further large write-offs. In the eurozone, losses between mid-2007 and mid-2010 are put at $472bn and it is estimated that a further $158bn will have to be written off; in Britain the figures are $375bn and $56bn respectively.[5]

At the height of the financial crisis in 2008, the ECB had initiated a policy of providing banks in the eurozone with all the liquidity they required but in 2010 it began to phase out 6 and 12

[5] IMF, *Global Financial Stability Report,* October 2010. For comparison the figures for the US are $709bn and $169bn respectively.

month loans, continuing to make funds available but on a shorter-term basis.[6] Total ECB lending to banks fell from a peak of €817bn in May 2010 to €558bn in October 2010, a decline of 31%, and the interest rate in the interbank market, which was around zero, has begun to edge up. Nevertheless, because of persistent uncertainty about the financial outlook, commercial banks continue to deposit significant amounts back at the ECB – in October 2010 the figure stood at €134bn – and bank lending in the eurozone remains weak. Meanwhile, in Eastern Europe, where some 80% of banks are foreign owned, the parent banks – mainly from Western Europe – have also continued to repatriate capital, leading to continued tight credit conditions there as well.[7]

Exchange rate developments in the eurozone have also exerted a more restrictive impact in the second half of 2010. During the build up to the Greek debt crisis the euro steadily weakened on the foreign exchanges, depreciating by some 20% between December 2009 and June 2010. However, with eurozone interest rates still above those in the US, once the immediate threat in the eurozone was resolved, the euro again began to rise against the dollar and by October had recuperated much of the previous decline, a return to tighter conditions for export dependent economies.

1.2 Dangerous macroeconomic imbalances

After the sharp intensification of the financial crisis in the autumn of 2008, only unprecedented liquidity injections by central banks in the largest economies avoided complete financial collapse and mitigated the world recession, which nevertheless has been by far the deepest and most widespread since the Second World War. Budgetary policies were also relaxed in several countries but the shift was often very small – significant stimulus in the US and the UK was not matched in Germany or the eurozone as a whole.

Table 2: General government: Cyclically adjusted balances (as % of potential GDP)

	2007	2008	2009	2010	2011
US	-3.2	-6.1	-9.0	-9.0	-7.9
Eurozone	-1.3	-2.0	-3.6	-4.1	-3.6
Germany	-0.4	-0.5	-1.4	-3.5	-3.0
UK	-3.5	-5.1	-8.6	-8.1	-7.4
France	-3.0	-3.4	-5.7	-5.5	-5.0

Source: OECD Economic Outlook.

The widening of actual public sector deficits in many EU member states thus largely reflects the working of automatic stabilisers in the recession. The OECD data in table 3 below may understate the point (by not treating all the effects of the recession as cyclical) but they suggest that between 2007 and 2010 actual government deficits in the eurozone widened by 5.7%, of which at most 2.8% was due to policy shifts. The corresponding figures for Germany are 4.3% and 3.1%.

Because little action was taken in the powerful eurozone economy, which relied rather on expansion in countries with big current account deficits, above all the US, imbalances in the world economy were aggravated. The US current account narrowed to -2.7% of GDP in 2008,

[6] In particular, banks in Greece, Spain, Portugal, Ireland are largely excluded from borrowing in the interbank market. They have been heavily reliant on loans from the ECB. Following revelations of further massive losses at Anglo Irish Bank, estimates of the cost of bank rescues in Ireland have risen to a staggering 30% of GDP.

[7] IMF, *Global Financial Stability Report*, September 2010, p. 18.

but then widened to -3.4% in 2010 and is predicted to reach -3.7% in 2011. Meanwhile the German surplus is widening again: from 4.9% in 2009 to 5.1% in 2010 and then to predicted values of 5.9% in 2011 and 7.0% in 2012.

Table 3: Actual and cyclically adjusted general government balances (as % of GDP)

	2007	2008	2009	2010	2011
Eurozone: actual	-0.6	-2.0	-6.2	-6.3	-4.6
Eurozone: adjusted	-1.3	-2.0	-3.6	-4.1	-3.6
Germany: actual	+0.3	+0.1	-3.0	-4.0	-2.9
Germany: adjusted	-0.4	-0.5	-1.4	-3.5	-3.0

Source: OECD Economic Outlook.

In spite of these policy responses, it is not clear at present whether there will be a definite recovery or whether a second recession will follow. Although economic activity has started to rise slowly in both the EU as a whole and the US, unemployment continues to rise in both these economies.

One of the most important imbalances in the background to the crisis was the huge US current account deficit (counterpart of massive surpluses in China, Germany and Japan). A meeting of the G20 in Seoul in November failed to agree on coordinated measures to deal with trade imbalances. Proposals for a coordinated correction of international imbalances were rejected, amongst others, by Germany and the EU, which argued that adjustment is the responsibility of deficit countries alone, a position that is dysfunctional and irrational. If the US were forced into restrictive policies to correct its payments deficit then the European economies would be badly affected – as they were at the beginning of the 1980s.

A second key imbalance behind the crisis was the continuous widening of income inequalities over the last three decades in most Western economies. The adverse distribution of income continues to distort the pattern of production in Germany towards excessive net exports, to hold back a balanced recovery in the US and to generate a chronic surplus of investible funds in Western economies which tends to reduce economic activity and employment across the developed economies.

Within the eurozone there are also enormous imbalances – significant both in Europe itself, where they are a major obstacle to recovery, and on the world scale since they prevent a positive contribution by Europe to the resolution of the crisis. From the start, critical commentators pointed out that no effective instruments existed in the monetary union to correct divergent macroeconomic performance across the member states. In fact, fundamental imbalances have been widening throughout the history of the monetary union because of growing divergences in wage costs and competitiveness and only increasingly speculative capital flows and asset price bubbles disguised the deteriorating situation. The bursting of the bubbles in the wake of the sub-prime crisis and the flight of wealth-holders towards secure assets have cut off the easy refinance of the weaker economies which have therefore been forced to make brutal current account adjustments simply by recession. In only three cases (Lithuania, Poland and Romania) was there any growth in exports – and even there it was very small – and, as a result, the often savage corrections to the current account were brought about primarily by lowering imports, that is, by contracting the domestic and EU economies.

At the same time there has been a sharp deterioration in public sector budgets. This is, in general, a consequence of the recession, of the widespread use of budgetary injections to support economic activity and of massive transfers to recapitalise the banking sector and take bad and

dubious loans onto public sector balance sheets. However, in some eurozone countries with acute current account problems there has been a particularly severe and drastic deterioration in public sector balances, aggravated by a sharp rise in the interest rates at which government borrowing can be financed. Ireland and Spain, for example, both posted public sector surpluses in 2007. By 2010 the public sector deficit was initially expected to reach €19 billion in Ireland and €103bn in Spain (10% and 12% of GDP respectively) but in November 2010, following an intensification of the crisis, the figure for Ireland was revised upwards to a staggering 32%.

Table 4: Current account deficit countries in the EU* (as % of GDP)

	2007	2008	2009	2010	Unemployment (% in 2010)
Bulgaria	-22.5	-22.9	-8.3	-6.0	10.1
Estonia	-17.9	-9.4	+4.6	+4.9	18.6
Ireland	-5.3	-5.2	-2.9	-0.9	14.1
Greece	-14.7	-13.8	-13.1	-10.3	12.2
Spain	-9.5	-5.1	-4.6	-4.5	20.8
Cyprus	-11.7	-17.7	-8.5	-7.1	7.1
Latvia	-22.5	-13.0	+8.7	+8.3	19.4
Lithuania	-15.1	-11.9	+2.6	+2.8	18.2
Malta	-6.2	-5.4	-3.9	-4.9	6.2
Poland	-5.2	-5.0	-1.6	-2.8	9.6
Portugal	-9.8	-12.1	-10.5	10.1	10.6
Romania	-13.6	-12.7	-4.2	-4.4	7.1
Slovakia	-4.5	-6.2	-0.9	-1.4	14.7
Slovenia	-5.1	-6.7	-3.1	-4.5	7.3

Source: AMECO. * = Current account deficit > 5% of GDP in 2007.

In many cases, there have been clear policy failures in the countries concerned – some governments relied on unsustainable real estate booms and the associated capital inflows to support economic activity and employment. In Ireland, in particular, this error was combined with financial deregulation leading to the insolvency of all the country's major banks; the ill-designed attempt to rescue the banks by absorbing virtually all their losses has led to impossible pressures on public finance. In spite of policy errors in individual countries it is also necessary to consider malfunctions at the level of the EU as a whole. There are wide and persistent current account imbalances in the EU and, in particular, in the eurozone. An increasingly polarised situation has developed, with Germany (together with Austria and the Netherlands) displaying big current account surpluses while the weaker economies run deficits (10.3% of GDP in Greece, 10.1% in Portugal in 2010). Households and companies are no longer willing or, sometimes, even able to undertake the borrowing corresponding to these current account deficits, which are partly corrected by a drastic reduction in imports, partly maintained by higher public spending and public sector deficits.

These malfunctions at EU level can be related, once again, to the increase in inequality. In Germany there has been a prolonged squeeze on the incomes of wage-earners, and in particular those of the lowest paid and most vulnerable workers. At the same time, serious reductions in welfare benefits have also tended to undermine the incomes of the most disadvantaged in society. The ILO reports that real wage growth over the period 2001-2007 was lower in Germany than in all other EU countries except Spain and that a sharp increase in income inequality in Germany can be basically attributed to declines in the lowest incomes.[8] This adverse

[8] ILO, *Global Wage Report*, 2008 p. 27 and p. 82.

redistribution of income has limited domestic consumption and, in a period when public spending is constrained and when households with higher incomes are building up precautionary savings, led German companies to increase their export pressure.

In spite of the generally high level of unemployment (chapter 1.3) and of excess productive capacity, it will be impossible to achieve a general increase in economic activity in the EU unless these imbalances are addressed because the weaker economies will be unable to finance an increase in their levels of imports, and this in turn will hold back the surplus economies. In fact, if the imbalances are not addressed, they will lead to menacing deflationary processes in the weaker economies which could even lead to the break-up of the monetary union.

Likewise, the EU cannot contribute to the necessary rebalancing of global economic activity while it is held back by these internal tensions. The aggregate trading positions of the EU and the eurozone are strong; and if they ran current account deficits over the medium term this would reduce adjustment costs in the US and China. At present, however, China is being pressed to make rapid reductions in its trade surplus while the surplus countries of the EU, especially Germany, which are much richer and hence better equipped to carry out adjustments, are forecast to maintain and even increase their own surpluses.

1.3 Divergent developments in (un-)employment

Unemployment continued to rise in the EU in 2010, though at a slower pace than in 2009 as a result of the recession coming to an end in mid 2009. According to Eurostat figures, between the second quarter of 2009 and the second quarter of 2010, the number of employed people in the EU fell by 1.3 million (from 218.2 to 216.9 million) while that of unemployed persons increased by 1.8 million (from 20.9 to 22.7 million). Forecasts by the European Commission anticipate that between 2009 and 2010 employment will decrease by 0.9% and the unemployment rate will increase from 9% to 10%. However, these forecasts may prove optimistic since, after Greece's sovereign debt crisis, the Economic and Financial Affairs Council (ECOFIN) and the European Council called on member states to exit from their emergency measures, which involve adopting more restrictive fiscal policies. The negative impact of this on growth and employment at the EU level will probably start showing up in the last quarter of 2010 or the beginning of 2011.

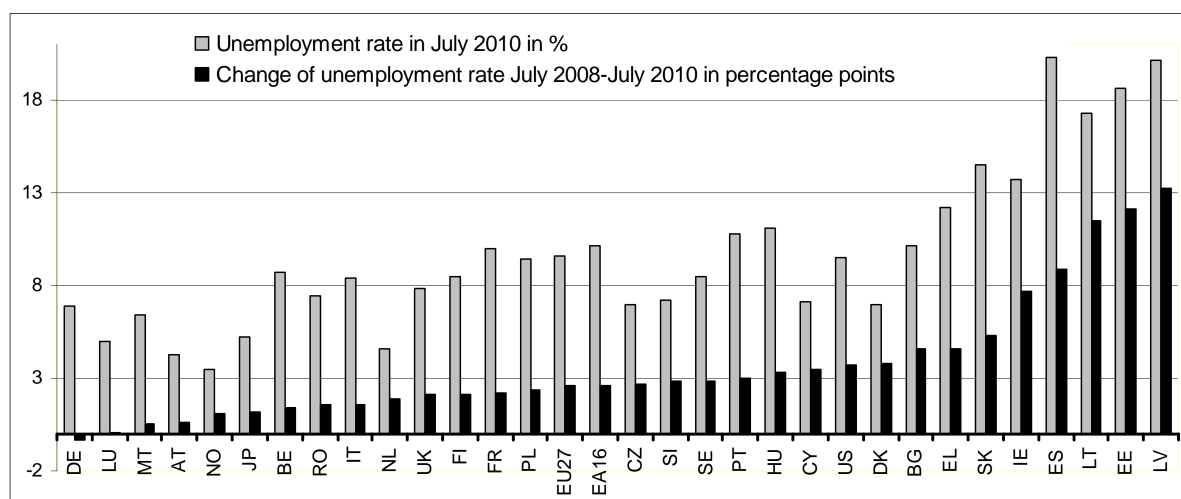
Table 5: Employment crisis in EU27; annual rates (%)

	2007	2008	2009	2010*
GDP growth	2.6	0.5	-4.2	0.9
Employment growth	1.6	0.7	-1.8	-0.9
Unemployment rate	7.0	7.1	9.0	10.0

Source: European Economic Forecast, Spring 2010; *=forecasts.

The scale of the impact of the crisis on employment and employment conditions varies considerable from country to country (figure 1). At one extreme, there is an extremely severe employment crisis in Spain, the Baltic countries and Ireland and these have been joined by recently by Greece and Bulgaria. At the other extreme, Germany, Austria, Luxembourg, Malta, Belgium, Romania, Italy and the Netherlands have experienced either no or only a relatively small rise in unemployment. Even in their case though, the situation may be unstable (recently Romania announced the dismissals of thousands of civil servants as part of its fiscal adjustment programme) or is being achieved through substantial wage reductions with involuntary short-time work schemes and temporary lay-offs.

Figure 1: Employment crisis in EU27 – Country differences



Source: Eurostat data online.

The countries where unemployment is most serious are clearly those in which the recession was especially deep and combined with precarious labour markets and/or severe austerity policies. Since mid-2010, Greece has been implementing the most severe austerity programme in the country's recent history, driving the economy into a deep recession with sharply rising unemployment. In Ireland, the government introduced a very restrictive programme at the end of 2009, and at the end of 2010 is being forced to adopt an even more dramatic four-year austerity programme which will drive unemployment even higher. In Spain where, following the collapse of the house-price bubble, unemployment has already risen to 20%, the government has also announced a programme of fiscal consolidation which will make employment conditions even more difficult. Portugal has announced plans to cut its public spending, and if it has to turn to the EU for financial support, will be required to implement even deeper cuts that could drive unemployment up sharply, as occurred in Romania or Greece. In addition, several larger countries have announced plans to cut public spending, topped by Britain which is aiming to cut spending by 25% over four years, all of which look set to contribute to worsening employment.

Table 6: Employment crisis in EU27 – Group differences

EU27	2008 (1st quarter)	2010 (1st quarter)	Difference
Unemployment rate (%)	**7.1**	**10.2**	**3.1**
Males	6.7	10.5	3.8
Females	7.6	9.8	2.2
20-24 year-olds	13.8	20.0	6.2
25-49 year-olds	6.4	9.5	3.1
50-64 year-olds	5.4	7.2	1.8
Low educated	11.4	16.6	5.2
Medium educated	6.8	9.7	2.9
High educated	3.7	5.5	1.8
Nationals	6.8	9.8	3.0
Citizens of other EU27 countries	8.3	12.4	4.1
Citizens of countries outside EU27	14.1	21.2	7.1
Temporary employment rate (%)	**13.9**	**13.2**	**-0.7**
Part-time work rate (%)	**17.8**	**18.6**	**0.8**
Self-employment rate (%)	**14.3**	**14.5**	**0.2**

Source: Eurostat data online.

In addition to the differences between countries, there are particular groups that have been particularly hard hit by the rise in unemployment over the last two years. The groups to have

been most hit include migrants from outside the EU, young people aged 20-24 years and those with lower levels of education. In addition, men were more hit by the employment crisis than women, employees more than the self-employed and temporary employees more than permanent employees. Additionally, millions of full-time jobs were lost, while part-time work substantially increased either through the conversion of full-time into part-time/short-time work contracts or because new jobs are mainly part-time.

Box 1: The German 'employment miracle'

In statistical terms, the employment situation in Germany was not affected very deeply by the financial and economic crisis in 2008/09. In 2009 the official unemployment rate rose only to 7.5% after 7.3% in 2008 (Eurostat). Some call this an 'employment miracle' – but this is just not the case. The relative stability is explained by two measures which were taken during the crisis, although for many years they had been denounced as ineffective: the reduction of annual working time and an increase in public expenditure (through a fiscal stimulus package).

i) In the deepest phase of the crisis (-4.7% GDP in 2009) the industrial firms mainly affected did not reduce the number of employees, but the number of working hours. This was partly subsidised by the public Employment Agency (through so called *short-time compensation*). Secondly the average working time of all employed persons was reduced by tightening the conditions on which individual workers can acquire additional holiday entitlements. Thirdly working time was reduced through union-employer-contracts on employment guarantees and by the shift to more part-time-jobs. The average effect of the three measures:

- subsidized reduction of working hours → 13.4 hours less per person per year (2009 to 08);
- cutback of personal working-hours-accounts → 14.9 hours less per person per year;
- union-employer-contracts and increase of part-time-jobs → 17.6 hours less per person per year.

In total, working hours in Germany in 2009 were reduced by 3.1% compared to 2008. (In the industrial sector the reduction was as much as 7.5%.) This means that the 4.7% decline in GDP was mainly met by reductions in working time. Also, the employers kept more workers than were needed for production, and this is reflected in a reduction of productivity per hour by 2.2% (compared to 2008).

ii) Two fiscal stimulus packages, which were implemented to the sum of about €60bn for the years 2009-2010, helped to stabilize domestic demand.

Of the 4.7% decline in GDP in 2009, some 2.9% came from a huge reduction of the German trade surplus. Thus the recovery of global industrial demand from the second half of 2009 gave a special drive to German export industries – the pendulum shifted back. The problem is, that this global recovery works to sustain the dangerous German economic model (at least for some time). But this export driven German model brings great difficulties for Germany's trade partners – they have growing deficits!

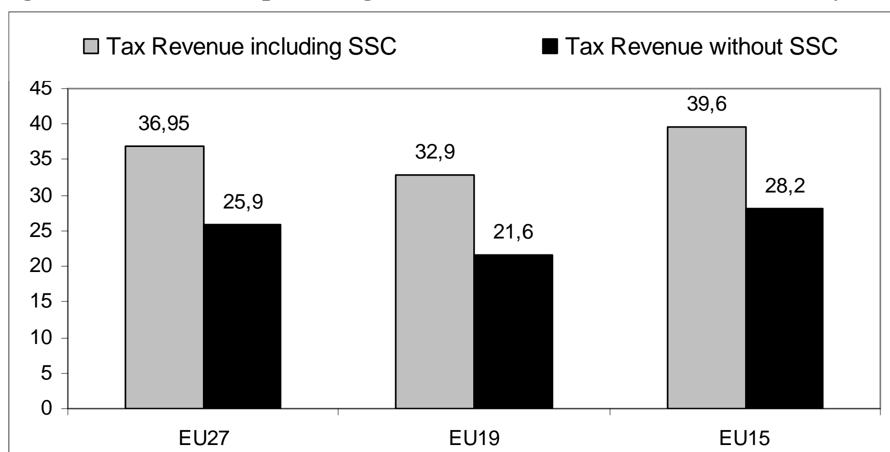
Thus there was no miracle in Germany. The export driven economic model was interrupted for one year – and the interruption was cushioned on the labour market by a reduction of working time and public stimulus packages. In 2010 the German government went back to 'business as usual': promoting longer working hours and a general austerity policy.

1.4 Harmful tax competition and the erosion of fairness in taxation

The crisis did not lead, as might have been hoped, to a concerted EU response which would have supported all the member states. While the older EU member states initially adopted expansionary counter-cyclical fiscal policies, many of the newer members in Central and Eastern Europe were obliged to implement austerity programmes which had a procyclical effect, sharpening the impact of the crises. An important reason for this is the weakness of the tax base in many countries. Instead of coordinating their tax policies, EU member states have engaged in beggar-thy-neighbour tax competition. This has seriously impaired the ability of governments to respond to the crisis and, in the longer term, to exercise effective regulation of their economies.

Advanced states with a complex division of labour, with refined physical and social infrastructures and with democratic commitments to the social welfare of their citizens, require high levels of revenue from sustainable sources. High tax ratios (as a proportion of GDP) are a consistent characteristic of prosperous and stable societies. Low tax ratios, particularly in times of severe economic crisis, make states more vulnerable to cyclical and structural shocks. This is particularly clear in the developments over the last two years.

Figure 2: Tax ratios as percentage of GDP with and without social security contributions (SSC), 2008



Source: Taxation Trends in the European Union 2010; own calculations.

Tax competition within Europe is driven fundamentally by the ability of trans-national corporations to seek cost advantages through relocating their financial headquarters to lower-tax jurisdictions (tax arbitrage). States dogged by high unemployment and/or weak capital markets seek to attract and keep companies with benign tax regimes and have, particularly since
5 the early 1990s, engaged in a serial process of underbidding in relation to capital taxes, like corporation tax and top rates of personal income tax (see table 4 and figure 3). As a result, the progressivity or fairness of the region's tax systems has been seriously eroded.

Corporation tax rates in the 15 'old' EU member states in 2009 were lower than those in 1990 in 13 of the countries, and lower than in 2000 in all 15 (see table 4). The average rate of cor-
10 poration tax for the EU15 fell from 42.7% in 1980, to 37.5% in 1990 and just 26% in 2009. Average corporation tax rates for the Central European states which joined the EU in 2004 are even lower, falling from 31% in 1995 to just 19% in 2009. Significantly, the average corporation tax rate in Bulgaria and Romania, the two Balkan states which joined the EU in 2007, together with the applicant states of the western Balkans, is even lower at 14%.

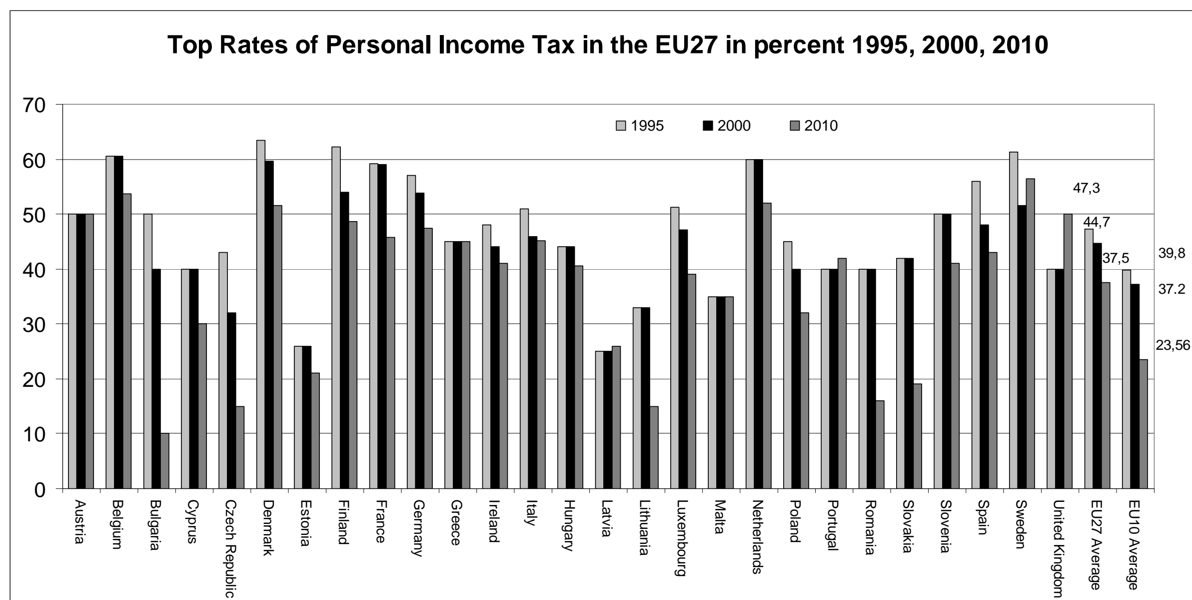
Table 7: Corporation tax rates in the EU10 and the EU15, 1990-2009

	1990	2000	2009		1995	2000	2009
Austria	30	34	25	**Czech Rep.**	41	35	21
Belgium	41	39	33.99	**Estonia**	26	26	21
Denmark	40	32	25	**Hungary**	18	18	16
Finland	25	29	26	**Latvia**	25	25	15
France	37	33.3	33.3	**Lithuania**	29	29	20
Germany	50	45	15	**Poland**	40	28	19
Greece	46	40	25**	**Slovakia**	40	40	19
Ireland	43	24	12.5	**Slovenia**	30	25	22
Italy	36	37	31.4				
Luxembourg	34	30	25.5				
Netherlands	35	35	25.5**				
Portugal	36.5	32	27.5**				
Spain	35	35	30**				
Sweden	40	28	26.3				
UK	35	30	28**				

Source: World Tax Database http://www.bus.umich.edu/otpr/otpr/default.asp; ** denotes top rates.

The top rates of personal income tax have also been reduced since the mid-1990s (figure 3). For the EU27, the average top rate fell from 47.3% in 1995 to 37.5% in 2010, and in the 10 countries of Central and Eastern Europe it fell to just 28.5% in 2010. Tax competition has, arguably, accelerated since the EU enlargements in 2004 and 2007, most notably through the existence of 'flat', single-rate tax regimes for personal income tax in seven out of the ten new Central and Eastern European members.[9]

Figure 3: Declining rates of personal income tax in Europe 1995-2010



Source: European Commission, Taxation Trends in the European Union 2010.

A key result of the reduction in direct tax rates has been a gradual decline in the share of direct taxes to total taxation. This is particularly marked in the 10 Central and Eastern European countries: the average share of indirect taxes in total taxation rose from 38.5% in 1995 to 41.4% in 2007 (the figure for the EU27 was 37.1%); meanwhile the share of direct taxes fell

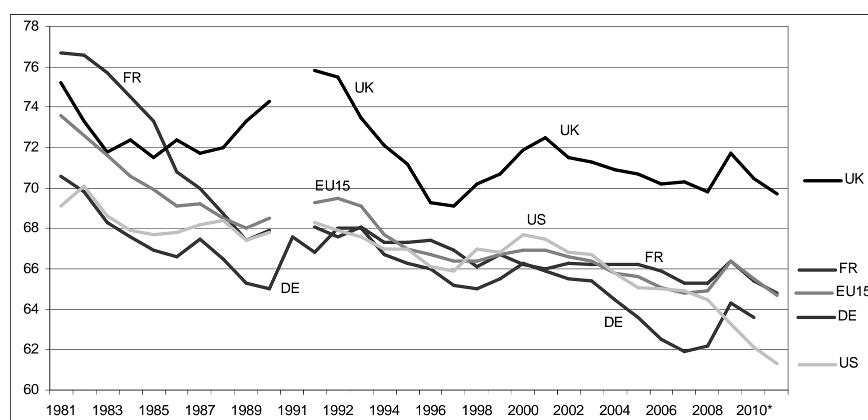
[9] Flat tax regimes were introduced in Estonia and Lithuania (1994), Latvia (1995), Slovakia (2004), Romania (2005), the Czech Republic and Bulgaria (2008).

from 27.1% to 24.6% (the figure for the EU27 was 32.3%).[10] Indirect taxation has a regressive effect on the distribution of income as poorer households spend a higher proportion of their disposable income on consumption,[11] save a much smaller proportion of that income and benefit disproportionately from basic allowances on personal income tax.

1.5 Inequality and polarisation – Poverty and wealth on the rise

The trend towards persistent unemployment, low wages and precarious working conditions in the EU has considerable impact on the distribution of income: Since the mid-1980s significant declines in the ***adjusted share of wages as a percentage of GDP*** can be recorded in nearly all OECD countries. Across the largest EU countries and the US with data spanning the period since 1981, this share has declined by around 10 points until 2009 (see figure 4). Due to the great recession and the accompanied drop in corporate profits in 2009 the wage share has increased temporarily.

Figure 4: Adjusted wage share for total economy, 1981-2011 (as % of GDP at current factor cost)



Source: European Commission, Statistical Annex of European Economy, Spring 2010; * = estimates.

Although the reasons for these declines are manifold most studies come to the conclusion that technical change and globalisation have, above all, weakened the bargaining power of low-skilled workers in the OECD countries. Relocation of jobs or the threat of it have increased the risk of unemployment and kept a lid on wages. In addition to the decline in the wage share there has also been an increase in wage dispersion, measured by the ratio of the top 10% to the bottom 10% (D9/D1) of full-time or equivalent workers.[12] Figure 5 shows the evolution of earnings dispersion for large OECD countries over the period of 1980-2006. By looking at changes in wage distribution within large countries we can observe a widespread and significant increase in wage dispersion over the past 25 years, with the notable exception of France. The increase seems more salient in liberal countries such as the United States and United Kingdom. However, also some Central and Eastern European economies such as Hungary and Poland show huge increases of dispersion. The extent of rising inequality was stronger during the late 1990s. This can be observed in particular for Germany. It is worth noting that the trend towards greater wage inequality, although more moderate, was also observed in some

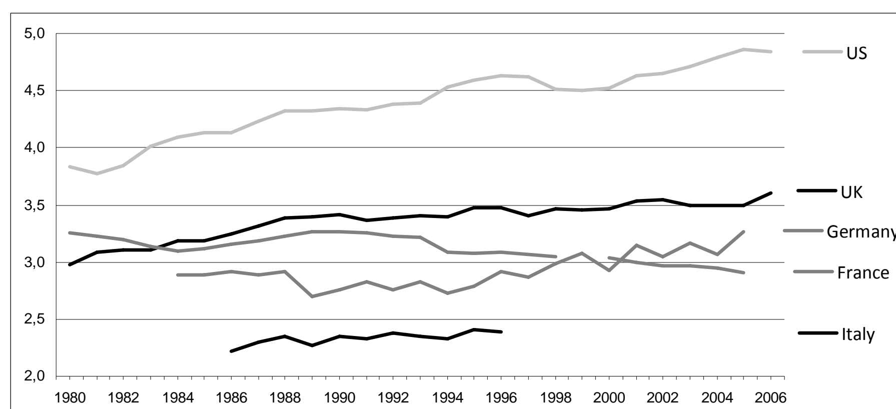
[10] Calculated from figures in European Commission, *Taxation Trends in the European Union,* 2010.

[11] The UK Office for National Statistics calculates that indirect taxes consume 31% of household income in the poorest fifth of households, but only 13% in the case of the best-off fifth (*Social Trends 39,* London, 2009).

[12] OECD (2010): *Causes of growing inequality in OECD countries*, Paris.

Nordic countries. However, the decile ratio for these countries is at a much lower level than for the five countries presented in figure 5. For instance, for the most recent years this ratio has been between 3.0 and 3.5 for UK, Germany and France whilst it has been between 2.0 and 2.6 for Sweden, Denmark, Finland and Norway. Overall, the OECD (2010) found a 'generalized' tendency towards greater wage dispersion across 23 OECD countries within the last two decades. Using available time-series data, wage dispersion increased in 15 out of 23 OECD countries in this period. Only three countries (Japan, France and Switzerland) registered a moderate decline in wage inequality.

Figure 5: Trends in wage dispersion, large OECD countries, 1980-2006 (D9/D1 Ratio)



Source: http://www.oecd.org/dataoecd/9/59/39606921.xls

The unequal distribution of income, the increased erosion of fairness in taxation (see 1.4) and the lack of an efficient and ambitious social policy not only in times of crisis, have considerably contributed to the widening of the gap between the rich and the poor in the EU: The ***risk of poverty*** – defined as living with less than 60% of the median income – remains a major threat for large parts of the population: According to the latest data of Eurostat, throughout the EU27, 16.5% of the population – i.e. more than 84 million people – lived at the risk of poverty in 2008.[13] With large differences between countries: The share of poverty in the individual member states of the EU varies between 9% (Czech Republic) and 26% (Latvia).[14] In the vast majority of the member states we witness a poverty rate above 15%, seven of the 27 member states have a poverty level higher than 20%. Besides this 'monetary' poverty, the intensity of material deprivation is increasing: Economic strain, enforced lack of durables, insufficient housing, unhealthy living conditions, both within dwellings and in the neighbourhood, of large parts of the European population undermine the social cohesion in the EU.

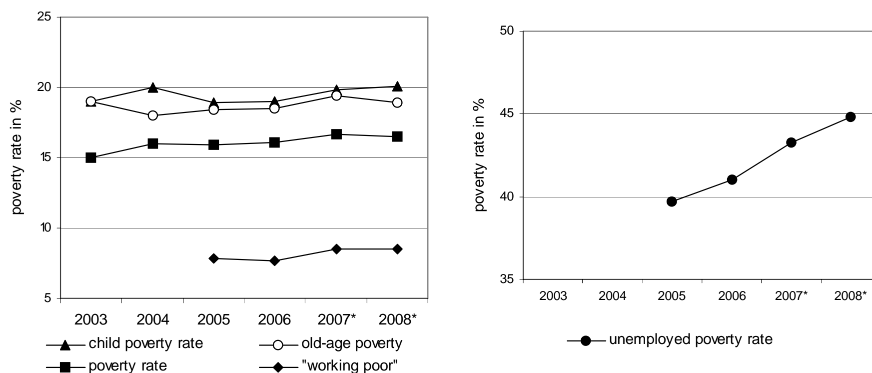
Work is often seen as a safe way out of poverty. But even though social developments in the EU are especially marked by the persistently high level of unemployment, EU social and labour market policies often punish the unemployed instead of providing decent jobs. Not only unemployment compensations in many cases do not suffice for a decent standard of living, the same is true for wages: 8.5% of the employed are poor despite work. In absolute terms, the number of the '***working poor***' is about twice as high as the number of unemployed poor –

[13] According to the European Council's new concept of measuring poverty by an aggregate of three indicators – Eurostat relative income poverty indicator, material deprivation and jobless households – not only 84 million, but 120 million persons must be regarded as living at-risk-of-poverty.

[14] Poverty rates are based on *national* income relations, they reflect different standards of living: Poverty thresholds for a household (2 adults, 2 children) range from €2.724 in Romania up to €40.023 in Luxembourg (2009).

resulting from employment policies directed towards the expansion of low paid jobs, a further deregulation of labour markets and an increase in precarious employment (see 1.3).

Figure 6: Poverty rates (EU27, in %)



Source: Eurostat database.

A particularly scandalous feature of poverty in the EU is the extent of ***child poverty***: 19 million children in the EU are poor. The fact, that almost every fifth child in the EU27 is poor is all the more concerning, since children growing up in poverty are more prone to health problems and have a lower life expectancy, reach low educational levels and school graduation and face a higher risk of becoming unemployed. Since economic disadvantages are often passed on from parents to children, poverty is reproduced within families and social groups. Therefore, the increase in child poverty in the EU might lead to a self-reinforcing spiral of poverty across generations (see box 7).

At the same time, the EU witnesses ***growing wealth*** at the very top of European societies. According to the *World Wealth Report 2010*,[15] two years after the financial crisis the population of high net worth individuals (HNWI) – i. e. dollar-millionaires in terms of financial wealth – has started growing again and HNWI wealth is also recovering: In Europe, the HNWI population grew by 12.5% from 2.6 million to 3 million persons in 2009 – which is almost the pre-crisis level of 2007. The wealth they possess similarly recovered, rising by even 14.2% from $8.3 trillion in 2008 to $9.5 trillion in 2009, hinting to a renewed and intensified concentration of wealth at the very top of the income scale.

Without any doubt, the European Union is one of the wealthiest regions of the world. At the same time, the social situation in the EU is marked by a deepening polarisation both within as well as between member states. Unemployment, low wages and the deregulation of labour markets (see 1.3) as well as the erosion of fairness in taxation (see 1.4) have enhanced social insecurity and precariousness and contributed as main causes to more inequality, increased social insecurity and high levels of poverty in the EU. The lack of an efficient and ambitious social policy not only aggravates the social situation of the most vulnerable, but also weakens the basis for social struggle.

[15] Merrill Lynch/Capgemini (2010): *World Wealth Report*. www.de.capgemini.com

Box 2: The neoliberal project post-crisis: Rolling back not 'just' the welfare state, but basic social infrastructure – in the name of 'the people'

If, in the longer historical view, there is anything remarkable about the current 'austerity craze', it is this: How is it possible that, within the short span of two years, we have gone from the most devastating crisis of private market economies in a century to a public debate, not about the failure of the finance-led private sector to assess systemic risk, but about 'irresponsible' state expenditure?

Part of the answer is, of course, that, *de facto*, bad private debts (held by the banks) have, been and continue to be nationalised. Together with the social cost of the recession that followed the financial crisis, this has saddled states with high debt. But this does not explain how it came about that those held responsible for this debt are, by now, not those who caused it, but the state itself and with it, 'the people'. Paying back the debt today does not mean higher corporate or wealth taxes, but radical cuts in the living standards of those who were *not* responsible. Another part of the answer is that those who *were* in charge before 2008, and remain so now, have a political project. For now, only in the UK does this project have a name: 'Big Society. Not Big Government'. But just as shareholder capitalism was often perceived to be a purely Anglo Saxon matter when in reality it went global, so the 'Big Society' could follow suit unless it meets with decisive resistance.

What is the core idea behind the 'Big Society'? To privatize the regional and local sphere of collective organisation as well as core public sector functions. Whether they are mainly private or public in law, charities, local councils, regional state authorities and non-governmental organisations have always relied heavily on public funding. In the 'Big Society', they are to be replaced by 'social enterprise' without state funding and run by unpaid volunteers. A core plank of public sector reforms announced on 18 November 2010 in the UK is the 'right to provide' for public sector workers, that is the contracting-out of provision of public services of all types to mutual organisations. Whoever thinks they can do better than the state in providing public services is to have the right to take over. An early example is the 'Free Schools' scheme. This provides for schools run only by parents and volunteers, without any expert input than that of the teachers they wish to employ. The initial funding for fixed costs, such as buildings, is to be diverted from state schools. And the teachers whom parents and volunteers wish to employ will, eventually, graduate from privatised universities whose only income will be the fees they charge their students.

The 'Big Society' project currently runs under the slogan 'Power to the People', emphasising the planned devolution of 'power' away from a central state to voluntary local initiative. But this 'power' comes without resources. In fact, it comes through an expropriation of resources from local and regionnal social infrastructure to redeem a debt incurred, by any measure of what constitutes responsibility, by the wealthy, and to finance cuts in corporate and wealth taxation. Similarly, the funds provided to allow the planned UK public service mutuals to reach 'investment readiness' is a derisory £10 million from spring 2011.

This project has adopted the anti-statist terminology of progressive grassroots movements. It plays on people's justified dissatisfaction with the political classes. But it does so in order to strengthen the hold of these same political and business classes over collective organisation, and to destroy any social infrastructure that would make such collective organisation a genuine expression of people's opinions and aspirations. If Thatcher and Reagan were about rolling back the welfare state, the 'Big Society' goes much further: It is about destroying the material and organisational foundations for any kind of emancipation of 'the people'. Does anyone really doubt that the 'volunteer social enterprises' of the 'Big Society' will eventually be taken over by large corporations? Just one day after the announcement of the 'right to provide' public services by voluntary mutual organisations, the UK government's records were published to show that a single large corporation – Capita plc – effectively already runs large sways of public sector provision in almost every branch of public services. The new name for the British state, coined by the media, not by left-wing pressure groups, is Britain plc.

1.6 A global stalemate in sustainability politics

European climate policy did not contribute in any effective way to avoiding the failure of the Copenhagen Summit in December 2009, and has made no constructive impact on the subsequent negotiations aimed at finding a way out of the present impasse in global policy. At the same time, the EU's energy policy has taken an explicit turn towards ensuring the EU's privileged access to energy reserves by fuelling economic and political rivalries, instead of building partnerships based on mutual trust and common long-term interest with its Eastern and Southern neighbours, and with emerging and developing countries. As in the main areas of economic crisis management, so in global sustainability politics, the EU has been reduced to a bystander's role by the stronger nation states leading the G20 (including EU member states that do not consult with the rest of the EU). The Copenhagen Summit has highlighted the fact that neither the EU nor any of its member states wield effective political influence internationally if they fail to speak with one voice.

Time is pressing: If global warming is to be limited to 2°C on average in relation to pre-industrial temperatures, global emissions must reach their peak by 2011 and then decrease rapidly (by 3.7% per year). This will require decisive carbon reductions by human societies, cutting the emission of carbon and other climate gases down to zero before the end of the century. By 2050 emissions per capita must be below two tons of CO_2, i.e. to a level 80 to 95% below the emissions of the industrialised countries in 2000.[16] Such rapid and substantial reductions remain difficult, and the current emission trends and current policies indicate that achieving this scale of reductions is less likely than more destructive trajectories.

The climate crisis is linked to the crisis of biodiversity: Even if the 2°C limit is achieved, climate change may still take a catastrophic turn if the reduction in biodiversity – which still provides important buffers against climate imbalance – continues.[17] The outcome of the Nagoya Biodiversity Summit in October 2010 offers some, if only rather limited, hope that decisive action might be taken.

This is part of a broader picture: Today every school-child in Europe knows that fossil resources are limited and that only renewable energy sources have a sustainable future, or that waste is polluting the environment, all material flows should by cyclical and that production technologies and consumption practices should be adapted to ecological requirements. Nevertheless, an illusion about 'technological fixes' seems to have crowded out any serious debate on the structural changes needed in our way of life and in the organisation of production in order to achieve substantial sustainability for humankind. Thirty-five years after the first energy crisis and almost 30 years after the first global debate on the limits of growth all in-depth debates on societal structures – inequalities, discrimination, consumerism, patriarchal gender relations and relations of international dependency – seem to have been relegated to academic niches, while governments and interest groups have increasingly concentrated on technological change and extending the role of market mechanisms to all spheres of life, an approach which presupposes a process of commodification. However, the promise that the market can enhance efficiency and stimulate green technology, and thereby reduce mankind's environmental impact, has long been discredited. The growth of eco-technology has not achieved a

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[16] http://www.copenhagendiagnosis.org

[17] cf. J. Spangenberg, Climate Change and Conflict, Ms. 2009.

significant reduction in mankind's global foot-print. Market instruments – like tradable permits for emissions, or eco-taxes – have failed to achieve any significant reduction so far, and have instead proved to be more of a playground for organized economic criminality than an instrument of environmental politics.[18]

In the UN's Year of Biodiversity, the EU provides a sobering example of the Global North's general tendency: participating in the official rituals to express concern while ignoring the issue in practice. This is especially marked in the EU's trade policy, where the strategy pap-paper *Global Europe* mapped out an aggressive policy of expanding exports, and in its policy of agrarian monopolisation and the corresponding orientation of agricultural technologies, by which the EU has become a significant global player in the destruction of biodiversity.

The ecological dimension of global injustice is evidenced by a material flow from the Global South to the Global North that is still growing, and this is accompanied by an expanding biopiracy on the part of the Global North in the name of intellectual property rights. On the side of the Global South, the *Final Declaration of the World People's Conference on Climate Change and the Rights of Mother Earth, Cochabamba, Bolivia* invoked Article 2 of the United Nations Framework Convention on Climate Change, which seeks the 'stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system'. It demanded specifically, that '(d)eveloped countries, as the main cause of climate change, in assuming their historical responsibility, must recognize and honour their climate debt in all of its dimensions as the basis for a just, effective, and scientific solution to climate change'.

The leading nation states are evidently quite unable to effectively address the global ecological crisis. They have not made any progress, even in the relatively simple issues concerning climate, energy, and resource policy, let alone the more complex questions of decreasing biodiversity and increasing soil-depletion. To end the lost decades in sustainability politics since the Stockholm, Rio de Janeiro and Johannesburg Conferences, a new initiative is required. An important and substantial initiative for sizably reducing the global foot-print of humankind and for addressing the still growing divide between the 'North' and the 'South' is urgently needed, in order to avoid impending catastrophic turns.[19] By making a clear political commitment to rapidly reduce its own ecological foot-print, Europe could take this initiative. It would reap benefits, not only in technological leadership, as highlighted by the supporters of Green Growth, but also as the first mover in terms of structural change.

Considering the extent of ecological conversion and repair work required, such a European turn towards developing sustainability would at the same time open up opportunities for sound employment which could be developed and stabilized relatively independently from the industrial cycle. It would require the integration of internal resource policies and external policies aimed at peace and cooperation.

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[18] EUROPOL (2009) reports that up to 90% of all ETS market transactions were part of criminal schemes.

[19] We are aware that these broad categories need to be specified, in particular that the majority of the world's poor is no longer living in poor countries, but in emerging economies. Thus the formulation 'North' and 'South' is not meant as a geographical terminology, but refers to social groupings. The global consumer class constitutes this 'North', although a third of it lives in the geographic South, and the 'South' we refer to has its pockets in the affluent countries of the geographic North.

Box 3: The *Europe 2020* Strategy – the Lisbon matrix reloaded

Europe 2020 is to become the EU's strategy for jobs and growth in the next decade. Its predecessor – the *Lisbon Strategy* from 2000 to 2010 – is widely perceived to have failed. But there has been neither a thorough debate in the European Council nor in the wider public as to why it failed and what conclusions should be drawn from that failure for the new strategy. We are told by the Commission that although the *Lisbon Strategy's* targets have not been reached, Europe would be in a far worse situation without it. The explanations given for not achieving the targets are the same as at the time of the mid-term review of the *Lisbon Strategy* in 2005: too many targets (28 by 2005, 11 afterwards); a lack of focus; and inadequate implementation by the member states.

In our view the *Lisbon Strategy* strongly contributed to the unfolding of the financial and economic crisis. It was because of the liberalisation and de-regulation of financial markets promoted by the *Lisbon Strategy* and by then Commissioner Bolkestein's *Financial Services Action Plan* that contagion via 'toxic financial assets' could spread so quickly and widely in the European Union between August 2007 and 2009. This is at the root of the financial crisis in Europe. And the promotion of the 'spirit of entrepreneurship' and market liberalisation enshrined in the *Lisbon Strategy* led to speculative bubbles emerging first in the internet 'new economy' and later on in construction, housing and real estate. When the bubbles burst, the real economy was blown to pieces. The Commission now concedes that ‘with the benefit of hindsight’, the *Lisbon Strategy* should have been organised better ‘to focus more on critical elements, such as robust supervision of financial markets, speculative bubbles and credit-driven consumerism’. But at the time these speculative bubbles emerged and developed, they were taken by the Commission as proof that 'Lisbon works', and credit-driven consumerism was interpreted as a sign of robust growth in the economy.

The new *Europe 2020* Strategy shares the *Lisbon Strategy's* old obsession with competitiveness and growth – now baptised 'smart, sustainable and inclusive growth'. The Commission proposed five headline targets, which were finally adopted by the European Council on 17 June 2010 in Brussels. Thus Council and Commission want to demonstrate a new 'realism' – fewer targets and a more pragmatic approach. The *Europe 2020* headline targets are mainly derived from old *Lisbon Strategy* targets:

- an **employment rate of 75%** for the population aged 20-64 (Lisbon: 70% for the population aged 15-64);
- an **innovation target** that investment in **research and development** shall rise to **3% of GDP** (same as Lisbon);
- a commitment to the already agreed **EU 20/20/20 climate and energy targets**, which means that greenhouse gas emissions shall be reduced by 20%, energy efficiency raised by 20% and the share of renewables in energy production raised to 20%;
- an **education target** to bring the **secondary-school drop-out rate below 10%** (same as Lisbon) and to achieve **40% of graduates from higher education** (new);
- a **social inclusion target** to reduce the number of persons at risk of poverty by 20 million (84 million people were at risk of poverty in 2008 according to Eurostat).

The increase in the EU employment rate up to 2008 was mainly attributable to the rise in atypical contracts. Is it appropriate to re-confirm the employment target without at least discussing the quality of jobs created? Similar questions could be raised about other *Europe 2020* targets. Take for example the 3% target for research and development: public investment in Research & Development (R&D) is exactly the same – 1% – in the EU, the USA and Japan. So the crucial question is why corporate R&D efforts have failed to increase over the last ten years and what measures might be appropriate to improve this situation.

Remember that at the start of the *Lisbon Strategy* in 2000 there was much talk about 'eradicating poverty by 2010'. Meanwhile the number of persons at risk of poverty in the EU 27 has increased and with crisis and stagnation prevailing and austerity measures being implemented in many countries there is still an upward trend. The Commission is already retreating on the issue: EU policies to combat poverty shall only 'ensure that the benefits of growth and jobs are widely shared so that people experiencing poverty can be enabled to take an active part in society'. This is perhaps about better access of the

poor to essential services, but a decisive effort for the eradication of poverty is not part of the new *Europe 2020* agenda.

Gender equality was a core element of the *European Employment Strategy (EES)* in its first phase (1997-2002). Its status was reinforced within the *Lisbon Strategy* (2000). This occurred because gender equality was considered as working to increase the EU's overall employment rate, in view of demographic ageing and its impact on the size of the labour force and the funding needs of social protection systems. Gender mainstreaming was launched in 1996 as a novel strategy for the promotion of gender equality. Gender equality in employment and gender mainstreaming reached their peak of political interest and commitment at EU level in 2002, when the Barcelona European Council adopted quantitative targets for the provision of childcare to be reached by 2010. With the revision of the *Lisbon Strategy* and the *EES* in 2005, gender equality, along with gender mainstreaming, lost importance as a goal. Now they are even less visible. Gender mainstreaming and the quantitative Barcelona targets are not mentioned in the Council's conclusions on *Europe 2020* and the *Europe 2020 Integrated Guidelines*, and there are only few very general references to promoting gender equality without any specified targets.

The European Council agreed on additional policy areas to be linked to *Europe 2020*: addressing bottlenecks to growth by deepening the single market, developing an external dimension of the strategy in the spirit of the *Global Europe Agenda* for opening markets and promoting the interests of EU businesses worldwide.

All in all, *Europe 2020* is a watered down copy of the *Lisbon Strategy*, and obviously no lessons have been learned from its failure. Mere rhetoric about 'greening the economy' and developing an 'inclusive society' will not help much either. On the other hand, the EU has already launched its 'fiscal exit strategy', tightening the *Stability and Growth Pact* and demanding harsh austerity measures from member states to achieve 'fiscal consolidation' as soon as possible. All member states except Cyprus have already started to apply severe cuts to public spending, public services, pensions, health care, public sector wages etc. Many of them are raising VAT rates, social security contributions for employees and the statutory retirement age.

The bottom line on *Europe 2020* must therefore be: where can the necessary investment for anti-poverty measures, innovation, resource-efficiency, education and so on. come from to achieve the headline targets in 2020? With the harsh fiscal retrenchment policies now being pursued by EU member states this will simply not be possible, regardless how ambitious or otherwise the *Europe 2020* targets may be.

2 A critique of EU policy: Austerity is no solution

2.1 The lack of serious financial reforms

Since the onset of the financial crisis, there has been a widely noted tendency for economic policy in the EU to revert to more nationally-based approaches. This was especially notable in the European response to the Greek debt crisis. Firstly, as the crisis began to develop in the early months of 2010, it was presented exclusively in terms of problems within Greece. The main focus was on the size of the country's fiscal deficit, which the previous government had sought to understate, and the deficit was attributed to excessive public spending (in fact, spending is close to the EU average whereas the tax base has been very narrow). There was, however, no acknowledgement of the close link between Greece's external deficit, or the external deficits of Spain and Portugal once the crisis threatened to spread, and the surpluses generated in northern Europe, in particular by Germany. Since the deficits of the peripheral European countries had, to a considerable extent, been financed by banks in Northern Europe, with banks in Germany and France each holding around $500bn of outstanding loans (table

1), these countries were also deeply involved in the crisis through the exposure of their banking systems.

Secondly, once the crisis in Greece began to come to a head in April, there was a prolonged period in which the eurozone governments failed to develop an adequate response. It was as a result of this delay that speculation intensified against Greek government bonds, against shares in banks and, most critically, against the euro. Ultimately, it was the threat to the Euro that galvanised the more recalcitrant members of the eurozone into accepting the need to respond and to agree on providing assistance to Greece and, when this proved insufficient, on creating the €440bn European Financial Stability Facility. Nevertheless, the effect of the delay was extremely important in creating a crisis atmosphere and establishing the conditions in which, Greece, Spain and Portugal were forced to adopt significant cuts in wages and public spending, and, shortly after, the larger European countries began, one by one, to announce their own major programmes of fiscal retrenchment. In this way, while many workers in the eurozone had, unlike their counterparts in the US, been relatively protected from the impact of the financial crisis and the subsequent economic crisis, the debt crisis in May 2010 marked a significant turning point.[20]

A third disturbing feature of the debt crisis has been the involvement of the IMF. At German insistence, but against initial objections by the ECB, the IMF is providing part of the financing for the €110bn facility for Greece, and plays a key role in monitoring Greece's compliance with the conditions that are attached. When EU member states such as Hungary and Latvia, which are not members of the eurozone, were hit by the impact of the crisis in 2008 they were, indefensibly, obliged by the EU to turn to the IMF for support and, even though the EU provided part of the financing, the countries were required to submit to the IMF's traditional demands for tight fiscal austerity. In fact, the conditions proved so burdensome that in July 2010 the Hungarian government effectively broke off discussions with the IMF about renewing support. At all event, in the case of Greece, the IMF has for the first time become involved in setting policy conditions for a member of the eurozone, a clear challenge to one of the key aims of monetary union, namely the strengthening of policy autonomy in Europe.

A quite separate area of concern relates to proposals for financial regulatory reform. At the height of the financial crisis it was widely accepted that major changes would have to be introduced. In the course of the last year reforms have been proposed or approved in the EU, in the US and, at an international level, through the Bank for International Settlements proposals for revised bank requirements known as *Basel III*. In all three jurisdictions the banks mounted massive lobbying operations – with considerable success. The measures that have emerged are all extremely modest, but it is striking that those introduced in the eurozone are even weaker than those introduced in the US.

In the eurozone, proposals for a new supervisory framework for financial institutions, first put forward in 2009, were approved in September 2010. These involve the creation of several collegiate bodies to coordinate prudential supervision. The European Systemic Risk Board, to be chaired by the head of the ECB and located in Frankfurt, will be responsible for monitory macro-level financial risks. The European System of Financial Supervisors will consist of three new authorities, made up of representatives of each national authority, to co-ordinate

[20] The bursting of bubbles in property prices had already led to a sharp rise in unemployment in Spain and, following massive bank rescue programmes, major cuts in wages and public spending in Ireland.

micro-level supervision: the European Banking Authority (to be located in London), the European Securities and Markets Authority (in Paris) and the European Occupational Pensions and Insurance Authority (in Frankfurt). In September 2010, proposals were also put forward for regulating the market in derivatives and short selling. The main features are that all trading in derivatives would have to be reported to a central repository; the authorities would be provided with the power to suspend short selling (something unilaterally introduced by Germany in May 2010); and derivative traders would be required to use a clearing house although, following pressure from big companies, exemptions will be allowed. Finally, in October 2010, EU finance ministers finally agreed on a watered-down set of regulations for hedge funds.

The US Dodd-Frank Wall Street and Consumer Protection Act, which was approved by Congress in June 2010, was also considerably watered down in a forlorn attempt to gain Republican Party support. It's main features include giving the Federal Reserve responsibility for supervising all systemically important financial institutions and the creation of a Systemic Risk Council, chaired by the Treasury Secretary; restrictions on banks trading on their own account (a so-called 'Volcker Rule'); the creation of a Consumer Financial Protection Bureau; placing ratings agencies under the supervision of the Securities and Exchange Commission (SEC); a requirement that hedge funds with over $150 million register with the SEC; restrictions on banks' derivatives trades, which will have to be conducted by separately capitalised subsidiaries; and provisions for winding up failing financial institutions, with shareholders being wiped out, executives fired, and creditors being paid by the government but with the costs being recuperated from the financial sector.

The European reforms lag behind the mild US reforms in several significant respects. The European Systemic Risk Board, unlike the new US Systemic Risk Council, will not have binding powers, and the three supervisory agencies will also not have binding powers except in the event that an emergency is declared and even then they will be restricted. Big financial institutions that operate throughout Europe will, consequently, continue to be regulated by national authorities. Secondly, European banks will not be required to introduce any separation between their commercial and investment banking activities, and there will therefore be no restriction on banks' speculative activities ('proprietary trading'). Thirdly, the agreement on regulating hedge funds does not include administration by the new European Securities and Markets Authority in the way that the Dodd-Frank Act envisages by the Securities and Exchange Commission in the US. Fourthly, the European proposals to control credit ratings agencies are extremely vague: they consist in promoting increased competition among the agencies and subjecting them to more centralised supervision. Finally, the EU has not established any clear mechanism for dealing with large, systemically important banks threatened with failure; instead it is discussing how the use of so-called convertible bonds, which automatically become equity in the event of a crisis, could provide additional capital for banks facing insolvency.

Supporters of the EU measures argue that they are a step towards greater European cooperation. But banking in Europe – as in the US – is now even more concentrated than before the crisis. The banks that have survived are, in effect, benefiting from a huge subsidy, as they can borrow very cheaply from the ECB and invest in an array of financial assets, including government bonds, which ensure a guaranteed profit. Meanwhile they adopt aggressive trading positions in securities and derivative markets in the knowledge that, in the absence of a seri-

ous policy to deal with institutions that are 'too big to fail', the state will be obliged to intervene and support them in the event of significant losses.

The new international banking guidelines, known as *Basel III*, were agreed in September 2010 after almost a year of wrangling. They are an attempt to oblige banks to make themselves less vulnerable to failure but are a considerably diluted version of original proposals, which bank lobbyists argued would act as a brake on economic growth. The new guidelines include raising the capital reserves that banks have to hold to 7% of risk-weighted assets: the basic reserve is raised from 2% to 4.5%, and a new buffer, to be built up during periods of prosperity, adds a further 2.5%. The guidelines also include a requirement that banks hold a larger proportion of liquid assets, something which proved highly controversial. However, principally because of pressure from European authorities, these measures are to be phased in over a period that stretches to 2018 – by which time several further crises might have occurred. The whole approach is very much an extension of the previous guidelines, known as *Basel II*, which were seriously discredited by the crisis. The reliance on minimum capital requirements has been shown to lead to regulatory arbitrage, with business being shifted to other, unregulated financial institutions; and allowing the biggest banks to use sophisticated models to assess their own risk, as introduced in *Basel II*, provides them with a huge advantage – not to mention the fact that big banks have plainly demonstrated their *inability* to assess risks reliably.

The power of the financial sector has in no way been reduced by the financial crisis and will not be seriously restricted by the recent EU reforms or the new *Basel III* international guidelines. Many big banks have again reported strong profits in the last year and the ability of finance to thwart democratically accountable authorities was demonstrated by the speculative positions built up at the time of the Greek crisis, both against public debt and the euro. Although discredited by the crisis, the system of prudential regulation based on minimum capital requirements has been reinforced and the minimal reforms will do little to guard against renewed crises in the future.

2.2 The stability pact cannot deal with macroeconomic imbalances

The European Commission has admitted that the crisis and the subsequent recession have wiped out all the gains in employment achieved since the turn of the century, that is, over the lifetime of the 'Lisbon Agenda' which was supposed to transform and dynamise the EU economy through market-led integration, through deregulation of business in general and finance in particular and through so-called 'structural reforms' in the labour market which typically weaken the position of the lowest paid and most vulnerable employees. It follows that the repeated claims by the Commission that the *Lisbon strategy* was a success were in reality completely unfounded – the ephemeral gains in employment which were achieved reflected, for the most part, not improved functioning of the economy but easy access to credit in the weaker economies, supported by unrealistic views on the part of both borrowers and lenders as to the functioning of the eurozone and its ability to deal with imbalances in a painless way. Of course, in some economies, these unrealistic views took the form of asset price bubbles, promising big capital gains to the borrowers at the same time as offering apparently solid collateral to the lenders.

In fact, European leaderships were to a large extent responsible for these very imbalances. No action was taken, or even considered, to control widening disparities in the eurozone. The

only effort at macroeconomic coordination was provided by the *Stability and Growth Pact*, which, apart from its tendency to promote excessively restrictive budgetary policies, had no effective purchase on the situation of widening disequilibria. The comprehensive failure of these policies does not prevent the European Commission from demanding their continuation. In its agenda for the new decade (*Europe 2020*) the Commission calls for an almost immediate resumption of the same restrictive stance which has held back economic development for more than twenty years:

> The Stability and Growth Pact provides the right framework to implement fiscal exit strategies and Member States are setting down such strategies in their stability and convergence programmes. For most countries, the onset of fiscal consolidation should normally occur in 2011. The process of bringing the deficits to below 3% of GDP should be completed, as a rule, by 2013.

No rationale is provided for this timetable or for the completely arbitrary target date of 2013. With the overall public sector deficit in the EU standing at 7.2% of GDP in 2010 (6.6% in the eurozone) the proposal is completely impractical. There is no longer any purpose in viewing public sector borrowing in the framework of the *Stability Pact*, which has been clearly shown to be dysfunctional. As pointed out above, several of the economies most affected by the crisis, such as those of Spain and Ireland had budget surpluses as late as 2007. The budgetary deficits are a consequence of the crisis, not its cause. Therefore the substitution, in many official discourses, of lower public spending for a reassertion of social control over finance as the key to recovery obscures the main economic and political issues.

In fact, the EU had endorsed a general, EU-wide emergency move to budgetary stimulus in its so-called *Economic Recovery Plan* of 2008, but all this did essentially was to put an EU label on the measures, mostly very limited, already taken in the larger economies. No support was forthcoming at that point for those economies, for example in Ireland, where the constraints resulting from financial crisis were so severe as to make such stimulus difficult or impossible. In the general recession beginning in late 2008 the ECB also moved to a more accommodating position and adopted a range of special measures to enhance liquidity for both the financial sector and member state governments, but these policies were adopted later and to a lesser extent than by the Federal Reserve, even though the recession in the EU proved to be deeper and longer-lasting than in the US. The new European Commission has now made a drastic reversal of these limited and temporary measures of support and a rapid ‘exit’ from public sector deficits as key component of its ‘2020’ agenda for the new decade.

In 2010, with Greece on the verge of default and with several other member state governments only able to borrow at very high interest rates, further emergency measures were introduced (see section 1.1). In the short run, these arrangements lower the risk of a default by Greece or the other member states with acute financial difficulties, but they are limited to a three year period. They do little to resolve the problem of chronic indebtedness.

It is intended that the *European Financial Stability Facility (EFSF)* should then be replaced by a permanent crisis resolution mechanism. At the insistence of the German government, this is to be brought about through a treaty revision. The way in which this future mechanism will function is not yet determined. The German government has pressed for both more constraining rules limiting public spending and borrowing and for severe, automatic, sanctions against member states which infringe the rules.

The German government, determined to resist fiscal transfers, further announced that it would seek to amend existing rules which forbid default by eurozone governments and to institute a

procedure for restructuring sovereign debt in such a way as to impose losses on the creditors. This announcement had unintended consequences. Holders of Irish, Portuguese and Greek debt – which include many Northern European banks – drew the conclusion that, when the *EFSF* expires in 2013, their claims would be written down. This led to an immediate increase in the interest rates demanded by the creditors of the crisis-struck states. In addition, the ECB itself, which had been providing abundant credit to Irish, Spanish and Portuguese banks, strongly suggested that it was time for the EU and the member states to take over this responsibility so that its own exposure to any coming default would be reduced. Like a devaluation, a default is something which is difficult – perhaps even contradictory – to announce in advance. Here we have one – admittedly large and powerful – member state proclaiming the imminent default of its smaller and weaker partners, not an edifying example of EU cohesion.

The European Council of October 2010, considered a report from a *Task Force on Economic Governance*. This endorsed the German position, but in very vague terms which leave it very unclear how far other member states would be prepared to go in support of that position. The German government essentially argues that, to avoid a more cohesive monetary union requiring transfers between member states, there should be a recognised and institutionalised procedure for organising defaults by eurozone governments – in deep crises EU assistance would be available to the member states concerned but these would also have to default on their debts. This is an unworkable policy because it would deprive the weaker member state governments of access to credit on the same terms as their partners and thereby also raise credit costs for the banks, corporations and households of the countries concerned. Such discrepancies would distort competition; they would lead to continuous attempts at financial arbitrage; and at the same time they would tend to undermine all joint projects because of disputes about their finance. The only way forward for the eurozone is towards a budgetary union which involves substantial transfers from country to country and, correspondingly, subordinates the budgetary policies of member states to an agreed common strategy.

One completely unacceptable proposal is a rule to prevent public expenditure growing faster than GDP. This would exclude any move by other member states towards the Scandinavian pattern of social models centred on high public spending, even though these social models are generally recognized to combine strong economic performance with high levels of social protection and less inequality than elsewhere in Europe. In general the rule would also prevent countries from increasing public investment to meet the needs they had identified. The *EuroMemo Group* has consistently argued that the EU needs both more coordination of member state budgetary policies and a larger central budget, responsive to both general economic fluctuations and specific needs in individual states. But the crude central control over budgets now being promoted by the Commission would have the opposite effect – it would impose damaging constraints on member states while denying them any support from their partners.

The position of the German government cannot be ignored in an assessment of macroeconomic policy in the EU because the size and strength of its economy make German policies an important constraint on other member states. The German current account surplus, 4.8% of GDP in 2010 and forecast to remain at this level in 2011 before soaring to 7% in 2012, corresponds to deficits elsewhere – inside and outside the EU – which obstruct efforts to promote employment and, in some cases, are increasingly difficult to finance. Yet Germany's leaders consistently reject any responsibility to contribute to an overall correction of imbalances, thus putting the entire burden on deficit countries. Currently Germany is blocking proposals for tackling global imbalances because they involve placing some such responsibility on the sur-

plus countries. In these circumstances, the domestic policies which hold back wages and expenditure within Germany exercise a powerful contractionary influence on the EU as a whole and the eurozone in particular. Yet, Germany is one of the greatest beneficiaries of the single currency. Through the 1970s and 1980s, the D-mark was subject to sudden and uncontrolled appreciations whenever the dollar weakened. These episodes involved rapid and drastic restructuring within German industry with social and economic consequences which were difficult to control. The stabilisation of Germany's nominal exchange rate with its eurozone partners cuts out such disruption and makes economic and social developments much more manageable since variations in the strength of the dollar no longer result in drastic changes in internal European exchange rates, making the whole eurozone an indispensable home market for German producers.

The current macroeconomic policies of the EU aim to reassert the budgetary constraints of the *Stability and Growth Pact*, at a recovery of employment through more rapid economic growth and at a reduction in the big imbalances among the member states, especially those of the eurozone. These objectives are, however, incompatible: they imply completely implausible expenditures by households and corporations. If budgetary consolidation on the recommended scale is attempted it will push the EU economy back into recession with even higher levels of unemployment.[21]

Box 4: The Greek debt crisis

In the first half of 2010, a speculative attack on Greek government bonds almost led to the destabilization of the eurozone. Unlike other countries, there were no significant signs of financial distress in the banking system and the fiscal cost of public interventions in the Greek banking sector in 2008-09 amounted to 11.6% of GDP, by comparison to 25.3% in the eurozone and 31.4% in EU27.[22] However, the public deficit and the public debt were both high even before the crisis (5.1% and 95.7% of GDP respectively in 2007) and increased due to the crisis as tax revenues fell and social transfer payments rose. Greece also has a very high current account deficit (14.7% of GDP in 2007), reflecting the fact that it has not managed to take full advantage of its access to the EU market. It is these twin deficits that exposed Greece to the pressures of the financial crisis and to the vagaries of the financial markets.

Contrary to some media reports, workers in Greece work longer hours than in Germany (an average 2,161 hours annually per worker in 2009, as opposed to 1,382 in Germany). Furthermore, hourly labour productivity increased more than twice as fast in Greece as in Germany in the ten years after the euro was introduced (26.3% in Greece compared with 11.6% in Germany). The problem has been with nominal wage and price setting. Greek nominal unit labour costs increased by more than 30% in the ten years after 1999, and although the increase in Italy, Spain, Portugal and Ireland were even higher, the increase in Germany was just 8%.

On 2 May 2010, Greece secured a loan of €110bn to cover its financing gap from 2010-13, financed by eurozone governments (€80bn) and the IMF (€30bn). In return Greece was required to reduce its public deficit from 13.6% of GDP in 2009 to below 3% by 2013 and to maintain a primary balance surplus of at least 5% of GDP up to 2020 in order to reduce the country's public debt.[23] This involves a strict austerity programme or 'internal devaluation' designed to reduce the cost of labour.

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[21] For a detailed analysis of the inconsistencies in the EU's macroeconomic policy proposals: Michael Brecht, Silke Tober, Till van Treeck, Achim Truger, *Squaring the Circle in Euroland? Some Remarks on the Stability and Convergence Programmes 2010-2013*, Macroeconomic Policy Institute, Hans-Böckler-Stiftung, 2010.

[22] European Commission, 2009, Driving European Recovery, Vol. 1, COM (2009) 114 final

[23] Since this was negotiated the figure for the Greek government deficit in 2009 has been revised upwards, to 15.4% of GDP.

- Government spending is to be reduced by 5.25% GDP through to 2013. Pensions and wages will be reduced and frozen for 3 years, with Christmas, Easter and summer bonuses (equal in total to two months pay) abolished.
- Government revenue is to be increased by 4% of GDP through to 2013 by raising VAT and taxes on tobacco and alcohol.
- Entitlement programmes are to be curtailed and pensions are to be comprehensively reformed.
- Structural reforms will involve further labour market liberalization and the privatization of public enterprises.

At the end of 2010, the Greek economy is faced with a deep recession and there is rising social discontent. The austerity programme will make it even more difficult for Greece to meet its financial targets and on both economic and social grounds it is urgent that the eurozone develops a new way of dealing with its internal imbalances.

2.3 Supply side policies do not create jobs

The economic crisis has posed a major challenge for the *European Employment Strategy (EES)*, which includes the main priorities and guidelines set at the EU level for employment policies of EU member states. Because of its focus on supply-side policies and labour flexibility measures oriented towards *structural unemployment*, the *EES* and its employment policy guidelines for 2008-2010 were unable to deal with growing *cyclical unemployment,* i.e. mass dismissals and a sharp decline in the demand for labour. In 2009 there was a U-turn in employment policy in most EU member states in an attempt to limit job losses and their impact on aggregate demand and any social unrest. This new employment policy priority, which consisted in maintaining jobs, served the primary goal of governments of preventing a recession turning into a depression.

Since the deepening of the crisis in 2008, a substantial number of job losses have been avoided through a combination of macroeconomic, industrial and labour market initiatives. Expansionary fiscal and credit policies of varying dimensions were adopted by almost all EU member States while many governments also provided temporary aid to sectors disproportionately hit by the crisis (e.g. the car industry and air transport), infringing EU competition law. In the area of labour market policy the new element was the implementation of internal flexibility and job maintenance schemes (short-time work, temporary lay-offs, job sharing): these involved reductions in working time and wages – partially compensated with top-ups by the state – in exchange for job maintenance. Some EU countries also reinforced their ‘social shock absorbers’ by raising unemployment benefit or minimum wage levels (Bulgaria, Romania) or by extending the scope of temporary lay-off support (Belgium).

All these national-level initiatives were legitimated at the EU level and propagated by the European Economic Recovery Plan (December 2008) and by the European Council’s decisions on policy priorities to address the employment crisis. The European Council of March 2009 recognized the importance of preventing and limiting job losses, and of allowing social protection systems to fulfil their role as automatic stabilizers. The European Council of June 2009 adopted the European Commission’s proposals on the new priorities of employment policy, including for the first time job maintenance.[24]

This short ‘Keynesian parenthesis’ was hastily brought to an end at the EU-level with the rise in sovereign debt and the onset of the debt crisis, first in Greece then in other eurozone coun-

[24] European Commission (2009), *A Shared Commitment for Employment*, COM(2009) 257 final.

tries. Between late 2009 and the adoption of the *Europe 2020* strategy paper, ECOFIN and the European Council have promoted a gradual return to the neoliberal order, mainly through the reactivation of the *Stability Pact*. This return is organized through a coordinated exit strategy from 'temporary crisis-related state aid' (fiscal stimulus, short-term unemployment support, sector support schemes, access-to-finance support, support to the financial sector) and a complete reversal of economic policy priorities. The new short and medium-term EU priorities are (a) budgetary consolidation and deficit reduction to comply with the requirements of the *Stability Pact* (b) containment of wage developments and labour costs to combat external imbalances (improve competitiveness) and (c) stricter surveillance at the EU level of economic policies of EU member states. As even the IMF has warned, the simultaneous adoption of restrictive policies across Europe risks tipping the economy back into recession and, at the least, to a drawn out period of low growth which will exacerbate the employment crisis. At the same time, the turn in policy marks a further attack on workers' rights and the welfare state across the EU, orchestrated and coordinated at the EU level. Employment and workers' rights will not only be affected by the turn in economic policy but also by the re-writing of the *EES* within *Europe 2020*. At first sight, the new *EES* is a mere revamp of the pre-crisis *EES* in terms of goals, rationale, and content. A more detailed analysis, though, reveals a reinforcement of the liberal rationale.

The main goal of the *EES* remains the same, i.e. to increase the employment rate,[25] while the intermediary objectives to achieve the main goal are repeated, rephrased or made explicit.[26] The intermediary objectives include: increasing labour market participation; combating structural unemployment and labour market segmentation; improving job quality; and further developing the skills of the workforce. The restricted approach to job quality of the 'old' *EES* is also endorsed by the new *EES*, focusing on the protection of marginal workers[27] and health and security at work. At the same time, job quality is undermined by a call for the expansion of atypical employment contracts – as in the 'old' *EES* – and the *Europe 2020* strategy document calls for limiting wage increases.

The reinforcement of the liberal rationale in the new *EES* can be deduced by analysing and putting in context its differences with the 'old' *EES*. These are mainly concentrated in two areas: *active labour market policies* (ALMP) and *gender equality in employment*. Let us take a look at them in more detail. First, in the new *EES*, flexicurity has replaced ALMP as the cornerstone of combating structural unemployment. ALMP have lost visibility and independence and become a component-instrument of flexicurity. Second, the principle of gender mainstreaming of employment policies has disappeared from the *EES*. These changes have gone hand in hand with another very important change, namely the reduction of *EES* quantified targets from eleven to three, which makes the *EES* less constraining for EU member states.[28]

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[25] The quantitative target for the employment rate is now 75% among 20-64 year-olds by 2020, up from 66% among 15-64 year-olds in 2009.

[26] Although structural unemployment was an underlying assumption of the pre-crisis *EES*, it has become a stated intermediary objective only in the new *EES*.

[27] The *EES* calls for combating in-work poverty and providing adequate social security to temporary workers and the self-employed in line with the flexicurity approach.

[28] Apart from the target for the overall employment rate only the early-school-leaving rate has remained from the 'old' *EES*, to which a new target is added for higher education attainment (40% of those aged 30-34 by 2020).

ALMP and gender equality in employment were also the two main areas in which targets were eliminated. The targets that were eliminated include:

- The target for providing all young unemployed and 25% of long-term unemployed a new start through ALMP (training, apprenticeship, job, employability measure) before they have reached 6 and 12 months of unemployment respectively;
- The target for the coverage of 90% of children aged 3-6 and 33% of those under 3 years by childcare services.

What is the reason for the above-mentioned changes in the *EES*? Obviously, the achievement of targets is costly for state budgets today, taking into account that fiscal consolidation has become the utmost priority of economic policy in *Europe 2020* and given that economic policy has long had precedence over employment policy in the EU Treaties (since the *Amsterdam Treaty* of the EU 1997). Today labour market flexibility is considered a less costly instrument for liberal mainstream economists who have always preferred the dismantlement of workers' rights to costly and marginally effective ALMP as a means of promoting higher rates of employment.

In the new *EES*, this more markedly liberal stance is covered behind the mantle of 'flexicurity', which has always been a way of legitimating (including in negotiations with unions) the erosion of workers' rights through a reduction in the protection of those in the most vulnerable positions. In its most recent version, the flexicurity strategy proposes to trade the protection of the standard employment contract (job security) against improved social protection and enhanced (re)training opportunities for the unemployed (employment security).[29] In practice though, the macroeconomic priority of budgetary consolidation does not leave any room, either today or in the foreseeable future, for improving the social protection system and expanding the training and education system. Quite the opposite, there is increasing evidence that labour market flexibility measures are accompanied by security-reducing measures even in the praised flexicurity-model countries. This was the case with the recent Danish reform of the unemployment benefit system, which has fuelled strong social protests.

A major cause for concern is that the reduction of resources on ALMP and childcare services, made possible by the abolishment of *EES* quantified targets, may lead (a) to a more or less complete reliance on labour market flexibility measures to create jobs; (b) to the refocusing of activation policy for the unemployed on socially regressive work-first/workfare measures quickly forcing the unemployed into low paid jobs by various means (e.g. limiting the generosity and duration of unemployment and welfare benefits and increasing their conditionality); and (c) to the encouragement of part-time employment as the only cheap policy instrument to increase female labour market participation. Although an increase in part-time work is one way of closing the gender gap in activity rates, at the same time it reproduces and prolongs the position of women as secondary earners in the household. It is consequently incompatible with the promotion of full gender equality in employment, in both quantitative and qualitative terms.

Turning to activation policies, their success has always depended on there being enough jobs available for those being 'activated'. Even before the bursting of the current economic crisis

[29] European Commission (2007): Towards Common Principles of Flexicurity: more and better jobs through flexibility and security, COM(2007)359 final.

in Europe, there were 3 unemployed people for each vacant job. The crisis produced both a sharp fall in the number of job vacancies and a sharp rise in the number of unemployed. As a result, according to the latest Eurostat data, the number of unemployed for each vacant job jumped from 3.2 in second quarter of 2008 to 6.6 in second quarter of 2010. Obviously, when there is a deficit in the demand for labour, it is impossible to squeeze 7 workers into the one available job, regardless of the carrots and sticks provided to the unemployed and the inactive.

In addition to these problems with the new *EES*, one of its most serious defects is that it does not acknowledge that deficient aggregate demand, especially during periods of stagnation or recession, is one of the main causes of unemployment, and that an active policy by the state is required to combat this. The *EES*, by contrast, focuses on combating structural unemployment, which is attributed to high labour costs which are considered to undermine the competitiveness of EU firms and create external imbalances.

The approach advocated in *Europe 2020* is therefore completely inadequate for the task of combating unemployment. It fails to propose either an appropriate mix of macroeconomic, industrial, employment and social policies, or an effective means of coordinating such policies at a European level. Rather, it advocates socially regressive measures that will have an especially serious impact in the member states that are most burdened with large fiscal deficits and debts.

Box 5: Quantitative assessment of Lisbon employment objectives

The overall Lisbon employment objective was ‘to raise the employment rate from an average of 61% today [2000] to as close as possible to 70% by 2010’, in other words an increase of 9 percentage points in the population of working age in employment. In reality, the employment rate increased by 3.9 percentage points up to the pre-crisis high point of 2008 for EU member states in the EU15 (3.7 percentage points for EU27), and has fallen sharply since then, giving an overall increase from 2000 to 2010 (second quarter) of 2.2 percentage points.

However, because of the way employment is measured – as including all people working more than one hour per week – the increase needs to be looked at more closely. Again taking the EU15, 61.1% of net job creation between 2000 and 2008 was due to *part-time employment*, while 49.9% of the net increase in part-time jobs corresponded to *involuntary part-time work*. In the EU27 the corresponding rates are 51.5% and 52.4%.

Since so much of the job increase was part-time, it is useful to convert the increase into *full-time equivalent employment*. When this is done, we observe that the EU15 full-time equivalent employment rate increased by 2.5 percentage points between 2001 and 2008 as against an increase of 3.9 percentage points across the same period when the employment rate is measured on a headcount basis.

This is before the issue of job quality is fully considered, notably taking into account increases in temporary employment, job insecurity, and stress at work, recognised critical indicators of quality (data from European Foundation Working Conditions Surveys 2000 and 2005). Regarding temporary employment, Eurostat data indicate that 23.2% of net job creation in the EU15 between 2000 and 2008 was due to an increase in temporary jobs. Taking into account that there is a partial overlapping between part-time and temporary employment (18.5% of temporary workers were part-time in 2008) and the estimates of the contribution of part-time in net job creation presented above, it could be convincingly argued that about 80% of net job creation in EU-15 between 2000 and 2008 is due to the increase in part-time and temporary jobs.

Consequently, whatever progress was made towards the Lisbon targets on employment rates between 2000 and 2008, was at the expense of job quality. The current economic crisis has almost wiped out the above-mentioned quantitative progress and further deteriorated job quality.

2.4 Greater unfairness in European taxation

The latest EU survey of *Taxation Trends in the European Union* acknowledges the higher dependency of the Central and Eastern European states on consumption taxes as well as the downward trend in corporate tax and personal income tax rates in this region and the EU27 as a whole.[30] However, it does not acknowledge the regressive nature of recent taxation trends. Rather, in a bizarre and very brief paragraph on 'tax fairness', the survey even suggests a shift towards greater progressivity:

> 'The fairness of the tax system has been a major concern. Several countries have introduced measures to safeguard lower incomes, usually by raising allowances or, in a few cases, raising the top PIT [personal income tax] rate. This seems to point towards some increase in progressivity in the coming years' (p. 26).

This conclusion is entirely specious. Four of the 27 countries in the EU have indeed raised personal income tax rates as part of their response to the crisis (Greece, Latvia, Hungary and Britain) but rates have been lowered in two countries (Denmark, Finland), while seven have reduced corporation tax rates during the crisis and eight have made net reductions in personal income tax largely through increased allowances, in part providing particular relief for small and medium enterprises and the self-employed. By the same token, the EU records increases in standard VAT rates in eight countries, reductions in three (temporary in Britain) and increases in excise duties in sixteen EU27 states. The average top rate of personal income tax in 2010 is still almost ten percentage points lower than in 1995. How an 'increase in progressivity in the coming years' can be extrapolated from these indicators is entirely mysterious, since the trend continues to be self-evidently in the opposite direction, i.e. towards an increase in 'regressivity' and unfairness in the distribution of tax burdens.

The EU tax report also brings out the disparity between the fiscal responses to the crisis in the old member states and those in the new members from Central Eastern Europe. In the old member states, changes in personal income tax and corporation tax had a stimulatory effect on the economy amounting to a full 1.6% of GDP in Denmark, 1.5% in France, 1.4% in Germany, 1.2% in Austria and 1.1% in Sweden. By contrast, in the new member states tax measures had a contractive effect, amounting to -0.5% of GDP in Hungary, -3.1% in Estonia, and -4.6% in Latvia.

The European Commission's 430-page report on the EU's tax affairs is astonishingly unreflective and lacking in scientific rigour. The EU's failure to develop a programme to coordinate and harmonise taxation, and its underlying blindness to the colossal disparities in tax systems and tax cultures within the EU, stand in complete contrast with the Commission's persistent obsession with meeting narrowly specified targets for other fiscal variables, most notably the ceilings on government borrowing and debt enshrined in the Maastricht Treaty and the *Stability and Growth Pact*. This one-sided focus has sidelined other objectives, like job-creation, a sustainable, healthy environment and social well-being.

The failure to adequately address tax policy in Europe has been highlighted by the sovereign debt crisis in 2010. Prior to the crisis little attention had been paid to the role of chronically low tax ratios in Ireland, Greece and most Central and Eastern European countries in causing fiscal weakness. The European authorities also had virtually nothing to say about the very large loss of potential tax revenue as a result of tax avoidance schemes, inadequate policing

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[30] European Commission, *Taxation Trends in the European Union,* 2010.

by revenue authorities, non-compliance by wealthy taxpayers, corruption and tax evasion, not to mention the scandalous existence of tax havens within Europe itself. The zeal with which supposedly excessive public-sector borrowing was exposed and criticized stands in stark contrast to the neglect of the large-scale 'off-shoring' pursued by banks and global accountancy firms on behalf of their clients, and the consequent haemorrhage of tax revenues in the 'on-shore' jurisdictions. As a result of the crisis, greater political attention has been focussed on tax havens and tax avoidance but the few measures to have been taken are uncoordinated and ineffective. Tax arbitrage continues unabated, as evidenced by recent decisions by corporations to relocate their financial headquarters outside Britain so as to avoid higher rates of personal income tax.[31]

2.5 A step backward in the fight against poverty

Ten years after the adoption of the *Lisbon Strategy*, which included a commitment to achieving greater social cohesion, the living situation for large parts of the population has not improved. Quite the opposite: insecurity, precariousness and poverty have increased. Even though the EU has made rhetorical commitments to put social inclusion on its political agenda, in practice no decisive steps have yet been taken. The year 2010 is denoted by the EU as the *European Year for Combating Poverty and Social Exclusion*, but the Commission's new strategy document *Europe 2020* lacks concrete objectives or the means of achieving them. The only quantified target is to reduce the number of people living in poverty by about 20 million people.[32] If this is assessed using the European Council's own proposal to measure poverty by an aggregate of three indicators (at-risk-of-poverty-rate, material deprivation and jobless households), then a reduction of 20 million in the number of poor amounts to a fall of only 16.7% of those at risk (and not 20% as stated in *Europe 2020*). Furthermore, the *Europe 2020* strategy aims at ensuring 'active participation' of people experiencing poverty and social exclusion in the society and at enabling them 'to live in dignity' *despite* their state of poverty – but not at eradicating poverty and social exclusion as such. In order to achieve this very limited objective, the strategy does not propose specific measures. Instead it proposed to launch a 'flagship' initiative called the 'European platform against poverty'. The cornerstones of this platform have not been fixed yet. However, lessons can be learnt from the *Open Method of Coordination* (OMC) in the area of social inclusion.[33] Such soft-policy instruments are valuable for fostering the exchange between member states on 'best practices' and for setting down concrete targets, which serve as benchmarks for measuring the extent to which EU policies have met their aims. However, they do not suffice to effectively counter the trend of ever increasing level of poverty in the EU.

2.6 *Europe 2020* is failing to live up to its environmental task

The *Europe 2020* strategy can seem to be an improvement over the aggressive strategy of global expansion advocated in the EU's trade strategy document *Global Europe*, which was

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[31] The British plumbing specialist *Wolsey* announced the shift of its tax base to Switzerland, following the media company *Informa* earlier in the year. *United Business Media* and *WPP* have both shifted their tax base to Ireland. (See *New Statesman*, 27 September 2010 and the report by the British Institute of Directors, *How Competitive is the UK Tax System?,* London, 2010).

[32] More precise objectives, e. g. for the most worrying development of child poverty, have not been set.

[33] The framework of the *OMC* enables both the member states and the European Commission to formulate political positions and to develop proposals for policy areas even without formal European competencies.

published in 2006. Instead of explicitly promoting a European bid for world hegemony at the cost of its global partners, the European Agenda 2020 reintroduces political ambivalence by not really formulating a strategy for the EU. Instead it outlines five competing so-called strategies and leaves their strategic contours and their respective relations and priorities to future decisions.

An assessment of the present state of the EU's sustainability policies therefore has to remain ambiguous. On the one hand a line of argument is evident which was dominant in the *Global Europe* strategy: the overriding neo-mercantilist orientation aimed at strengthening competitiveness which assumes that the EU needs privileged access to natural resources and a strengthened geo-political influence (especially in relation to the former colonies of member states), aims which represents a significant threat to the objectives of social justice, gender equality and sustainable development. On the other hand, there are significant counter-tendencies in its strategy formulations, especially in the environmental field as regards natural reserves and related issues.

Unfortunately, the underlying ideas of *Global Europe* have not been overcome. In its actual practice, the EU is in fact pursuing its key idea by imposing unequal treaties upon states of the Global South trying to ensure that the EU can unilaterally obtain access to strategic raw materials, instead of developing co-operative regimes based on sustainable common long-term interests. The EU's agreed new agenda is not to be criticized for the long-term focus of its underlying vision. Such a vision is overdue as a means of generating both political debate and a possible agreement on a sustainable future for the EU. Those critics who stress the need for short-term solutions instead of long-term perspectives in fact oppose any effort directed at necessary structural changes in the EU and its member states.

The problems to be urgently addressed with regard to *Europe 2020* can be found on two levels. The first concerns the level of the substantive content of this long-term vision which is still essentially based on a denial of the need for structural change in the present model of unlimited 'economic growth' in production. The second level is the lack of clear medium-term programmes and strategies that are capable of being translated into approaches to the present set of critical developments. The issue of 'greening' this bundle of strategies is an urgent one and is inextricably linked to the importance of conducting explicit discussions and making political decisions about the priorities that should be pursued instead of leaving them to the uncontrolled play of market forces.

In spite of its overriding orientation towards prioritizing market forces and competitiveness, the EU is not entirely inactive with regard to biodiversity: In March 2010 it set a new target – halting the decline by 2020 and restoring lost biodiversity where feasible. As the European Environmental Bureau recently noted: 'The continuous loss of biodiversity will, under a business-as-usual scenario, cost the world at least 7% of gross domestic product in 2050. The costs of policy inaction for Europe are estimated to be at least 1.1 trillion euros per year in 2050 (relative to 2000). Many of these costs will have to be borne well before 2050.'[34] The question is, however, whether the EU will pursue this policy effectively and impose its priorities on other policy areas and objectives – especially in relation to the Common Agricultural Policy and the EU's policies relating to global trade and development, which currently pull in the opposite direction and are not explicitly encompassed by the EU's sustainability politics.

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[34] European Environmental Bureau (EEB): *Letter to the Belgian Presidency*, Brussels 2010, p. 8.

This requirement is linked to the demand for an ambitious and binding 7th Environmental Action Programme, capable of being implemented in all member states and of being mainstreamed in all areas of the EU's and member states' policies. It is a serious problem that the EU Commission is delaying the process of elaborating the programme and its application to the EU's Common Agriculture and Fisheries policies, its Cohesion Policy (Structural and Cohesion Funds), as well as on the orientation of EU research and development funds.

3 Alternatives: Towards greater solidarity

3.1 The need for radical reforms in the financial system in Europe

The power of finance has not been reduced by the crisis and by recent reforms. On the contrary, the finance industry is now more powerful than ever. The recent reforms are, as Simon Johnson, former chief economist at the IMF, recently put it, 'A victory for the banks'. The reforms do not actually envisage any radical changes in financial regulation. They are more about reducing the potential impact of a new crisis than about preventing a crisis from happening. There is therefore a pressing need for stronger measures.

i) Reform the operating principles of the European Central Bank

The ECB has been at the very centre of neoliberal policies in Europe and a radical change is necessary in its status and policies. In the aftermath of the crisis, the ECB has remained wedded to its monetarist ideology and its obsessive focus of maintaining consumer price inflation around 2%. A progressive alternative must shift the focus to employment, the maintenance of purchasing power and the stability of the financial system. The need for central banks to make financial stability a major target is one of the key lessons to emerge from the crisis. The ECB should therefore be put in charge of macro-prudential supervision, i.e. providing for the general stability of the financial system in the eurozone. Like all central banks, the ECB will have to monitor the expansion of credit and any tendency for bubbles to emerge. In addition, the ECB should be responsible for guaranteeing the liquidity of public debt and, towards this end, should act as a buyer of last resort in this market. The recent reforms, based on the 2009 Larosière Report, led to the creation of the European Council for Systemic Risk but this new institution suffers from a crucial weakness because it is not equipped with binding powers.

In order to fulfil its new function of safeguarding financial stability, the ECB will need to increase its coordination with other authorities in the EU, in particular national governments, as well as with other central banks. To this end it is necessary to challenge the notion that the ECB requires complete independence and, instead, to ensure that it is subjected to greater democratic accountability.

ii) Tighten control of banks

A key feature of the new *Basel III* international guidelines is to upgrade the minimum capital requirements for banks. This is not the appropriate way to ensure a greater regulation of banks. By increasing the level of capital requirements, it will reinforce the perverse effects of Basle II. In particular it will reinforce the dependence of banks on financial markets, and the tendency of banks to externalise risks by shifting business to non-bank institutions which are not subject to prudential regulation (the so-called shadow banking system). Instead, more stringent rules are required to prevent banks from taking excessive risks and to prevent them from externalising risk. New regulatory measures should be established, such as dynamic

provisioning to dampen pro-cyclicality, limits on loan to value ratios to reduce leverage, and progressive reserve requirements on bank loans to reduce the growth of bank lending when it becomes excessive. Off-balance sheet deals which were at the heart of the recent crisis must be banned. The process of securitisation should be restricted and subject to strict control by the authorities. A clear separation should be introduced between investment banking and commercial banking services – even the US has now adopted a form of 'Volcker rule' which prevents big banks, which benefit from access to central bank lending, from investing in hedge funds and private equity funds and from engaging in proprietary trades. The public and cooperative banking sector should be strengthened and, at the very least, the public sector should own one of the key banks in order to ensure financing is available for socially and ecologically desirable investment projects.

iii) Eliminate 'black holes' in the international regulatory system

The taming of finance requires that all financial actors are regulated by public authorities. This is not the case today as several strategic sectors evade regulation by falling into what are, in effect, 'black holes'.

Rating agencies – which failed badly in the recent crisis as well as in almost all crises in recent decades – should come under public control. This is another area where the EU is lagging behind the US, where ratings agencies are to be put under the control of the Securities Exchange Committee (SEC). At a minimum, ratings agencies should no longer be paid by the firms they rate. Instead they should be paid from a fund financed by all the users of the ratings and issuers of the financial products.

Highly leveraged institutions such as hedge funds are a threat to financial stability, as shown by the recent crisis. Through the practice of leverage, they transfer risk to the banks which lend them money. Non-bank highly leveraged institutions should, therefore, not be permitted and banks should be prohibited from doing business with hedge funds and similar institutions.

Offshore financial centres and tax havens only benefit rich individuals, institutional investors and transnational corporations that want to hide their assets from tax authorities, not to mention the organised criminal forces that want to launder their money. There is no economic justification for the existence of territories which operate outside the domain of international regulation and their use should be prohibited. The G20 agreed to new proposals on tax havens in 2009 but these are totally inadequate. They involved publishing the OECD list of tax havens, which place countries in four categories according to the extent to which they have subscribed to international standards on sharing information. But the major tax havens have accepted this minimum requirement, and the measure will therefore not restrict the activities of key tax havens such as London, Luxembourg, Monaco and Andorra. A minimum requirement should be to end banking secrecy and capital flight by a multilateral approach with a comprehensive multilateral exchange of information among EU members.

Over the counter (OTC) derivative markets are a major source of speculation, as was shown during the recent Greek crisis. In September 2010, the European Commission proposed legislation on OTC derivatives to increase transparency. It requires that detailed information on OTC derivative contracts and positions be reported to central repositories and made available to the authorities. However, a more radical approach is needed. All OTC trade should be prohibited and trade in derivatives should only be allowed on organised stock exchanges, with standardised products that have been authorised by a supervisory body.

iv) Tax financial transactions

The introduction of financial transaction taxes (FTT) has gained considerable support as a result of the recent crisis. Political leaders in a number of European countries have expressed their support for such a tax, and even the IMF has published proposals, although they favour taxing bank balance sheets rather than transactions. But no action has been taken. It is therefore time to launch a FTT in the 27 countries of the EU, a proposal that has been tabled in the European Parliament. A European FTT is technically feasible and in line with the requirements of EU law. Most of the financial products in the EU markets (including derivatives) should be covered, and this will generate a significant and stable source of revenue. This EU FTT will contribute to curtailing harmful speculative behaviour in financial markets and the funds that are collected could be used to increase the EU budget and to promote a progressive programme of social and ecological transformation.

3.2 Macroeconomic reactivation through public investment

The substance of an alternative macroeconomic strategy must be an expansion of aggregate demand to sustain employment and activity. For this, new Union-level structures are needed since it will be very difficult to base a coherent strategy on inter-governmental agreements alone. In the medium term new institutions are required with both effective control over the aggregate budgetary stance of the eurozone, and considerable influence over the allocation of spending and tax revenues across member states. However, in the immediate future, existing structures can be adapted: in particular, the European Investment Bank (EIB) can be used to undertake a much higher level of investment spending as part of a major and continuing stimulus. The remit given to the EIB in 1997 includes investment in health, education, urban renewal, the urban environment, green technology and finance for small and medium firms as well as the trans-European transport and communications networks. This corresponds closely to the main themes needed in a public investment programme[35]. The proposal, by the European Trade Union Confederation (ETUC), to adapt the *EFSF* should also be adopted.[36] This body controls €440bn which are held ready for financial emergencies in the weakest members of the eurozone. Much better to use the same funds in support of an EU-wide public investment programme: if the expenditures are allocated appropriately, such a programme will also ease pressures on the governments concerned.

The finance of a major EU-wide stimulus would not be difficult provided countries act together, through EU structures, and provided that effective assistance is given to those countries where government budgets have been seriously impaired by the financial crisis and the recession. The eurozone as a whole and the stronger member states can in fact borrow long-term at historically low rates. At present there are abundant savings and investors are particularly cautious. The programme of bond purchases by the Federal Reserve will also facilitate eurozone public finance and the ECB could, without difficulty, undertake a similar programme. Moreover, an effective and sustained public investment programme would work to

[35] For the possible role of the EIB in a recovery programme, especially with reference to environmental investments, see Rolf Czeskleba-Dupont, 'Good or bad credits from European sources?', Department of Society and Globalisation, Roskilde University , presented to the Euromemorandum Conference, 2010.

[36] ETUC, 'A Major Investment Stimulus to Get Europe into Jobs and out of Debt', Economic Discussion Note 2010/13.

reinforce markets in euro-denominated credit because it would increase investor confidence in the EU economy.

The table shows the terms on which credit-worthy borrowers (such as the governments of France, Germany, the Netherlands etc as well as the EIB) can issue ten-year bonds: the relevant interest rates are now 1.7% lower than they were before the sub-prime crisis – the notion of a general crisis of public finance in Europe is a moral panic, but one which is sponsored by political leaderships to avoid democratic programmes and reforms which might weaken dominant interests, especially those of the globalised corporations for whom growth in the EU market has become less important than the compression of EU taxes and wage costs.

On the question of finance for a public investment programme, the ETUC again makes a valuable proposal – for an EU bond guaranteed by all EU governments. This would signal the determination of the EU to reach a collective and solidaristic resolution of the crisis and would also make available resources for a wide range of investment projects.[37]

Table 8: Ten-year bond yields: AAA-rated Euro-denominated bonds

2007	4.38
2008	3.69
2009	3.76
2010 Q1	3.46
2010 Q2	3..03
2010 Q3	2.67
2010 Q4	2.75

Source: European Central Bank.

Thus the main substantive need is for a large-scale, sustained, programme of public investment across the EU. The principles which should inform this programme are ***coordination***, ***solidarity***, ***tax justice***, ***sustainability*** and ***international responsibility***.

In the longer tem, the most basic requirement for the provision of adequate, high quality employment in the EU is to abandon the arbitrary and dysfunctional rules of the *Stability Pact* and to introduce an ***effective coordination*** of macroeconomic policies so as to expand internal demand in the EU and especially the in eurozone. Over time, it will be easier to adapt budgetary policies to the overall needs of the EU if there is a limited centralisation of fiscal resources and a corresponding switch of some public expenditure to the EU.[38] Even with such a growth of the EU budget, however, it would still be necessary to coordinate national budgetary policies in order to avoid damaging negative spillover effects from national policies which, at present, are formulated by individual member states in ways which neglect the interests of other countries. In fact, it has always been a requirement of EU law that macroeconomic policy be regarded as a matter of common concern. This provision, rarely observed in practice, must become a reality to avoid an indefinite continuation of economic stagnation and social regression in Europe. Sanctions on member states which fail to observe the rule will not be recommended here – it is necessary to get away from the mentality of the *Stability Pact* which sees punitive measures as the only basis for disciplined collective action. But sanctions on countries which run excessive current account surpluses would make a lot more sense than punishing countries for 'excessive' public borrowing.

[37] ETUC Resolution on: The Economic Crisis: New Sources of Finance, Adopted at the Executive Committee on 9-10 March 2010.

[38] This theme has been explored in detail in previous *EuroMemoranda* (www.euromemo.eu); see also box 6.

At an institutional level, coordination involves a strong mechanism for economic governance at EU level to replace the discredited *Stability Pact* and the ineffective *Macroeconomic Dialogue*. The substance of coordination in the near future must be joint responsibility for the adjustment of current account imbalances with the surplus countries, above all Germany, expanding domestic demand both to complement and even, in present circumstances, partly to replace corrections by the deficit countries which would necessarily be restrictive in character.

The theme of ***solidarity*** concerns both social justice within member states and relations between richer and poorer states. It is an essential feature of effective macroeconomic policy since, without solidaristic measures, expansionary policies may tend to boost corporate profits and high incomes with only very limited benefits for the population as a whole. This has been the situation in the US over recent decades. In the EU the strategies promoted by the Commission and adopted in most member states have in fact been restrictive and deliberately aimed at weakening the position of the most vulnerable employees through so-called labour market reforms. The meagre employment gains achieved by this strategy have been at the expense of productivity and are now shown to be ephemeral, while the continuous growth of the profit share in national income has only encouraged speculation and aggravated macroeconomic instability.

Box 6: International transfers: Rational, just and necessary

It is necessary to increase horizontal and vertical transfer payments in the EU and between the members of the eurozone. Since the introduction of the common currency the member states of the eurozone are – in economic and regional economic theory terms – regions of this economic zone, not fully independent national states, even though they have still strong economic instruments such as tax policies, social and income policies. Current account imbalances between the member states cannot be corrected by re- or devaluations, but in the long run only by wage- and productivity policies. In the transition-periods transfers from the high productivity regions (nations) to those with lower productivity have to be paid. The weaker regions have to be supported in increasing their productivity, while the stronger ones have to expand their transfers and their inward consumption. There seems to be an analogy to the adjustment of imbalances of the exchange rates in a fixed exchange rate system as Keynes intended it. This was a system of cooperation and solidarity between the rich and the poor. We need this approach also for the eurozone. Otherwise adjustments will take the form like of big financial and currency crises, just as is happening at present.

In Germany for example there existed and still exists a developed horizontal and vertical financial transfer system, and after the unification which created a currency union without any adequate productivity conditions in East Germany, multi-billion transfers had to be paid over the last two decades and will have to continue for at least ten more years.

In the EU exists the regional transfer funds (aim 1 and aim 2). These are not general purpose payments, but are used to support investments in economic development activities, infrastructure, innovation, research and development, education, qualification and regional consultancy, in short to raise productivity and promote product innovation. The problem is that only about 0.4% of the EU GDP is used for these purposes. Transfers also have to be used to adjust public budgets and to increase minimum living standards in the poorer member states. This should be a system organised within the EU budget and under the control of the EU Parliament – not between individual member states. This is very compatible with the need to expand the EU budget for anti-cyclical purposes. In a ten year perspective the EU budget should expand to 5% of the EU GDP.

A third form of transferring money is through direct investments. These are carried out for example by German industrial companies in Spain (SEAT), Czech Republic (SKODA) or by French companies in Romania (Dacia). The problem is that this type of transfers creates dependent regions and economies in the productive sphere. Thus forms of capital import must be found which do not make the regions completely dependent (for instance, through minority holdings).

Thus the expansion of demand needed in the EU must be led by the surplus countries and it must depend essentially on public spending. At the same time, it should work to reverse the growth of income inequality which has taken place in recent years. This refers again with particular force to Germany, which has seen a continuous widening of inequalities since 1990, greatly exacerbated by recent reductions in welfare provision and a deliberate attempt to reduce the lowest wages.

The effectiveness of macroeconomic policies would also be enhanced by more significant international transfers since these would direct increased expenditure towards the weakest economies where the impact on employment would be greatest. There is a deep suspicion of international transfers in Germany and other higher-income countries, but transfers are economically necessary for the monetary union to function correctly and politically necessary to maintain the cohesion of the EU as a whole. This is an important reason for complementing budgetary coordination with a limited centralisation through the EU-level budget, since this would permit transfers to relax the very tight constraints on the weakest member states.

The acute crisis of sovereign debt which has arisen in some member states also requires a solution based on solidarity. Pressures on Greece and some other member states may become so intense that their governments may choose to default on their public debt – a move which might in turn provoke a further financial crisis among Northern European banks and investment companies which are holding bonds issued by these governments. The extension of temporary credits to the Greek government puts off the time when such a decision might be taken but does nothing to restore the solvency of the governments concerned.

With a certain strengthening of EU institutions a lasting solution can be found: the EU should take over a percentage of the debt of each member state, transforming it into a debt of the EU as a whole and guaranteed collectively by all members. This would restore the solvency of the most seriously indebted member states, radically reduce the costs of servicing outstanding debt and permit gradual repayment based on the future revenues of the EU as a whole. The issue of these revenues is related to the theme of ***tax justice.***

In spite of the acute difficulties faced by such member states as Greece and Ireland, there is, as has been shown above, no general crisis of public finance in the EU. On the contrary, the ability of governments to borrow very large sums at historically low interest rates testifies to the abundance of investible resources for which there is a lack of profitable investment opportunities. The Commission's demands for a rapid fiscal consolidation are therefore illogical; they are also dangerous, threatening to delay or even block economic recovery.[39]

There is in addition the question of the huge recapitalization of banks carried out by many member state governments during the financial crisis. These capital injections often required governments to purchase assets for much more than their real value. It is completely unjust for ordinary citizens to pay for this socialisation of private losses when huge private fortunes were amassed during the years before the crisis broke – fortunes which are still held by the banking and corporate elites responsible for the crisis itself. Thus the public debt incurred in refloating banks and financial corporations must be cancelled against private assets and the best way to bring this about is by comprehensive wealth taxation across the EU as a whole.

[39] It will probably be necessary to increase tax revenues in the medium term in order to maintain public expenditures. Economic recovery will itself increase the tax take, but it may be necessary to raise tax rates or to introduce new taxes (see proposals in 3.4).

One aspect of wealth taxation is dealing with the use of tax havens. Although widening public sector deficits have led many governments to toughen their stance on tax evasion and avoidance, we are still far from the comprehensive and automatic exchange of banking information which is needed for a convincing approach to the problem. It must be remembered that the crisis was brought about by deregulated banks and financial corporations under the control of irresponsible elites and in this context two other forms of wealth tax should be considered: firstly a tax, at punitive rates, on the high incomes paid to themselves by bank executives and traders; secondly new taxes on the financial sector – in particular a tax on financial transactions which would work to contain the excessive growth of the sector.

Taxation issues also relate to the theme of ***sustainability***. Where additional revenues are required, green taxation should be a first recourse, for instance with an appropriate imposition on aviation fuel at EU level. Indeed, sustainability should inform both the revenue and expenditure dimensions of macroeconomic policy. Energy-saving and the development of renewable sources, control of pollution and the conversion of dirty industrial processes are going to be critical forms of investment in the future. It is becoming increasingly urgent to abandon the dogma that private sector investment can secure adequate employment for EU populations – even the profit flows swollen by decades of redistribution from poor to rich have not resulted in sufficient private expenditures to preserve the quality or the quantity of employment. As this reality is recognised, public investment programmes must be expanded as the only basis for a full employment policy.

Finally, EU macroeconomic policy must respond to global imbalances. This relates to the theme of ***international responsibility***. The actual Stability and Convergence Programmes are deeply irresponsible, envisaging a substantial increase in Germany's trade surplus and a move by the eurozone as a whole towards current account surplus. Such policies can only sharpen the tensions among leading economies and increase the danger of damaging unilateral actions by the US or China. The EU in fact is in an ideal position to reduce these tensions by running a limited payments deficit over the medium term (this is in any case a likely consequence of the macroeconomic expansion needed to respond to EU unemployment). In terms of institutions and procedures, the EU should end its abdication from global economic responsibilities and work to promote agreed and compatible approaches to exchange rates and trade flows among the major economies.

3.3 Full employment and good work in place of flexicurity and 'activation'

A sustainable European employment policy needs to focus on job creation as an economic and social objective instead of relying on the trickle down effects of growth to provide new jobs. What is needed in the face of ever increasing levels of unemployment is a strategy for full employment and good work. This will require:

- A macro-economic policy favourable to growth;
- A reduction of income inequalities to enhance aggregate demand;
- Public spending and job creation in the public sector;
- An active industrial policy; and
- A reduction in working time.

The strategy should support ecologically sustainable growth and full gender equality. Towards this end, public investment, employment and industrial policies should promote the transformation of the current patterns of production and consumption towards a 'green' econ-

omy and facilitate the aspirations of women for full and equal participation in economic life with an equitable provision of care needs for an ageing society.

Employment policies focussing on activation and relying on active labour market policies are simply unable to tackle the growing unemployment in Europe. Activation policies can even exacerbate unemployment by increasing the supply of labour in labour markets already providing insufficient job opportunities for those already unemployed. Active labour market policies (mainly job subsidies and training schemes) are able to keep the unemployed active for a time but cannot provide longer-term employment prospects if sufficient stable jobs are not created in the economy. The policies' success therefore depends on the general macroeconomic context. The large gap between job vacancies and the numbers of unemployed clearly demonstrates that employment policy should focus on job creation without undermining the quality of jobs, as is currently done by the *EES* under the mantle of flexicurity. In order to avoid the prospect of a prolonged period of low growth, there is a need to raise aggregate demand through an expansive macroeconomic policy and a redistribution of income to towards the lower paid. Job creation should be promoted through public investment, especially in social services and the improvement of the environment and in special jobs programmes for youth, the long-term unemployed and other vulnerable groups.

As stated in last year's *EuroMemorandum*,[40] there is a need for a new European working time standard aimed at shorter full-time employment for all. This requires a limitation of the maximum working week at EU level from the present norm of 48 hours per week to 40 hours as a first step and the abolishment of all derogations and loopholes in the existing EU *Working Time Directive*. There is also a need for EU legislation to limit the use of part-time and temporary employment and the conversion of full into part-time jobs at the firm level as well as in order to establish disincentives for the creation of short part-time jobs. Last but not least, the rise in the retirement age in many EU countries with the latest pension reforms must be reversed. It not only represents an attack on social rights but also has adverse employment effects, all the more so in a context of rising unemployment.

3.4 Social inclusion through effective taxation and anti-poverty strategies

A major precondition for strengthening the social dimension of the integration process in Europe is to ensure that the social sphere is no longer subordinated to the strategic goal of advancing economic competition. The reduction of income inequality and the fight against social exclusion should become a top priority of the European political agenda. In this respect, efficient and fair taxation does not only provide the financial basis for an appropriately solid state infrastructure, for decent public services and broad social security; it also serves as a specific instrument for diminishing the inequalities in income distribution.

In order to counter the widening disparities between EU member states and the inequalities within them, fiscal policy should acknowledge the need for tax harmonisation. In particular, minimum tax standards should be introduced for personal income tax and corporation tax in order to stop the ongoing downward spiral through tax competition. Furthermore, more fairness in taxation should be established by strengthening the progressivity of tax systems as

[40] EuroMemorandum 2009/10: *Europe in Crisis – A Critique of the EU's Failure to Respond*; available at http://www.euromemo.eu/euromemorandum/index.html.

well as by draining the 'tax avoidance industry' through a multilateral blockade of tax havens and concerted legislative action to outlaw tax evasion. Concrete measures in this direction are:

- The restoration of higher marginal rates and steeper curves of progression in personal income tax across the whole of the EU and the abolition of flat-rate systems of personal income tax;
- The convergence of top personal income tax rates and corporate tax rates to avoid income-shifting;
- An EU-wide harmonisation of wealth taxation;
- An EU-wide harmonisation of the tax base for corporations and non-incorporated enterprises combined with minimum tax rates;
- An EU-wide introduction of aircraft fuel tax and the extension of existing carbon taxes;
- A multi-lateral blockade of tax havens and the elimination of tax arbitrage by corporations.

In addition to these measures, which are geared towards ending harmful tax competition, there is an urgent need for decisive anti-poverty strategies at both European and national levels. The current strategy for dealing with the most urgent needs of the more than 80 million Europeans living in poverty is totally inadequate. European anti-poverty initiatives must go beyond stocktaking, declarations and appeals. As a first step to reducing the growing disparities in the EU, member states should prepare and implement effective national anti-poverty strategies. These strategies would include specific targets for the different groups of the population (children, women/men, the elderly, unemployed, working poor, homeless, and so on), and propose appropriate measures that address the key causes of poverty of the group concerned. For example, to overcome in-work-poverty in the EU, a macroeconomic strategy for full employment through public investment, working time reduction and an extension of public employment should counter the trend towards more precarious working conditions and low-paid jobs. The measures to fight poverty and social exclusion will have to be financed largely by the member states and the public budgets will, therefore, have to be set up accordingly. The fight against poverty can be won, but it requires political will and decisive action as well as financial resources. It is not a coincidence that the European countries with the lowest rates of poverty, in particular child poverty, are those where the share of taxation in GDP is the highest.

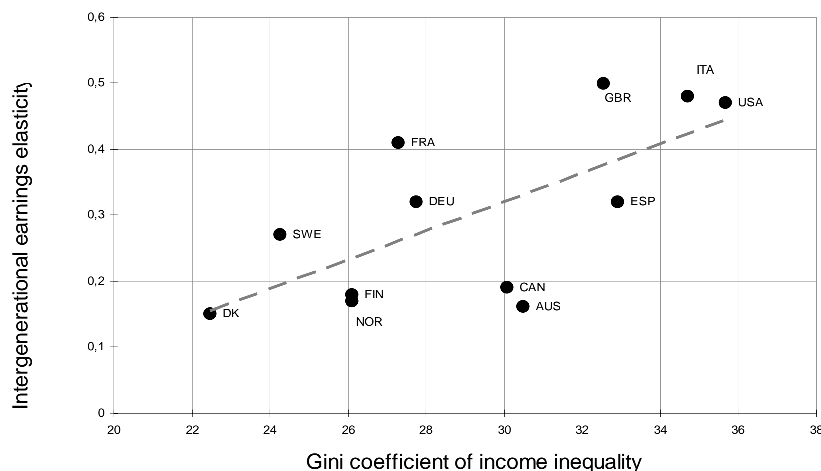
Box 6: How to break up inherited income inequalities?

The increasing income disparities in almost all EU27 countries over the last two decades draw attention to the extent of transmission of (dis-)advantages across generations. When children 'inherit' a substantial degree of their economic status or other important social characteristics from their parents, this not only implies an increase of disparities but also results in a waste of skills and talents and thereby hampers growth perspectives in general. Hence low social mobility causes not only a lack of opportunities at the individual level but on the societal level as well. The term 'intergenerational' or 'social mobility' refers to the relationship between the income of parents and their children; it can be measured as the elasticity between parents and children incomes and may have values between 0 (no persistence at all) and 1 (full persistence). The extent of intergenerational mobility reflects numerous factors such as resources of parents and public policies. Parents provide their children with different endowments, different forms of capital, finance their education and transmit also values and beliefs. Neighbourhood and social conditions, ethnic origin and race and family size are further important factors which also interact with each other.

The three main findings from the substantial body of literature comparing inheritance of inequalities across generations for different countries are (OECD, 2008: Growing unequal? Income distribution and poverty in OECD countries, Paris):

i) Intergenerational earnings mobility varies significantly across countries. It is higher in the Nordic countries, Canada and Australia and lower in Italy, the United States and the United Kingdom.

ii) Countries with the most equal distributions of income at a given point in time exhibit the highest income mobility across generations. The more unequal a society is, the more difficult it is to move up the social ladder, simply because children have a greater gap to make up.



iii) The extent of intergenerational earnings mobility varies over the income distribution (i.e. mobility is lower at the bottom and in particular at the top of the distribution in many countries). This is also the case for Sweden, Norway, Finland and Denmark.

Nearly all studies show that education and income are highly correlated. Hence the seemingly high correlation of parents' and children's incomes is mostly a strong correlation between parents' and children's educational attainment. However, it is not only parents' abilities and their socioeconomic and cultural background which shape children's development. Cross-country differences in intergenerational mobility can be strongly shaped by policies as well. For example, early streaming of pupils, based on their abilities, seems to considerably reduce mobility across generations. A key role is played by early childhood education, followed by public provision of education, care and health. In particular, in-kind services such as child caring, education and health care (of high-quality and free of charge!) are important determinants of social mobility. A strategy based on more investment in children may also reduce child poverty and contribute to child development and hence break up the cycle of intergenerational disadvantage (at least to some extent). As experiences during the early years crucially shape later opportunities in life such investment may have multiple repercussions (either positive or negative) at later stages of the life cycle. Whether human beings from their early years enter a *vicious* or *virtuous* cycle is not only determined only by parents' financial capabilities but also depends to a large extent on the provision, prices and qualities of public services.

To encourage the realization of the objectives of equality and social mobility it would be necessary to introduce an annual (or bi-annual) evaluation for all member countries with binding commitments. Even if such policies cannot compensate for the huge inequalities of market incomes they can help (at least in part) low-income families to achieve better intellectual development for their children. Additionally one should be aware that – as the Scandinavian countries impressively show – high participation rates of children in daytime childcare services (guaranteed for all children from the end of maternity leave or parental leave in Finland, and in Sweden from the child's first birthday) promote also high female participation rates. Finally, both high employment rates and sound access to (high-quality) child care facilities encourage high fertility rates.

3.5 Towards a *European Plan for Sustainable Development*

The alternative to the present situation of growing unsustainability and to the general failure of EU policies to reverse this trend is at once easy to make out and difficult to implement. The EU and its member states should make use of the opportunity offered by the need to respond to the financial crisis and subsequent economic slump to address the question of 'structural adjustments' in the North and to initiate the process of promoting sustainability. The aim of reducing Europe's 'ecological footprint' should be agreed in an explicit, binding and overriding way at all levels of policy formulation and policy implementation in Europe.

A political commitment to sustainability in the EU's economic, social and environmental policies could achieve two urgent objectives. Firstly, it would contribute immediately to bringing about a noticeable reduction in mankind's global ecological footprint, and help to make up for the lost decades of ineffective and disoriented sustainability politics, globally since the Earth Summit of Rio and, in Europe, since the Gothenburg summit. Secondly, it's formulation as a binding objective for all EU and member states' policies would make a decisive contribution to unblocking the present stalemate in global negotiations on how to achieve the more ambitious goals needed to avoid catastrophic levels of global warming.

This cannot be achieved by the European Council alone, or just by the Council of Ministers in its various policy configurations. However, a concerted approach by these bodies could decisively change the present trends of European and member states' policies and help to overcome the tendency of public debates to oscillate between cynicism and despair with regard to mankind's indubitable ecological crisis. What is required is a clear political stand on the need for a rapid and substantial reduction in Europe's overall impact on the global ecology: energy consumption must be reduced; material flows in European countries must be cut; transportation that is avoidable must be eliminated; the international impact of EU policies on promoting sustainable development strategies in developing countries must be fully accounted for.

In order to avoid the common blockades of technocratic policy-making, such a move on the part of the EU and its member states should be accompanied, from the very start, by a broad consultation process, bringing the active networks of European civil society into play. This should include both sides of industry, NGOs, and social movements and involve the capacities of the European Parliament and member states' parliaments for political deliberation, both among themselves as well as with the citizens of the Union. Opening the debate on sustainable economic policy and ecological sufficiency to wider democratic participation will be essential in order to ensure that the citizen of Europe participate in the shaping the changes in the pattern of consumption and life-styles required for developing sustainability in Europe.

The argument of financial affordability cannot be used convincingly against such an initiative for developing sustainability in Europe. A major change of course will require significant investment, but this will be repaid by savings in future costs and by generating income. The costs would be adequately handled by European public banks, like the European Investment Bank and the European Bank for Reconstruction and Development. Even if all the costs of developing sustainability in Europe are not covered by savings and new sources of income, it will also be justified by two further factors. First, by preventing all kinds of conflicts, including military confrontations between the Union and its global partners, it will generate a peace dividend. Secondly, it will help to reduce the increasing polarization that is developing in the Union, between social groups, between regions and between member states. Although it is not

possible to calculate the exact financial benefits of reducing such tensions, the costs of doing so will be well worth incurring.

Relying on market instruments to achieve environmental policy goals has proved unreliable and wasteful. European policy should therefore be reoriented to include a strong public component. Priority should be given to the development of public infrastructure, to the expansion and reform of public services, and to creating public employment that supports the development of local and regional sustainability.

The centrepiece of a new policy should be a *European Plan for Sustainable Development* which would build the instruments for implementing the economic, social and environmental dimensions of sustainable development effectively in all areas of policy of the EU and its member states. Such a plan should serve to mainstream sustainability in all programmes and policies from their inception. The existence of ill-defined relations between the competing strategies as defined in *Europe 2020* should be clearly re-oriented on the basis of the objective of a rapid and substantial reduction in Europe's ecological foot-print. The present *de facto* exemptions from sustainability requirements, as can be observed in the fields of external trade, agriculture, research and nuclear energy policies, should be eliminated. In order to finance the kind of investment needed for reducing the ecological foot-print of production and consumption in Europe, and also to prevent impoverished member states, regions and municipalities being rendered incapable of acting, such a Plan should be financed by the creation of a new European facility, which is subject to clear parliamentary control but not to the current limit on the European budget. In order to avoid waste and corruption, this should be accompanied by the creation of a competent public service with full powers of control and verification, combining European and member states' budget control and administrative transparency.

Annex: The EU's structural reform agenda

On 29 September 2010, more than 100,000 people mobilised by the European Trade Union Confederation (ETUC) and its affiliates marched in Brussels against the EU's austerity drive – the so called 'fiscal exit strategy' already agreed by the European Council in 2009. In Spain trade unions had organised a general strike against the austerity policy of the Spanish government, and there were protest actions in several other EU member states – and all this to bring these struggles together in a 'European Day of Action against Austerity'.

On the same date, the European Commission presented its *Economic Governance Package* to tighten the infamous Stability and Growth Pact and to address macro-economic imbalances and 'competiveness problems' within the euro-area by way of a new 'Excessive Imbalance Procedure'. This demonstrated that the Commission does not intend to make the least concession to the criticism and demands raised by trade unions and social movements for an alternative exit strategy from the crisis. The requirements of the Commission and the Council – supported by a large majority of the European Parliament – for austerity measures in the countries with the greatest difficulties have led to very substantial cuts in public budgets with very serious consequences on the capability of the public sector to maintain important public services. Most affected are the peripheral countries of the eurozone (Greece, Spain, Portugal), but also the eastern countries of the EU, the UK and Ireland. The EU's austerity policies have thus been used to justify the 'structural reforms' mentioned below.

Thus the EU elites are back on their traditional neoliberal track: fiscal austerity is to provide for a return towards 'sound public finance', structural reforms (social security and labour markets, liberalisation of markets for goods and services etc.) will reinvigorate economic growth in the European Union.

Further so called 'structural reforms' are already being implemented or launched in the framework of member states' austerity policies: cuts in pensions, increases in pensionable ages rewarding later and penalising earlier retirement, moves from benefits based on earnings in the best years towards entitlement based on working career average earnings, increasing contribution periods and closure or restriction of early exit pathways; cuts in healthcare and the introduction of more market mechanisms in health services delivery, cuts in public sector wages and further privatisation of public services; increasing social security contributions for employees; 'labour market reforms' favouring labour 'flexibility', reducing workers' protection against dismissals so that 'hiring and firing' is made easier, restricting trade union rights to collective bargaining (Greece) and so on. So far, such plans and measures have been met by remarkable resistance from trade unions and social movements in at least some EU member states, such as Greece, France, Italy, Spain, Portugal and Romania.

In the view of the European Commission, the current 'reforms' of member states' pension and long-term care systems are still insufficient to achieve 'financial sustainability'. In its *Green Paper towards adequate, sustainable and safe European pension systems*, the Commission claims:

> In many Member States additional reforms may be needed given the scale of demographic changes ahead and to ensure the lasting success of implemented reforms. For Member States where the reform process is not sufficiently advanced, there is an urgent need to review the pension promise in view of what the rest of the economy – and public budgets – can be expected to provide.

In an earlier draft of the *Green Paper*, the Commission had recommended that member states on average should raise the statutory retirement age to about 70 years to cope with 'demographic ageing'.

The Commission admits that the financial and economic crisis severely affected pension funds, which before the crisis were regarded as the best solution to provide for adequate overall pension payout delivered by a 'three pillar pension system' (basic social security pensions, funded occupational pensions and private pension funds):

> In the short term, the return rates and solvency of funded schemes have been affected through falls in interest rates and asset values: private pension funds lost over 20% of their value during 2008. Moreover several sponsors of occupational pension funds were hindered in their ability to honour their obligations.

But instead of strengthening and renewing the social security pension systems by a step by step re-integration of the assets of funded schemes into public ones, the Commission still insists on 'shifting choice and responsibility to the individual'.

In that respect, the Commission's message is clear: 'adequacy' of pensions from public schemes might need to be adapted downwards in the light of budget deficits, demographic trends and slower growth to be expected in the next years. Funded schemes are to be given a new boost by 'strengthening the internal market for pensions' – not only for occupational pension schemes, but for a wide variety of private pension funds, life insurance and the like. So the 'remedy' for the alleged 'demographic crisis' is just the same as before: financial markets to the rescue! 'Work longer, save more, have less' is the real message of the European Union to future pensioners.

With its proposals on the *Surveillance of Intra-Euro-Area Competitiveness and Imbalances*, the Commission at least acknowledges some real problems of the eurozone: tensions created by aggressive export policies of some member states – most notably Germany, Austria and the Netherlands – leading to excessive current account surpluses for them and increasing current account deficits of many other member states, most notably from southern and eastern Europe. However, the upshot of the Commission's proposals is that the problem does not lie with Germany's policy of curbing unit labour costs well below productivity growth and the ECB inflation target combined, but rather in the need for the deficit countries to engage in more radical 'structural reforms' (labour, product and services markets) to achieve a sufficient degree of 'cost-cutting' to make their economies more 'competitive' again.

The old neoliberal mantras are repeated time again (European Commission: *Surveillance of Intra-Euro-Area Competitiveness and Imbalances*, European Economy 1/2010):

> The economy of many euro-area Member States is characterised by a relatively high level of labour and product market rigidities which, in the absence of appropriate reforms, are likely to lengthen periods of adjustment and to make them more costly in terms of unemployment. (…) In the period of very low inflation brought by the crisis, nominal rigidities are more likely to hamper downward adjustments in relative labour costs and prices. Nominal rigidities are high in most of the Member States facing competitiveness problems. (…)
>
> In particular, large price and cost adjustments will be needed in Member States which have accumulated large losses in competitiveness and large current account deficits in pre-crisis years. This calls for policy action to foster gains in labour productivity and enhance wage flexibility. (…) Policy-makers can affect wage setting processes via a number of ways, including the provision of information or wage rules, changes to wage-indexation rules and the signalling role played by public sector wages. In addition, reforms of labour markets should also contribute to make wage setting processes more efficient. (…)

> In line with recent EDP (deficit procedure) decisions, there is some room for gradualism in surplus countries but swift and determined consolidation is imperative to restore market confidence in deficit countries. On the supply side, measures taken in the context of exit strategies should contribute to rebalancing competitiveness within the euro area and to facilitating necessary labour and capital reallocation.

The ‘solutions’ recommended for the surplus countries are equally interesting:

> In Member States which accumulated large current account surpluses in pre-crisis years, there is a need to identify and tackle the sources of persistent weakness in some parts of private sector demand, including the possible role of a lack of competition in the service sector, of the tax system and credit constraints.

So the problem is not with German ‘wage dumping’ (excessively pressure keeping the growth of unit labour costs near zero), rather should Germany's weak internal demand be tackled by more deregulation in the services sector, lower taxation and so on.

Germany’s chancellor Angela Merkel might be very pleased by the Commission’s proposals for tackling current account imbalances within the European Union. They are fully in line with her governments’ ‘asymmetrical approach’, which places the whole burden of ‘adjustment’ on the deficit countries – without demanding anything from the surplus countries, whose market shares should further expand at all costs. By following these recipes, the European Union will become even more dominated by the interests of German capital and its drive to further strengthen its export machine on the global scale, reorienting exports increasingly towards China, India, Russia and the more prosperous of the emerging economies of Latin America. The European Union will be set on a path towards deflation, as heavy fiscal retrenchment, cutting and curbing wages, will undermine internal demand and tax receipts in the EU. This in turn might aggravate the imbalances within the EU and the euro-area, which could result in a final implosion of the eurozone.

The *Europe 2020 Strategy* makes a further twist in speeding up ‘structural reforms’. On 17 June 2010 the European Council concluded: ‘Efforts should seek to address the main bottlenecks constraining growth at EU level, including those related to the working of the internal market and infrastructure (…) In particular, Europe's Single Market needs be taken to a new stage, through a comprehensive set of initiatives.’

The Employment Committee (EMCO) – an advisory body of the Commission and the Council – had already recommended to member states that they thoroughly address so called ‘labour market bottlenecks’, with a strong emphasis on wage setting and labour costs (EMCO/54/051010/EN-annex II). With regard to the implementation and monitoring of the ‘employment part’ of the *Europe 2020 Integrated Guidelines*, the EMCO amongst other things calls for action on ‘wage developments not in line with productivity, imbalance between wage coordination at national level and wage adjustment at decentralised level, rigid wage setting mechanisms’; on ‘insufficient incentives/disincentives to work increased hours, extend length of working careers or support participation of ‘second earners” on the labour market’; on ‘overly strict employment protection legislation’; on ‘rigid working (time) arrangements’; on ‘high non-wage labour costs’; on ‘lack of conditionality of unemployment benefits on uptake of activation measures’ and on ‘rigid unemployment insurance systems vis-a-vis the business cycle’.

With the Council’s and the Commission’s main advisory body on employment policy thus fixated on the idea of ‘working increased hours and extending the length of working careers’, it will be interesting to see the Commission’s new proposals on the revision of the *Working*

Time Directive already announced for 2011 and the European Parliaments' reaction to that. The revision of that *Directive* as promoted by the Commission and the Council failed in 2009, because the European Parliament did not dare to accept all of their proposals for weakening the level of protection enshrined in the existing *Working Time Directive* prior to the elections to the European Parliament in June 2009.

'Labour market bottlenecks' are also addressed by a legislative package of the Commission on immigration policy (Single Permit for Residence and Work for Third Country nationals). The *Blue Card Initiative* (highly qualified migrants) had already been adopted in 2009, the framework *Directive on the Single Permit* is still under negotiation, and the Commission recently proposed two new initiatives on seasonal workers and intra-company transfer of employees. All these initiatives are based on the concept of 'circular migration'.

This implies that migrants from non-EU countries are not provided with the same socio-economic rights as employees from EU countries. Their right to residence is linked to having a job with a certain employer for a fixed period, social security benefits accumulated during employment in the EU cannot, in practice, be claimed when returning to their country of origin, participation rights at the workplace and access to further training and qualification are not fully granted and so on. Thus migration is simply to serve the short-term interests of employers in tackling 'bottlenecks' and offers no stable perspectives for integration. It is only the migrant who is temporarily 'useful for the economy' whom the EU is interested in, and who is to be deprived of important social and workers' rights. The Commission proposal on intra-company transfer of employees is again based on the 'country-of-origin principle' as initially promoted with respect to the posting of workers in the draft *Services Directive*. The spirit of Bolkestein is thus being revived with the new Commission.

With regard to 'taking Europe's Single Market to a new stage', the Commission confirms its old convictions so that more flexible wage and price setting behaviour, more integrated and developed financial markets, a better functioning single market for services, as well as more flexible labour markets clearly emerge as having a very important influence in this respect. The Commission published its communication on the *Single Market Act* on 27 October 2010. The *Services Directive* is to be implemented to the letter and the *Health Services Directive* (misnamed 'Patient Rights in cross-border healthcare') – awaiting second reading by Parliament in January 2011 – finalised as quickly as possible. The Commission proposes 50 legislative and non-legislative initiatives on re-invigorating and completing the Single Market to be presented in 2011.

The *Single Market Act* package addresses issues such as EU support for venture capital funds, creating regional stock exchanges for SMEs, and simplifying EU rules on public procurement. It envisages action to reduce 'red tape' especially – but not only – for cross-border activities, including in the field of taxation and standardisation policy. The EU is to promote external and trade policies in order to ensure that European companies get 'fair access' to third country markets, especially public procurement procedures.

The Commission does not intend to propose a revision of the *Posting of Workers Directive*, as demanded by many trade unions in Europe. Instead, in its work programme for 2011 the Commission announced its plan to propose an 'implementing regulation' on the *Posting of Workers Directive* by autumn 2011, taking due account of the judgements of the European Court of Justice (ECJ) in the cases Viking Line, Laval, Rüffert and Luxemburg. It will be interesting to see what the Commission will propose to establish a 'balance' between funda-

mental social rights and the economic freedoms of the Single Market, as the ECJ openly restricted the right to strike and trade unions' right to take collective action in order to bring service providers to the negotiating table to conclude collective agreements.

Another area linked to the EU's Single Market consists of different initiatives on company law. In 2004, the EU regulation on the *Statute of the European Company* (Societas Europaea, SE) entered into force. Trade unions complain about loopholes in this regulation which allow bigger companies to circumvent stricter rules on employee participations and co-determination.

In 2008 the European Commission put forward a proposal in the framework of the *Small Business Act* (SBA) for Europe providing for a *Regulation for a Statute for a European Private Company* (Societas Privata Europaea or SPE). However, the compromise proposal of the Swedish Presidency on the *Council Regulation* in December 2009 did not achieve the unanimity required for it to be adopted. The European Parliament had only the right to deliver an opinion to the Council, which contained only a few amendments. There is no co-decision on this matter, Council can decide on the EPC Statute on its own.

The Commission claims that the objective of its original EPC proposal is to facilitate cross border business for small and medium enterprises (SME´s) by providing them with a European legal form, uniform in each member state. An EPC could be formed with a merely symbolic share capital of 1 Euro, no special registration procedure is stipulated. It can be set up in only one member state, so no real European dimension is required. It is to be allowed to have the company's registered office in a different member state than where its head office or principal place of business is established and it will have the right to transfer its registered seat. Also big companies could form an EPC, there is no maximum number of employees for an EPC. The Swedish Presidency proposed to raise the minimum capital requirement to 8000 Euro, to oblige the EPC to have its registered office and its head office in the same member state for at least two years and that it should prove to have a cross-border component. On employee participation, there should be standard rules and a 'special negotiating body' as set out similarly in the *SE Directive*.

However, even with those changes the *EPC Statute* would make it very easy for small and big companies alike to set up letter box companies and evade national legal forms, requirements, standards and especially national law on workers participation or co-decision. This would be a return of the infamous country-of-origin principle of the Bolkestein era. The Belgian Presidency is expected to 'resolve' the blockade in Council.

Closely linked to the *Single Market Act* are the Commissions' activities to deepen its 'better regulation' agenda, newly baptised 'smart regulation' in the framework of the *Europe 2020 Strategy*. For a decade 'Better Regulation' has been promoted as a component of the *Lisbon Strategy*, with a special emphasis since 2008 given to several 'strategic action plans to reduce administrative burdens in the EU'. According to critics (Eric Van den Abeele: *The European Union's Better Regulation Agenda*, European Trade Union Institute, Report 112, 2010),

> the results achieved are on the slim side: a lack of conclusive outcomes in practice, methodological difficulties, a proliferation of intermediate bodies to strengthen the impact assessment or reduce the administrative burden. As things stand, the Better Regulation agenda seems to have further complicated the preparatory work. Despite all the efforts, the proposals to simplify the Community acquis have rarely simplified matters in real life for business, public authorities or the public. It bears pointing out that the survey done in the Netherlands – the pio-

> neer in the field – showed that 70% of Dutch business leaders have felt no effects from Better Regulation. From this perspective, the Better Regulation agenda is something of a let-down.

But, more importantly, the agenda has been continually distorted to promote the objective of 'competitiveness':

> by favouring an approach based purely on minimising costs to business (the net targets based on the Standard Cost Model), the Union risks upsetting the traditional balance between efficiency, competitiveness and productivity on the one hand, and overall security, sustainable development and social cohesion in the broad sense, on the other. Improving the quality of regulation, access to law and legal security are no less important things, and must be assessed by reference to the purpose of each law without disregarding the social and environmental costs, indirect costs and the cost of non-regulation. Some administrative costs are useful – monitoring the climate and energy package, traceability that is essential to public health, and the liability of financial services providers are cases in point.

The Standard Cost Model (SCM) applied by the EU as tool to calculate 'administrative burdens for business' discounts benefits and measures only costs. It yields wholly unverifiable results. The SCM usually consists in sampling a small selection of employers and extrapolating a cost estimate with no real ex post control. Cranking the Dutch SCM up to a Community SCM has produced even less reliable data than before. The Commission does not even see a need to do the survey in all member states. A limited number of States appears to be 'enough' to arrive at results applicable to the EU as a whole. The documents written by the Commission or its consultants on alleged 'administrative burdens' and their costs to business reveal inexplicable variations in the cost measures between versions of the same document.

The Commission seems to be willing to accept, at least in part, some very worrying proposals from the High Level Group of Independent Stakeholders on Administrative Burdens chaired by former Bavarian State Premier Edmund Stoiber which has been active since 2008. This group proposes, inter alia, to exempt small and medium enterprises (SME's) from major stipulations (especially as regards documentation) of key EU Directives on health and safety at work. The Commission advocates partly exempting at least 'very small firms' from such obligations.

Occupational health and safety requirements represent a mere 3% of the 'administrative costs' of regulation to businesses. The implementation of this proposal would actually concern 80% of all European firms, as so-called micro enterprises are firms with fewer than 10 workers in Europe. As the overwhelming majority of workers in Europe are employees of SME´s, they would be discriminated against with this proposal and only a small minority of workers would continue to benefit from full coverage on the minimum standards established by EU health and safety at work directives.

The final upshot of the *EU's Structural Reform Agenda* is this: Workers, pensioners, youth, migrants and 'ordinary people' in general would not only have to shoulder the burden of the fiscal costs of the crisis. They also would lose many of the rights and much of the social protection which have been won through decades of struggle and which were enshrined in the class compromise on the welfare state after the Second World War (a compromise by no means as favourable to labour as it was to capital). If the current defensive battles against austerity policies and against these 'structural reforms' were to be lost, we would be living in a quite different and much worse society than 'post-war capitalism as we knew it'.

Declaration of support

I support the general direction, main arguments and proposals in the

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Confronting the Crisis: Austerity or Solidarity

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