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# **Economic Policy Obstacles to Full Employment and Social Cohesion in Europe**

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## **Abstract**

Trying to explain the weak growth and persistently high unemployment in the European Union during the last two decades the paper examines the contribution of economic policy to this poor performance. It is argued that, first, the very narrow macroeconomic policy framework has been an obstacle to growth and employment and has recently also enhanced the divergence in macroeconomic development amongst member states. Second, regional policies have not been able to increase social cohesion in the current EU and the minimalist approach to structural policies in the future will further deepen social disparities and make enlargement more painful than necessary. Third, the recent enhanced emphasis put on the liberalisation and deregulation of financial markets tends to increase social insecurity and the general vulnerability of the European economy. In conclusion it is argued that the current economic policy pattern in the EU is not sustainable. Necessary energetic corrections require strong political and social movements.

## 1. Introduction

In March 2000 the heads of state of the European Union declared at the famous summit in Lisbon that until the year 2010 the EU should become the “most competitive and dynamic economy in the world” (European Bulletin 3/2002: no 4) with an average growth rate of GDP of 3% for the decade. This growth, driven by a knowledge-based society and the dynamics of the New Economy, should create not only more and not only better jobs but by 2010 lead to full employment and a considerably higher level of social cohesion.(cf. *ibid*: no 6)

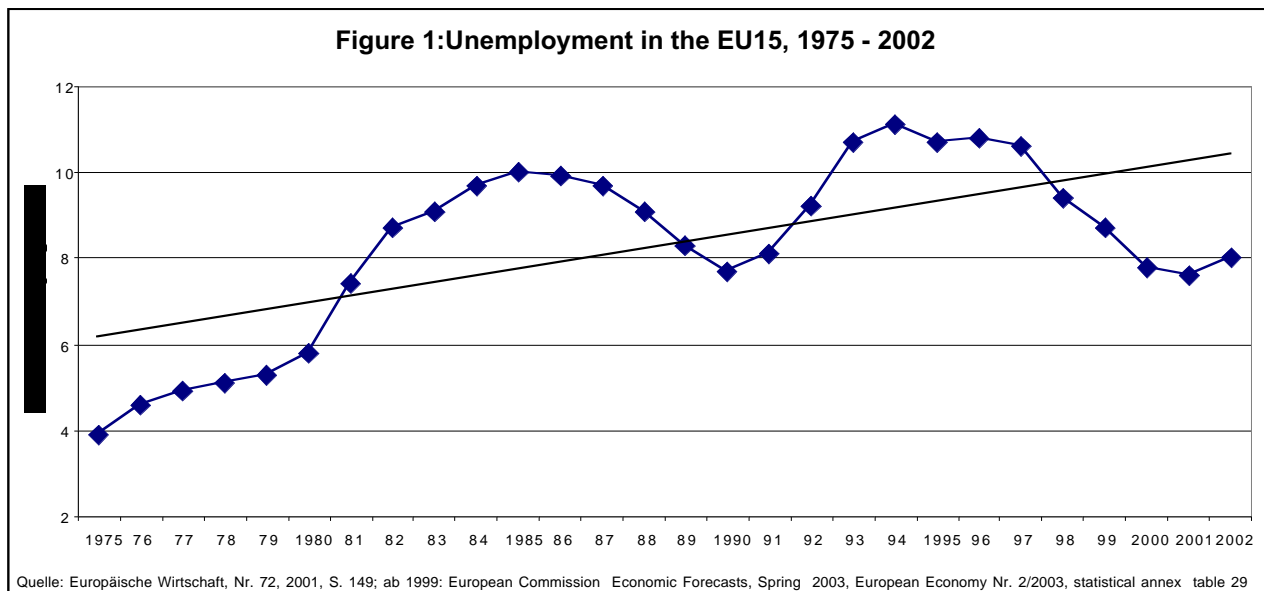
One month later the collapse of the financial boom started, which lasted more than three years. Instead of maintaining the growth rates of 2000 (3,5%) the European economy slid into a downturn from which it has not yet recovered. The forecast for growth in the Euro area was 1,8 % in November 2002. In April of 2003 it was revised to 1,0% (cf. European Commission 2003: Table 1) and last week the Commission published a further correction to 0,5%.(Handelsblatt 1.10.2003:8) In the second quarter of 2003 economic activity as a whole even declined (if only by 0,1%, *ibid*.). By now the situation has become dangerously close to recession and deflation. Unemployment has started to rise again in 2002, and hopes that the long-term trend of rising joblessness would be broken by the dynamics of the boom in the late 1990s were destroyed. The declaration of the Lisbon summit became trash within less than two years after it was formulated.

However, this deep contradiction between forecast and real development of the economy left European economic policy makers strangely unaffected. In spite of obvious failures – at least measured against official ambitions and objectives - the orientation of monetary, fiscal, structural and social policies have remained largely unchanged, sometimes they were even reinforced. The EU and most member states continue to apply economic policy prescriptions, which were developed in the 1980s, codified in the Maastricht Treaty of 1992 and reinforced in the Amsterdam and Nice Treaties of 1997 and 2001. The basic elements of this policy design have also been maintained in the draft Constitution for the EU, which the European Convention has recently submitted to the public and which is presently negotiated in an Intergovernmental Conference amongst the governments of member countries.

In this paper I will examine some of the basic economic policy orientations of the EU and argue that they have contributed to the weakness of growth and the almost steady rise of unemployment since the mid 1970s. This does of course not mean that there are no other factors at work which influence economic development, short-term factors like exchange rate fluctuations and long-term ones like technical progress or over-accumulation. However, the theoretical assumption underlying this paper holds that economic policy plays an important role and can influence the pace and structure of economic development and welfare of the people. In the following I deal with three areas of European economic development, point to the underlying problems and criticise a policy which does not resolve but exacerbate these problems: macroeconomic policy, where I see much of a European self-blockade (section 2), structural policies, where the minimalist approach of the EU is held to be counterproductive (section 3) and financial market regulation, where no lessons are drawn from the last decade of instability and turmoil (section 4). The last section summarises the analysis and raises the point of social and political resistance and alternatives to the current policy orientation. (section 5)

## 2. Lasting high unemployment and macroeconomic self-blockade

Unemployment in the EU rises as a trend since the mid-1970s. It has receded somewhat in the second half of the 1990s, but by now it is increasing again, and a reversal of the long-term trend is not in sight. (cf. figure 1). The basic reason for this is insufficient growth with regard to increasing productivity of labour plus the increase in the supply on the labour market. In the absence of reductions in individual working time the number of employed persons can only grow if the increase in economic growth is greater than the increase in productivity plus the increase in supply to the labour market. This has not been the case in the EU and therefore there is a long-term increase in unemployment.



Against this development there exist in principle two large bundles of measures: stimulation of economic growth and reduction of individual working time. In some countries arrangements for the reduction of working time have been undertaken: strong increase in part-time employment in the Netherlands, introduction of the 35 hour week in France and in the metal industry in Germany – and they have been temporarily and partly successful. An all European initiative or concept for working time reduction has not been developed so far, and it is not in sight. Instead policy signals are set in the opposite direction, towards an extension of individual working time. To stimulate employment the European Commission has opted for more growth. This was the message of the Lisbon summit. Amongst progressive economists there is sometimes strong criticism with regard to this option, which is seen to contribute to further pollution of the environment and exhaustion of natural resources. But this is not necessarily the consequence of higher growth. Ecologically harmful consequences will only follow from a growth pattern based on energy and waste intensive ways of production and consumption. A strategy which aims at the restructuring of production and consumption in favour of ecologically sustainable patterns is compatible with high rates of overall economic growth and employment.

But this is not the line of the EU. It expects to reach higher growth through as much liberalisation and deregulation of markets as possible and as little intervention from the policy side. That has been the rationale of the first comprehensive European economic policy project, the single market, the adoption of which in the mid 1980s was accompanied by numerous fore-

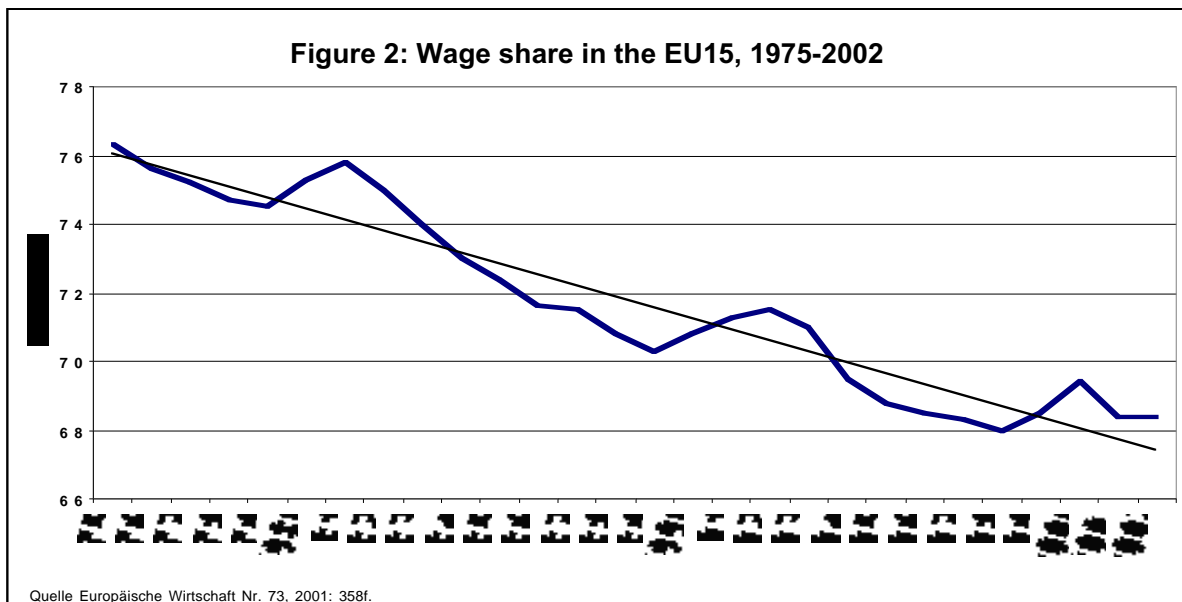
the multitude of economic policy objectives and tools under the strict and overarching rule of price stability and conferred the pursuit of this objective – the status of which was elevated from a goal amongst others to the rule of the game – to the European System of Central Banks (ESCB) with one independent European Central Bank (ECB) as its core. The narrow mission of the ECB as well as the narrow definition of price stability – increase of consumer prices below 2% - both lead to a very restrictive monetary policy. The general suspicion against political intervention for the maintenance of sufficient growth culminated in the strong rejection of “excessive public deficits”, setting the threshold for excessiveness at 3% of GDP. The “Stability and Growth Pact” (SGP) of Amsterdam (1997) confirms this limit and reinforces the general orientation by obliging the member states to pursue public budgets in balance or with a surplus, and to submit so called “stability programmes” every year to the Commission.

By adopting these constraints for monetary and fiscal policies the EU has narrowed her room of manoeuvre in such a way, that it becomes impossible for her to counter a – unexpected or even anticipated, external or internal – economic shock, to stabilise overall effective demand and thus to mitigate economic downturns and to prevent veritable recessions. The problem of unemployment which was – after a decade of silence in the 1980s – first officially acknowledged as a problem by the Commission in the 1990s, must in this view be solved by the workforce itself, without the help of monetary and fiscal policies. This should be done in two ways:

- The first way is the increase and improvement of the “employability”, “entrepreneurial spirit” and “flexibility” of the labour force. This is the core of the “European Employment Strategy”(EES) which was put in place at a special summit in Luxembourg in November 1997, following the summit of Amsterdam in June of that year, which inserted employment for the first time in the Treaty of the EU. The task of the Union in this strategy is to organise information and communication amongst the member countries about “best practices”, “benchmarking” etc, while competence – and money ! – for employment policies remained strictly with the member states. In following this course during the last five years the EU has published a great number of very informative, interesting, comprehensive and useful reports about the structure and development of employment and unemployment in the EU. But at the same time the expectations that unemployment would recede as a consequence of the EES, has not materialised. The reason for this is the absence of a macroeconomic basis for the EES.

- This macroeconomic basis was allegedly provided by the “macroeconomic dialogue” which the summit in Cologne in June 1999 added to the EES. This dialogue stipulated mutual consultation and co-ordination of macroeconomic policies amongst the main agents of such policies: ECB for monetary policy, governments for fiscal policies and social partners for development of wages. Unfortunately however, this institutionalised dialogue was a stillborn child: The ECB declared, that it did not intend to co-ordinate its policies because it had a clear mandate for price stability, which could not be subject to any coordination. Similarly governments discovered that the SGP left no room for flexibility: fiscal policy coordination proved to be a one-way policy which worked in a rather contractive direction. Therefore the institutional constraints of the macroeconomic dialogue leave only one road to more employment, and this is wage moderation. Wage increases in the Union should be “compatible with more employment”. The message behind this vague statement, reiterated every year in the “Broad Economic Policy Guidelines” (cf. European Commission 2001), is quite clear: wage increases should never be higher but as a rule should be inferior than the increase in productivity plus rate of inflation. Wage increases inferior to growth of nominal GDP imply a reduction in the wage share in GDP. This redistribution of income to the detriment of workers and employees

plicitly endorsed and reinforced by Maastricht and Amsterdam (cf. figure 2). The theoretical problem with wage moderation is that wages are the by far most important basis for private consumption, which is by far the most important element of effective demand. So contrary to what mainstream economics would expect the lower share of wages in GDP was accompanied not by a lower, but by a steadily higher rate of unemployment (figure 1) in the EU. These consequences of wage moderation can for some time be offset by a lower rate of household savings or higher external current accounts. But it should be difficult to argue that this compensation can be upheld for long time without negative consequences for growth and employment.



With regard to two out of the three most important instruments to fight unemployment the EU is stuck in a self-imposed blockade, and with regard to the third instrument she is recommending a policy with clearly harmful consequences.

The weakness of macroeconomic development in the EU has by now created also a situation of higher divergence between member countries than there had been at the time of the introduction of monetary union amongst 11 (now 12) members. If the criteria which in 1998 were applied in the decision about which countries should be admitted to monetary union were again applied with regard to the country figures for 2002, the results would be very different from those five years ago. (cf. table 1)

**Table 1: European Monetary Union and convergence criteria in 2002**

Country	Growth of GDP	Inflation	Rate of interest	deficit	Criteria fulfilled ?		
<i>Reference</i>		<b>3,0</b>	<b>2,6</b>	<b>-3,0</b>	Inflation	Interest	Deficit
Germany	0,2	1,3	2,9	-3,6	Yes	Yes	No
France	0,9	1,9	2,3	-3,2	Yes	Yes	No
Italy	0,4	2,6	1,6	-2,3	Yes	Yes	Yes
Spain	2,0	3,6	0,6	-0,1	No	Yes	Yes
Netherlands	0,1	4,0	0,2	-1,1	No	No	Yes
Belgium	0,8	1,6	2,6	0,1	Yes	Yes	Yes
Austria	1,0	1,7	2,5	-0,6	Yes	Yes	Yes
Finland	1,1	2,0	2,2	4,7	Yes	Yes	Yes
Greece	2,9	3,9	0,3	-1,2	No	No	Yes
Portugal	1,4	3,7	0,5	-2,7	No	No	Yes
Ireland	4,5	4,7	-0,5	-0,3	No	No	Yes
Luxemburg	0,5	2,0	2,2	2,6	Yes	Yes	Yes
Eurozone	0,8	2,2	2,0	-2,2			

Quelle: European Economy 6/2002, DIW Wochenbericht 1-2/ 2003:2, European Commission 2003:35

The results are interesting in three respects:

*First*, the application of the 1998 criteria<sup>1</sup> to the 2002 economies would mean that the majority of the current 12 members of the EU would not be eligible for monetary union. Of the five countries which have qualified in 2002, two – Italy and Austria - will in all probability join the club of the non-qualifiers in 2003.

*Second*, they show that the asserted link between low rates of inflation and low rates of growth has not existed in 2002: The country with the highest rate of inflation experienced the highest rate of growth (Ireland), while the country with the lowest inflation had the second lowest rate of growth (Germany).

*Third*, particularly delicate is the fact that the new entrants in the EU must meet requirements which the majority of the current members of EMU fails to fulfil.

### **3. In spite of growing disparities: Structural policy minimalism**

Capitalist development, driven by the pursuit of private profits and coordinated through markets generates regional and sector-specific imbalances, tendencies to undermine competition through cartels, abuse of economic power and increasing concentration and centralisation of capital. To avoid the paralysis and eventual blockade of development by these tendencies, political correction is needed. This is the line of argument in the Padoa-Schioppa Report, which was published 1987 and was clearly more sceptical about the automatically positive economic effects of market liberalisation and deregulation. (cf. Padoa-Schioppa 1987) Commission and Council took these warnings into account insofar as they on the one hand introduced merger control into the European competition policy and on the other hand considerably expanded the hitherto hardly developed structural policies, particularly regional policies.

To this was added (in the Single European Act, 1987) a certain competence for research and technology policy and with Maastricht a small competence for “Industry”. In the following I limit myself to structural policies, because in the other two areas progress is still much slower and sometimes hardly visible.

Structural policy has gained increased weight amongst the economic activities of the Union, consuming about one third of the European budget (which on the other hand is very small: the upper limit has been set 1999 at 1,27% of EU GDP and has remained there since). In 1988 and in 1993 there were thorough reforms of regional policies, and each of these reforms was accompanied by a doubling of resources. The Commission developed a conception which aimed essentially at the promotion of structurally weak regions (objective 1) and of regions with decreasing industrial production (objective 2). At the same time labour market policies and the part of common agricultural policy directed towards structural change were integrated into one comprehensive concept of structural policies. A special cohesion fund was established to help the four weakest countries of the EU to prepare for monetary union.

Measured against the overall objective of European structural policies, to strengthen social cohesion and coherence in the Community the results which have been reached so far are rather contradictory, as is reflected in the Second Report on Cohesion (cf. European Commission 2001 a)

- On the one hand the disparities in *national per-capita incomes* between members have clearly decreased (cf. European Economy 2003: stat. appendix Table 9). The per-capita income (measured in PPS) of Greece, which in 1990 amounted to 58,1% of the average EU15 income had risen to 69,1% by 2002. The corresponding figures for Spain are 76,3 and 83,4% and for Portugal 61,4% and 72,6%. It must be said, though, that the connection of this development to European regional policies is rather unclear: The relative level for Greece in 2002 was still lower than the level it had reached before accession (1978: 71,9 %). At the time of entry (1982) the figure was 67,1 and it fell until the end of the decade to 58,1% in 1990. One possible explanation for this could be that the opening up of markets had devastating effects on the Greek economy, which were only slowly corrected, possibly with the help of regional policy.

- On the other hand, the development of *regional – as opposed to national - disparities* shows a much less favourable picture: The gap between the weakest and the strongest regions within the EU (measured in per-capita incomes and rates of unemployment) has not decreased but increased during the 1990s. In 10 of the 12 members of the EU, for which regional data are available regional disparities (measured as standard deviation) have risen with respect to per-capita income, unemployment disparities have grown in 7 out of 12 members. (cf. table 2)

This contradictory development indicates a severe problem of regional policies in the EU. Insofar as such policies have an effect at all, they have it for the national level. European regional policy has brought the weaker countries in a position to reach higher overall growth and thus narrow the gap to the rest of the members. However, it has not been accompanied by a corresponding policy of national cohesion within the individual countries. It has not been able to prevent the considerable increase in imbalances within countries, which has turned the overall cohesion-balance into the negative. One reason for this is probably that national structural policies have focussed on the promotion of strong central regions with high technology potential instead of developing systematically the endogenous capabilities and strength of weaker regions.

**Table 2:**  
**Regional disparities in per-capita incomes and unemployment in member countries**

Country	Per-capita income				unemployment			
	PPS (EU15=100)		Regional disparity*		% of active population		Regional disparity*	
	1988	1998	1988	1998	1989	1999	1989	1999
Belgium	103,2	111,3	24,5	25,7	7,2	8,8	2,7	4,3
Denmark	105,3	118,9			7,6	5,6		
Germany		107,7		26,8		8,9		4,3
Germany without former GDR	114,8	116,3	21,0	22,3	5,7	6,9	2,0	1,8
Greece	58,1	66,0	6,1	10,2	6,7	11,7	1,7	2,0
Spain	74,0	81,1	13,9	19,1	17,4	16,1	5,4	5,7
France	108,4	98,6	28,6	26,5	9,3	11,4	1,8	2,5
Ireland	65,9	108,1		17,3	14,9	5,9		0,7
Italy	100,2	101,1	25,7	27,6	10,0	11,7	1,6	7,9
Luxembourg	139,1	175,8			1,7	2,4		
Netherlands	97,7	113,2	11,5	15,8	8,5	3,3	1,0	0,8
Austria	102,2	111,7	27,5	27,8	3,1	4,0	1,2	1,1
Portugal	58,9	75,3	17,2	14,2	4,8	4,7	2,5	1,4
Finland	101,6	101,6	18,1	24,6	3,8	11,5	2,0	3,2
Sweden	109,7	102,2	10,7	17,1	1,7	7,6	0,7	1,6
Great Britain	98,7	102,2	21,2	33,9	7,4	6,1	3,6	2,6
EU 15	100	100	26,7	28,3	8,4	9,4	5,2	5,5

Source: European Commission 2001a, Statistical Annex, Table A.3

The outlook for more social cohesion in the years to come is rather dark. There are two policy reasons for this.

*First*, since the latest reform of structural policies in 1999/2000 the EU has changed its practice in the sense that it transfers resources from the respective funds to the member countries, but afterwards leaves the use of those funds mostly to the member countries. The main reason for this is the containment of the “bureaucracy in Brussels“, and the assertion that the respective national governments are in a better position to assess and solve regional and structural problems. The latter is probably true. However, the danger cannot be dismissed, that national governments will use the money from Brussels not to overcome the most urgent structural and regional weaknesses but to either further support already strong regions – or to fill the holes in their budgets. Rules and controls which try to prevent this can easily be circumvented.

Second, at least as important are the self-imposed financial limits. 1999 an “Inter-institutional Agreement” between European Parliament and Council has fixed the upper limit for the EU budget at 1,27 % of EU GDP until 2006, and at the same time it was understood that the Commission should try to remain considerably below this ceiling. In the meantime a strong tendency has become visible to maintain this limit also for the six year period after 2006. The consequences of these restrictions will be rather dramatic. When in 2004 eight CEECs become members of the EU, the average per-capital income of the new EU will fall by about 12% below the present level. This means that a number of regions in the current EU, which

than the 75% eligibility threshold. Because many weaker regions have in spite of considerable support not been able to catch up to the average the withdrawal of European resources will make the situation still more precarious for them. In many cases the process of de-industrialisation will continue. For the newly acceding countries the resources which will be transferred from the EU for structural adjustments (about a quarter of which will be paid by the accession countries themselves), will not be sufficient to accompany the enormous change and mitigate its social consequences. Add to that the fact that the EU has decided that the new countries shall not receive the full amount of financial support which they would receive if they were old countries. Starting with 25%, it will take a decade before the transfers to new members reach the regular level of 100%. Therefore it is no surprise that many people and some governments of the CEECs have the impression of being treated as second class members and that the level of scepticism and hostility amongst the population is rising, although there is no realistic and desirable alternative to accession.

The structural policy minimalism of the EU is creating completely unnecessary problems for the current and the new member countries. It will stop and in some cases reverse the process of greater social cohesion in the EU15 and it will not sufficiently promote this process in the new countries. These problems are unnecessary, because the alternative to this policy of austerity is neither theoretically difficult to develop nor technically difficult to implement. It would consist in a considerable increase of structural funds to an amount three or four times higher than the current one. A more expansionary approach to structural policy would strengthen employment and social cohesion and thereby an essential factor of European identity. It would also ease the budgetary problems of most member states, because higher employment leads on the one hand to higher tax revenue and contributions to social security systems and on the other hand requires less resources for the support of unemployed and poor people.

#### **4. In spite of the crash – Priority on liberalisation and deregulation of financial markets**

The further opening up of national financial markets and the creation of a single European financial space ranges very high on the political agenda of the EU. Originally this was already envisaged in the Single Market Programme of 1986, and in the first phase of the “Europe 1992” euphoria the “European passport” and the principle of homeland control for financial institutions had been adopted in 1989. The implementation of this framework remained sluggish and attempts to install corresponding regulations for the securities sector got stuck in a very early stage. The reason for both is on the one hand that leading national champions opposed the opening up of their home markets. On the other hand the rules of national financial supervision which were very different in organisation and content from country to country made a single European financial market very difficult to establish. At the end of the 1990s the price differentials between member states for standardised financial services were roughly the same and the cost of money transfers between member countries as high - and the transfers as slow - as in the mid 1980s. The issue of and trade in securities, which because of the stock market boom had become particularly important in the second half of the last decade had mostly remained under national control. (cf. Lamfalussy Report 2001)

Against this background the Commission adopted in 1999 an “Action Plan for Financial Services” as basis for further (de-)regulatory steps. It contained 42 measures for the liberalisation and deregulation of national financial markets in favour of a single European financial market, which should be accomplished until the end of 2006. Essential parts of this action

the 42 measures had been adopted, but these exclude the most important reforms. (cf. European Commission 2002)

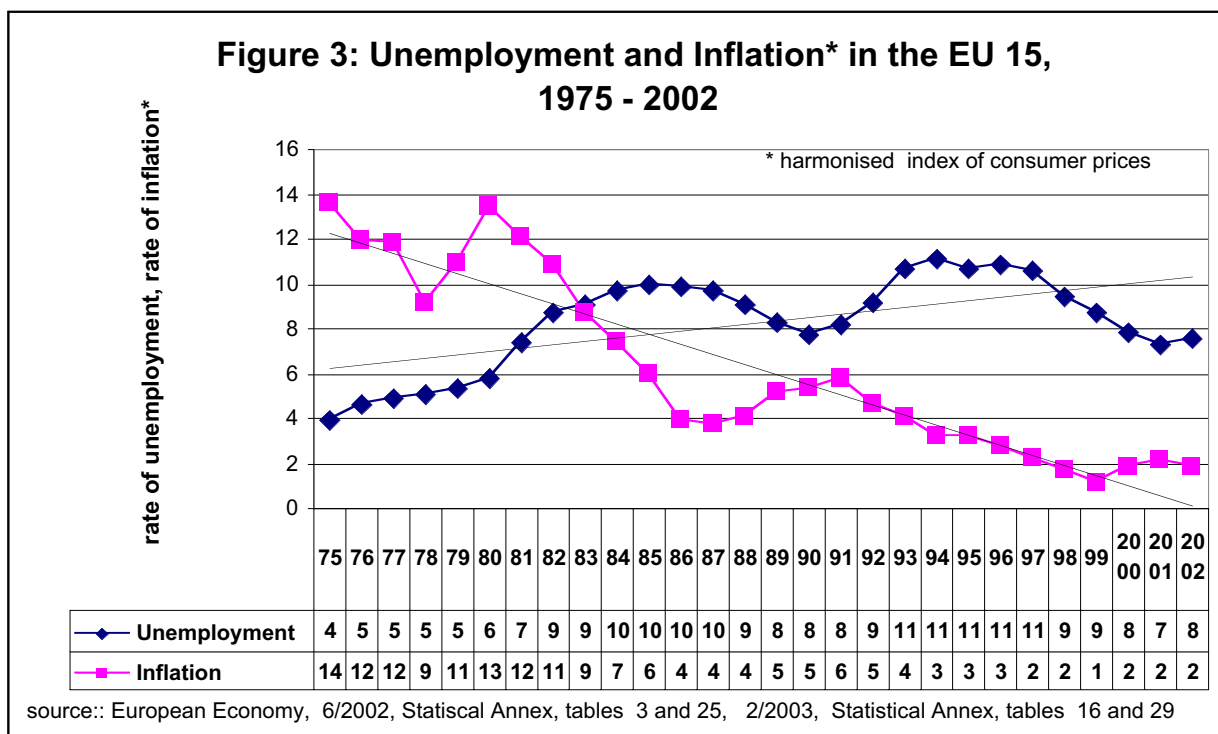
The orientation of the action plan for financial services aims basically at the imitation of the structure and way of operation of the US American financial markets – in spite of the fact that these had not been able to prevent neither the build up and the bursting of the speculative bubble nor the fantastic manipulations and frauds in the accounting practices of large corporations. The concept underlying this model is the theory of efficient markets, according to which financial markets are the more stable the larger they are: In very large markets single market participants do not have any relevant influence, their individual actions set each other off and thus stabilise the market as a whole. Such conceptions have not only come under strong pressure by the empirical evidence of very unstable financial markets throughout the world during the last 10 years, but there are also many doubts on their theoretical validity. (cf. Shiller 2000). In large and little regulated markets it is possible that decisions of market participants do not set each other off but – driven by irrational herd behaviour – reinforce each other and create high volatility and instability. This can lead to veritable financial crises, the effects and costs of which reach far beyond the financial sector and generate deep collapses in production and employment.

The financial market policy of the EU aims at removing the barriers between the markets of member states without at the same time introducing sufficiently safe regulations on the European level. (cf. Frangakis et al. 2002) This will on the one hand lead to greater instability and vulnerability of European markets. On the other hand it gives more room for manoeuvre and influence upon corporations and governments to the big actors, above all to the leading institutional investors. (cf. Huffschnid 2002)

On the corporate level the increasing influence of financial market actors can be seen in a slow but steady change of corporate “culture” towards a shareholder value orientation. The core of this orientation is the idea that large stock companies are entities set-up by shareholders for shareholders and that their exclusive purpose is to generate as much profit for shareholders as possible – and nothing else. This view contradicts the “stakeholder” orientation, which does acknowledge the specific role and weight of shareholders and profit objectives in corporate management, but takes also into account other “stakes”, like employees, regional or environmental interests. For institutional investors this is rather a reflection of mismanagement, which must be overcome. Instruments to achieve these goals range from the change of management to material incentives like stock options and the like. If this should not be sufficient institutional investors have the option of a quick exit.

Not less effective than on the corporate level is the influence of institutional investors upon governments. The main instrument for this is the threat of exit. This power is exerted to enforce an economic and social policy, which serves the interests of the one hand of private enterprises in general (low taxes on profits and capital gains, low social employers contributions to social security systems etc.) and on the other hand of large financial institutions in particular. The latter have a particular interest in price stability. This is one of the major factors which can explain the change of economic policy paradigm in the EU during the last two decades. The economic interests of financial institutions coincide with the ideological fundamentalism of European monetary policy, which is basically a heritage from the Deutsche Bundesbank. The enforcement of this orientation has resulted in a rate of inflation in the EU15, which has indeed reached a historically low level. But the price for this was very high. The restrictive monetary policy has weakened economic growth and increased unemployment

tion together create the danger of a downward spiral. The EU has by now entered this dangerous zone: economic activity has fallen in real terms in the second quarter of this year and private savings are rising: this could be the beginning of a deflationary trajectory.



The orientation towards a large European financial market with strong financial institutions which as global players are able to challenge the predominance of US financial corporations plays also a strong role in an area where one would at first not expect it: the “modernisation” of social security which is also one of the top items on the agenda of the EU. What is meant by this is essentially a shift of pension systems from public pay-as-you-go systems to private capital funded systems. (cf. Etxezarreta 2002) It has by now been amply shown that the reference to the “demographic time bomb” as justification of this shift is based essentially upon theoretical fallacies and such shift is not able to solve the problem of an ageing population but will in all probability exacerbate it. Promises of higher yields of capital funded systems have been somewhat discredited by the financial market crash of the last three years, but nevertheless privatisation remains the main thrust of pension reform in the EU. The hard core of such reforms is the perspective that they will carry three digit billion amounts of Euros to the disposition of the financial institutions which can invest them on the financial markets.

## 5. Summary and Outlook

It has been argued that there are basically three economic policy obstacles which keep the European economy in a state of low growth/near stagnation and high unemployment: the macroeconomic self-blockade, the equally self-imposed minimalism in structural policy and the rush to liberalise and deregulate financial markets in Europe. The purpose of the paper was to show that the current pattern of economic policy in Europe is locked –in into a counterproductive conceptual framework which prevents it to take efficient measures for more

when new macroeconomic and structural imbalances will make the whole situation more precarious. The EU is not well prepared to cope with these additional problems. Without an energetic correction of the policy framework the prospect for development in Europe will not only remain low but will in all probability deteriorate.

The counterproductive policy-mix of the EU has not been left without criticism and opposition. Theoretical critique, which had never completely disappeared, has seen a certain upswing during the last years, but it remains in a small minority position with regard to mainstream positions. On the political level, the critique reaches sometimes the level of the Commission, when its president publicly qualifies the Stability and Growth Pact as “stupid”. France violates the pact without much ado, and Germany, which imposed the straightjacket of the SGP upon its European neighbours, transgresses the limits for public deficits this year for the second time and will do so next year for the third time. A small initiative taken by France and Germany to launch a public investment programme for infrastructure is a step in the right direction, but it is still a rare exception to the rule of austerity in the face of contraction. One must clearly say that the spirit of the Pact is still predominant in most countries, including Germany. Deficit reduction and tax cuts are the top budgetary policy priorities. They must with necessity lead to cuts in public expenditure which usually occur in the area of social policy and thus hit the weakest parts of society where public support is most needed. However there is a slowly increasing wave of public protest and resistance against the endless wave of social cuts, privatisation and polarisation in Europe. In Greece, Austria and France large mass demonstrations have taken place against the planned privatisation or downsizing of pension systems. In Italy unions are mobilising for resistance against the undermining of work protection, and in Germany the administration of communities and cities are organising protest against a tax policy which forces them to deep cuts in the social tissue everyday life. Last year more than half a million people discussed at a European Social Forum in Florence alternatives to an increasingly neo-liberal world, and another European Social Forum will take place in Paris this year. Small as these movements may be, they indicate that European economic and social policy is currently on the wrong way and that correction and alternatives are needed.

Concepts for such alternatives have been developed in various environments. They entail on the one hand proposals for immediate emergency programmes for the improvement of the employment situation. On the other hand they aim at a thorough overhaul of the institutional basis for European policy: Broaden the mission of the ECB, abolish the SGP, give structural policies a wider scope and considerably more resources, install stricter regulation for financial markets and keep social welfare out of reach of financial markets. The basically hands-off concept of neo-liberalism must be replaced by a pro-active economic policy, the cornerstones of which are full employment, social welfare, equity and ecological sustainability. (cf. European Economists 2001, 2002). The enforcement of such an economic policy turnaround cannot be expected to come as a result of our knowledge about the working of modern capitalist economies (the enlargement and improvement of which is nonetheless absolutely necessary!) but is requires strong political and social movements to overcome the resistance of those who benefit from the present situation.

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