Corporate EUtopia

How new economic governance measures challenge democracy

A European version of ‘shock doctrine’ is about to be applied in the European Union. In the wake of the euro-crisis, new EU powers to intervene in labour markets and in member states’ budgets, including social spending, will effectively impose a neoliberal straitjacket on national economies. Therefore, it is a crucial moment for proponents of a social and democratic Europe to prevent the Union from further degrading into an unaccountable corporate EUtopia.

Corporate Europe Observatory
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Summary

2011 may mark a watershed in the history of the European Union. Using the pretext of the “euro crisis”, the European Commission and the Council have put forward proposals to give the EU new powers to deal with core welfare issues, including social benefits and wages, under a new technocratic procedure – hard (if not impossible) to track, let alone influence by those who stand to lose out. The proposals embody a corporate social and economic agenda which, if enacted, will constitute a “silent revolution” imposed from above, with no real democratic debate or popular participation.

The proposed changes – which involve a series of proposed rules on ‘economic governance’ – have been welcomed by the EU’s key big business lobby groups, which see some of their traditional key lobby demands reflected in the changes. In particular, a new procedure to “correct macroeconomic imbalances” will break new ground, allowing decisions to be made at the EU-level on wage levels and social-service budgets for individual member states. The business lobby hopes that the new rules will complement the business friendly EU 2020 Strategy with strong enforcement measures.

Despite the issues at stake, this “silent revolution” has so far received too little attention from a wider audience. There is an urgent need for a democratic debate throughout the EU, in particular on alternatives to the austere neoliberal model of ‘economic governance’ that is now being pushed by the Commission and the Council. And it will require a broad-based social struggle to make the alternatives a reality.

Introduction

Greece and Ireland, the two EU countries in the deepest economic trouble, have already found that a large part of their economic policies are being administered by the EU. The conditionalities that came with the big EU and IMF loans will pretty much determine the whole economic agenda for both countries in the years to come. But few outside Greece and Ireland seem to have noticed that major intrusions on national budget priorities could become a reality for all Member States, particularly those in the eurozone, whether their debt and deficits are serious or not. New rules are in the pipeline to promote deregulation and privatisation, to the detriment of labour rights, public health spending and public education.

Scheduled to be adopted in mid-2011, the proposals threaten to turn big business's dreams into a reality. What is emerging appears to be a new form of 'economic governance' which will impose a neoliberal straitjacket: a corporate EUtopia of big-business-friendly rules, upheld with new enforcement measures, prioritising business interests at a national budget level, with potentially devastating consequences.

"Silent revolution"

The proposals are linked to the trouble faced by the euro and by many EU Member States. The current 'euro-crisis' is being used as a pretext to set the main agenda for EU development in the next couple of years. Some of the remedies being considered move into areas that have previously been the domain of national politics. All of a sudden traditional political sensitivities are swept aside, and a number of far-reaching proposals on Member States' fiscal policies are being considered. Who, for instance, would have thought a few years back that the Council and the Commission would have the privilege of analysing and commenting on the coming year's budget for individual Member States - before national parliaments adopt or even discuss them? And who would have thought that Member States could risk being put under administration to the extent that they would face specific demands for reallocation of funds on the national budget?

"What is going on is a silent revolution - a silent revolution in terms of stronger economic governance by small steps. The Member States have accepted - and I hope they understood it exactly – but they have accepted very important powers of the European institutions regarding surveillance, and a much stricter control of the public finances."

Commission President Barroso at the European University Institute, June 2010

Although little debate has taken place up till now, what is envisaged is groundbreaking. One expert has noted that the combined effect of the proposals – if adopted – "will have a regulatory effect on fiscal policy comparable to the effect on security policy of the nuclear bomb"[1]. When the June 2010 European Council (ie. the heads of state or government of the EU Member States) considered the full ambitions and gave their support to the Commission's ideas, Commission President José

Manuel Barroso was equally bombastic: “Please, read attentively the conclusions of yesterday’s European Council. What is going on is a silent revolution - a silent revolution in terms of stronger economic governance by small steps. The Member States have accepted - and I hope they understood it exactly – but they have accepted very important powers of the European institutions regarding surveillance, and a much stricter control of the public finances”[2]. Since then it has become clear that not only has the Council understood. It backs the Commission, and is well aware of the stakes. As shown by the Italian Minister of Finance who said: “To me, this exercise will lead to a colossal transfer of responsibilities”[3]. In his view budget policies, for instance, cannot be national policies anymore[4].

This development has been welcomed unequivocally by representatives of the business community. The European employers’ association, BusinessEurope, sees it as an opportunity to make an old dream come true, coupling the business-friendly agenda in the EU’s strategy for growth with previously unseen tough enforcement measures. In a letter to Commission President Barroso and the President of the European Council Herman Van Rompuy, BusinessEurope’s leader Jürgen Thumann wrote: “Europe must speed up its reform agenda and start delivering tangible results in the coming months. The EU 2020 Strategy and the new economic governance rules provide the right framework to fast-track implementation of reforms at both national and EU level”[5].

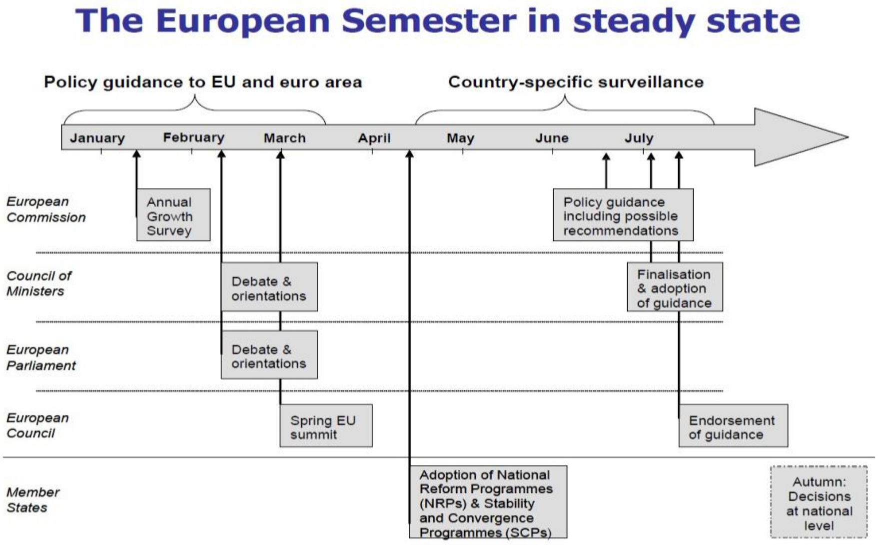
1. New economic governance

The debate on a new form of ‘economic governance’ was first announced in March 2010 when the Commission launched its proposal on a new overarching EU strategy, the Europe 2020 Strategy[6]. Later, the Commission specified its ideas in a number of papers[7]. A parallel debate took place in the European Council, mainly through a taskforce bringing together Ministers of Finance and chaired by President Van Rompuy. This taskforce, which delivered its report in October, broadly supported the Commission’s proposals[8].

The package

There are three main components of the package:

1) Surveillance of national budgets (the ‘European Semester’)
This is a procedure through which proposals for Member States’ budgets will be presented in April each year for discussion in the Commission and in the Council – ahead of discussions in national parliaments[9]. Comments and proposals from the Council will be presented before the end of July and presented at the national debates. This element has already been adopted and will take effect from this year (2011). All the other proposals are linked to this procedure.



Graph of the timeline under the European semester. Source: Presentation of Commissioner Olli Rehn, 12 January 2011.

2) Enforcing the Growth and Stability Pact

A second proposal - to be adopted in mid 2011 - is to introduce new rules to enforce the Growth and Stability Pact (referred to from here as the Stability Pact). This sets the limit of public debt at 60 per cent of GDP and the deficit at 3 per cent, and has been criticised by many economists who have warned that these percentages reflect orthodox neoliberal ideology, and deprive Member States from applying an expansionary economic policy when it's needed, particularly in times of crisis[10]. Now a crisis is here, and the Pact is far from being relaxed. Among other things, the new proposals set the required pace for reducing Member States' debt. In the past, the focus was mainly on deficits. Setting a required pace for reducing debts will limit governments ability to make big investments to promote growth.

The European Trade Union Confederation has denounced the plan for repeating the mistakes of the past. Calling the financial crisis a "result of years of unbalanced economic policies", ETUC has said that the replacement of "fair wages and good jobs by debt and asset price bubbles as driver for demand and growth" will lead our economies straight into financial recession.

> "Economic governance, as currently proposed by the Commission, is about nothing else than cuts, cuts, cuts: cutting wages, cutting jobs, cutting protection against easy firing, cutting social benefits, cutting public services. Workers are being presented with all of the huge costs of the crisis." ETUC

Indeed ETUC is stressing that the proposals on economic governance show that: "Europe is not learning these lessons. Instead of rebalancing pro short-term business policies with more long-term competitive and indeed worker friendly policies, the Commission is now pushing for a policy of massive deflation. Economic governance, as currently proposed by the Commission, is about nothing else than cuts, cuts, cuts: cutting wages, cutting jobs, cutting protection against easy firing, cutting social benefits, cutting public services. Workers are being presented with all of the huge costs of the crisis"[11].

Much is at stake here. The thousands who have taken to the streets of Brussels, Paris, Madrid, Athens and elsewhere all bear witness to that.

3) Preventing "macroeconomic imbalances"

Although significant new steps are being taken to set standards for Member States' economic policies under the Stability Pact reforms, it's the third part of the package that really breaks new ground. This proposal, which concerns the prevention of "macroeconomic imbalances", so far seems to have been grossly underestimated and little understood in the debate.

The Commission justifies this new line of EU action by the observation that even before the financial crisis started in 2008, it was clear to the Commission and the European Central Bank that a number of member states showed worrying signs of "macroeconomic imbalances", the very imbalances that later on tipped the scale and sent countries like Greece, Ireland, Spain, and Portugal into deep economic trouble.

It's important to note that the imbalances in question do not necessarily imply a high debt or deficit, and as such this proposal is not directly linked to the criteria on debt and deficit of the Stability Pact. It's a qualitatively new line of action based on the perception that the problems now facing the euro and the European economy could have been avoided if proper action had been taken years ago in countries with imbalances, like Spain, Ireland and Greece. Consequently, the proposals deal with macroeconomic problems such as downturns in an economy's competitiveness or what is considered high public expenditure that could – in the minds of the proponents – lead to economic trouble sometime in the future. To prevent that from becoming a reality, the vision is to have an early warning system, and ample powers to intervene into the economic policy of the member states, including via demands that the state budget is rearranged to fit the adopted EU strategy for sound economic policies conducive to growth. This comes about by introducing a new standard procedure for dealing with Member States' economic policies.

The 'excessive imbalance procedure'

It's worth going through the stages of this new procedure to make clear what it implies.

- Step 1: Defining the parameters

First, it's necessary to clarify what the subject matter is. What are the macroeconomic imbalances, the proposal is supposed to address?

It is not abundantly clear from the proposals, and it's not supposed to be. In the Commission's view, the importance of different imbalances can change over time, so in the end the proposal does not specify what issues might be addressed. In the preamble, the Commission suggests that they could include both external and internal indicators: "Measures of the external position (e.g. current accounts and external debt) and price or cost competitiveness (e.g. real effective exchange rates) would facilitate the detection of external imbalances. The use of internal indicators (e.g. private and public sector debt) is justified on the ground that external imbalances necessarily have internal counterparts".

According to earlier documents from the Commission, macroeconomic imbalances could include "divergences in competitiveness trends", housing bubbles, misallocation of resources, accumulation of internal and external debt, and "unsustainable levels of consumption"[12].

In other words, the parameters by which a Member State's economy can be judged, cover a wide range of issues, and touch upon both fiscal policy, including taxation and spending, labour policy, and the composition of debt.

As the proposals have not yet been adopted, we cannot know which indicators will be used once the system is up and running. According to the Commission, the indicators will be picked by the Commission, "after consultation with Member States"[13]. The Council, in its report from the taskforce, has proposed that the indicators are to be adopted by qualified majority voting in the Council, following a Commission proposal. But both seem to agree that they are not to be decided on before this particular proposal is adopted, but only when the procedure is to be introduced.

For the sake of clarity, let's take an example to illustrate the potential of the "excessive imbalance procedure”. Let’s say that “price competitiveness” and “misallocation of resources” are picked as indicators[14]. As we go along in the description of the procedure, these two indicators illustrate some of the dangers involved in the rules proposed by the Commission.

- Step 2: The scoreboard

In order to monitor the development of Member States’ economies and to identify imbalances, a monitoring system will be set up. Once the parameters have been decided, the Commission will define “alert levels” or “thresholds” to determine when steps should be taken. The set of parameters and the alert levels constitute the “scoreboard”. Once the scoreboard is up, the system is ready.

Thanks to the European semester - the timetable or procedure under which Member States are to deliver their proposal for the coming year’s budget for scrutiny in the EU each April - and thanks to fresh proposals on financial and fiscal reporting, it should be relatively easy to ascertain whether a given Member State (or a group of states, such as the eurozone), is crossing one or more threshold levels. Should this happen, a procedure to bring it into line can be commenced.

If, for instance, the Commission deems that a country is guilty of crossing the thresholds on “price competitiveness” or “misallocation of resources”, it could decide to start “the excessive imbalance procedure”.

- Step 3: Warnings and “recommendations” for Member States

It will be up to the Commission to decide if a Member State is considered to be out of step, and to propose the Council to take action. Following this, the Council can demand that the Member State draws up an action plan with concrete policy actions and time lines. If the plan is deemed insufficient, the Council, acting through a procedure based on qualified majority voting, can demand changes in such an action plan.

What kind of demands can be made to Member States?
The proposal itself is not very informative, but the Commission was clearer in earlier versions, with the most illustrative wording found in two earlier communications on the whole reform package on economic governance.

According to a communication from May 2010, depending on the specific challenges of the economy concerned: “policy recommendations could address *both the revenue and expenditure side of fiscal policy* (in the context of the Stability and Growth Pact) as the crisis has shown that the evolution of *the composition of government revenues* is also an important lead-indicator of potential imbalances. In this context, recommendations could address the functioning of labour, product and services markets in line with the broad economic policy and employment guidelines”[15].

In the second Communication from June, the Commission specified that: “depending on the nature of the imbalances identified in the Member State(s) the recommendations could address a broad range of policy issues covering macroeconomic policies, *wages and labour markets* as well as the functioning of goods and services markets and macro-prudential policies”[16].

From this it’s clear that Member States can be asked to implement reforms that could include both labour market policies and reallocation of funds on the state budget. In fact, it provides leeway for demands for lower wages and for cuts in welfare. So if we take Portugal or Spain as examples, they could be asked to change priorities for the following year’s budget, such as slashing social spending and giving higher priority to more business-friendly areas with a supposedly direct impact on competitiveness. Or they could simply be asked to lower wages.

- Step 4: Imposing sanctions on the culprits

What if Member States don’t do as the Council asks? And what if the imbalances persist?
What happens if a Member State won’t or can’t deliver depends on whether it’s a member of the

eurozone or not.

If the Member State is a eurozone country, economic sanctions can be imposed. According to a separate proposal, a eurozone member that does not follow the “recommendations” will ultimately be fined to the tune of 0.1 per cent of GDP annually. In the case of Spain that would amount to approximately 1 billion euro annually, for Portugal it would be 170 million euro.

Should it seem wildly unrealistic for such a demand on wages to be put to a Member State, consider this statement from the top civil servant of the Commission, involved in the drafting:

> “When wages in the public sector damage competitiveness and price stability then the country will be requested to change this policy. And the wage development in the public sector does of course have a great influence on the private economy”. Marco Buti, Die Welt Online, 27 September 2010

If the Member State is not in the eurozone, it will at this point “only” be named and shamed in public on a regular basis, and the procedure under the “European semester” (see page 4) can be used to enact pressure. Whether this will change, and non-euro Member States will be subject to the same rules, remains to be seen. For now, the Treaty prevents the EU from imposing direct fines for being in breach of the Stability Pact, so the non-eurozone Member States cannot be included. However they could be in future. But considering what is being prepared to enforce the Stability Pact, there’s a real risk that this could indeed be the case. As an alternative to fines, EU funds could be withheld from non-eurozone countries. In other words, errant states will not have to pay up, but funds they expect to receive will not arrive[17]. This approach is spelt out in the Council taskforce report[18].

But even in the short term, “naming and shaming” in the present context would have serious consequences. Note that Ireland resisted the EU/IMF loan for months before finally accepting it in November 2010. Serious peer pressure was put on the Irish Government by big eurozone countries to make it accept the loan. The main purpose was not so much saving Ireland but saving the eurozone (and banks in the big eurozone countries) from contagion. But the decision will frame economic policy in Ireland for years to come.

Putting competitiveness at the centre

The new excessive imbalance procedure and the other proposals are based on a particular set of ideas on the best way to exit from the current financial and economic crisis and to avoid a new crisis. In the proposal and in the related documents, the Commission emphasises the need to improve “competitiveness”. Over the past decade, competitiveness has become the key objective of the European Union, and it has come to have very particular meanings.

In parallel to the discussion of economic governance, the EU institutions have discussed and adopted a new strategy towards international competitiveness called Europe 2020, basically a slightly revised version of the Lisbon Strategy (2000). In this strategy, “competitiveness” is synonymous with more flexible labour markets, slashing public pensions, commercialising public services, and reforming education and research policies to serve big business more directly[19]. Where the Council identifies an imbalance, such as a “divergence in competitiveness” in a Member State’s economy, then, in order to improve competitiveness, the door is open under the proposals on economic governance to demands concerning reallocation of resources in the state budget, tax measures, interventions in the labour market and more.

A major step like this merits a thorough political debate. Among the questions to be answered are whether this is the right approach, and why it was picked in the first place.

When the Greek crisis broke and the trouble with the euro became apparent, many in Europe called for stronger EU economic governance. In the European Parliament the leaders of the group of Social-Democrats, Liberals and Conservatives, demanded an end to the flexibility in the enforcement of the Stability Pact, calling in unity for abandoning peer pressure “in favour of stronger instruments” to make governments stick to a policy within the confines of the Stability Pact and the overall strategy for competitiveness, the Europe 2020 Strategy[20].

When the Commission launched proposals following these very same lines on the 29th of September 2010, they were well received by both business organisations and a broad political spectrum of parliamentarians, from the rightwing to Green MEPs from both Germany and France[21]. Though a hesitance could be traced among Greens and although the Social-Democratic group seemed to have had second thoughts on the implications of a stronger enforcement of the Stability Pact[22], consensus seemed to build on the general thrust of the proposals[23].

Indeed, principled resistance or critique is unlikely from the European Parliament where the majority sees such a strengthened common economic policy based on a corporate agenda as by and large a logical response to the euro-crisis. This kind of backing from the big business community and from parliamentarians has provided the space for the quick adoption of the European Semester in September 2010.

2. A breakthrough for big business

Big business has certainly played its part in promoting the particular response to the crisis embodied in the proposals for new economic governance of the EU. And they more than anyone else can envisage their dream model of a European Union in the proposals on “economic governance”. As for the “macroeconomic imbalances”, big business has long fought and lobbied to make competitiveness the overarching goal of the European Union, and lobby campaigns by powerful groups like the European Roundtable of Industrialists (ERT), an exclusive club of chief executives from the major transnational corporations, have been effective on more than one occasion.

The ERT was never one to get involved in the dull daily tugs of war on minor regulation issues. It was always a vehicle for the biggest corporations to influence major strategic decisions at EU level. And they were always fully conscious of the advantages of a stronger EU. As (the then) ERT chairman Daniel Janssen proclaimed in 2000: “a rigid, protectionist” nation state, inherited from the past and prone to “excessive regulation” and taxation, was being broken down. A “double revolution” was underway, he said. “On the one hand we are reducing the power of the state and of the public sector in general through privatization and deregulation...On the other we are transferring many of the nation states powers to a more modern and internationally-minded structure at European level. European unification is progressing and it helps international businesses like ours”[24].

It’s not hard to see the working of Janssen’s double revolution in today’s events. Here too, the corporate lobby has both managed to set the political agenda at the EU level, and pushed to remove the power and the political debate from the national level to the European level. And the current proposals for ‘economic governance’ are little less than the holy grail of the European Roundtable of Industrialists.

For the ERT, the adoption of the Lisbon Strategy in March 2000 was a major breakthrough. Finally ‘competitiveness’ was what the EU was about. Becoming the “most competitive and knowledge based economy” before 2010 was the EU’s goal for the decade.

The competitiveness strategy has had an immense effect on EU policies. Liberalisation of services has been undertaken in a way that threatens labour law in several member states[25], public services have been liberalised, ‘red tape’ that has bothered big business has been cut in the framework of liberalisation of services[26], the development of a social agenda has been halted, and decision processes have been speeded up and partly removed from open political debate in a way that serves the business community well, but sidelines other voices[27].

And “international competitiveness” has been like a slogan in the last 10 years, used extensively by big business to almost immediate effect. Like a magic wand, it was waved when new legislation on chemicals or climate change was to be adopted, to help water down regulation. Now the big business community will see much stronger measures employed to forward this agenda.

The Roundtable’s holy grail

The only thing missing was the competence and power to enforce it - the EU institutions being barred from many kinds of direct interventions into eg. the labour market and fiscal policy. Consequently, in 2002 the ERT started complaining that the full implementation of the strategy was hindered by cumbersome decision procedures and that major reforms in economic governance would have to be undertaken, much along the lines now being discussed[28]. In fact, the rhetoric and proposals of the ERT bear an amazing resemblance to the discourse of the Commission, the European Central Bank and a host of heads of state.

> “at the drafting stage, the implications of national budgets and of major national fiscal policy measures [should be] reviewed at the level of the Union,”
>
> European Roundtable of Industrialists, 2002

In its 2002 paper on EU Governance, the ERT wrote that this was “among the most important issues as far as business is concerned”[29]. Already back then they lamented that “while there is a single monetary policy, there is no coherent fiscal policy for the Eurozone as a whole”. To respond effectively to economic shocks, the ERT claimed: “a better alignment of monetary policy with fiscal policy for the Eurozone as a whole” was needed. And one tool to that effect should, according to the ERT, be: “that, at the drafting stage, the implications of national budgets and of major national fiscal policy measures are reviewed at the level of the Union,” in other words the very procedure now introduced; the European Semester, adopted in September 2010.

On numerous occasions, the ERT went on to attempt to insert a demand for a new kind of “economic governance” into the debate on the Treaty, notably in the debate on the EU Constitution[30]. And from early on, the issue of competitiveness, defined in particular terms as outlined above, was of course seen as the cornerstone of fiscal coordination. The ERT stressed “the importance of integrating the impact of the implementation of the ‘Lisbon’ process into the overall coordination of fiscal policy”.

Big BusinessEurope

This is not to say that the obscure and secretive club of industry chief executives is the only mastermind behind the upcoming shake-up of the European Union. BusinessEurope is now pushing the very same line. As for competitiveness, it stated in spring 2010, that the “eurogroup will... have to assume greater responsibility in improving economic governance in the euro area, and put greater emphasis on domestic and competitiveness imbalances, which have proved in most recent developments to be a major source of fiscal instability”[31].

> BusinessEurope is calling for “strong enforcement mechanisms to ensure compliance” and “a system of gradual penalties and sanctions in case of repeated indiscipline”...

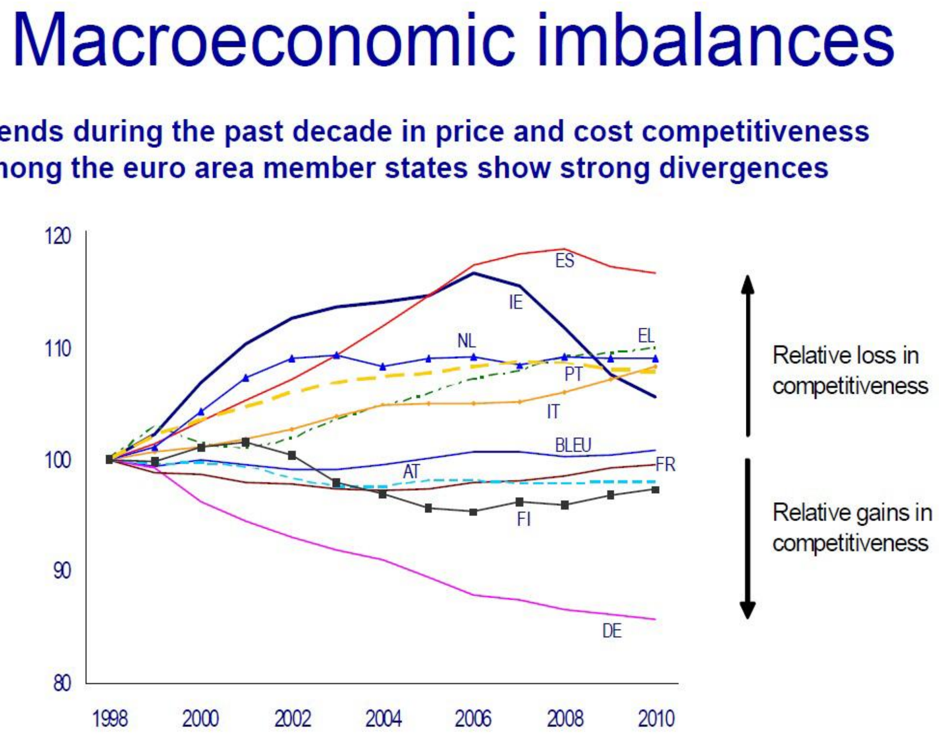
Later, in the Madrid Declaration in June, all key players in the association demanded “expenditure cuts and a reprioritisation of government policies", "concrete recommendations for structural reforms" for each Member State, and "a broader surveillance of economic policies and forceful actions to prevent imbalances from developing in the first place." BusinessEurope is now calling for "strong enforcement mechanisms to ensure compliance" and "a system of gradual penalties and sanctions in case of repeated indiscipline"[32]. By and large, BusinessEurope has had an easy job. Over the summer, the association's statements and letters were generally supportive of the Commission. A letter from BusinessEurope to Van Rompuy in July gave clear support for the Commission's proposals and also attempted to make sure that these would not be watered down[33].

To the joy of the association, many of its proposals were integrated in the conclusion of Van Rompuy's taskforce on economic governance, according to a BusinessEurope report in autumn 2010[34].

3. Flawed and anti-social

But does the (until now) warm reception and the intended speed of the adoption of the proposals mean that what is being proposed is merely the logical and the best response to economic developments in recent years?

The Commission has argued that imbalances present before the financial crisis of 2008 and the ensuing credit crunch triggered the deep crisis in Greece, Ireland, Portugal and Spain. In Greece competitiveness was lagging far behind its EU partners; in Spain and Ireland major housing bubbles were apparent. But it would have been useful if the Commission had dug a tiny bit deeper and asked what the main sources of these imbalances were - though it is not surprising that the Commission refrains from such analysis. Both the divergences in competitiveness and the presence of speculative bubbles are linked to the euro and to the Economic and Monetary Union - and criticism of the basics of that project is apparently a no-go-zone.



Source: Presentation by Commissioner Olli Rehn, 12 January 2011.

How are they linked?
The fact is that when a monetary union includes advanced and efficient high-tech economies such as Germany, lesser developed eurozone countries are unable to resort to devaluation as a means of making up for their disadvantages. As a consequence, the margin in competitiveness widens steadily. As is shown by the statistics, as in the graph shown, countries like Germany and Finland on one side and Ireland, Portugal, Spain and Greece, have gone through very different developments since the introduction of the euro.[35]

Often the argument is made that in the ’70s devaluation was used to “beggar-thy neighbour” - making other countries pay the bill for one country’s economic difficulties - and that the euro prevents this kind of anti-social behaviour. This tends to mask the fact that the euro introduced a new type of “beggar-thy-neighbour” that mainly benefits Germany, as in the eurozone, the best performing economy will become even stronger if weaker economies can’t devaluate. To be more precise, this works to the benefit of German exports and the industry behind it. As for German wage-earners, this privileged position of Germany has been their curse. Few countries in Europe have seen a slump in wages like the one in Germany[36].

Speculative bubbles, such as housing-bubbles, must also be seen as an effect of monetary union. With the same interest rate in both Germany and the economies in the periphery, the rate tends to be too high for Germany, and too low for say Ireland or Spain. As a result, immense amounts of money were lent by banks, not for productive purposes, but for speculation in real estate.

Flawed cure for imbalance

This is a standard and oft-heard critique of the in-built contradictions of the euro. And it’s one of several reasons why a monetary union needs a fiscal union to function properly. Large transfers to the periphery are needed to cope with the imbalances. Consequently both critics and proponents of the EMU have been waiting for the moment when a fiscal union would be seriously considered. That moment arrived with the euro-crisis. And a way to achieve a more common economic policy and increased fiscal cooperation is taking shape. But it will not come in the form of large transfers of funds to the weaker economies, nor will the stronger economies be the ones to adjust. It could be argued that in order not to squander countries on the periphery of the eurozone, Germany should increase demand by raising wages. But this option is ruled out by the Council’s proposals. The objective is for countries in deficit to catch up by implementing harsh economic reforms[37].

There are many flaws to this approach.

Judging from the proposals, the kind of fiscal cooperation likely to come out of this will come at a very high price for the countries, especially for wage earners, on the periphery of the euro-zone. And maybe in the longer term for the non-eurozone countries too. Basically, what the proposals do is to insist that people in the periphery of the eurozone pay the price for the imbalances in the euro-project. They are the first ones who are to adjust by increasing their “competitiveness”.

It could, for instance, be argued that there’s a striking contradiction between these reforms and the strategies used historically by some EU Member States. If measures such as keeping public expenditure low, keeping taxes low, and privatising public services were the ways to achieve competitiveness, then the Nordic countries should rank extremely low on the OECD’s list of the most competitive economies. In fact they’re almost all in the top 10 of a recent ranking by the World Economic Forum, with just Norway lagging at no. 14[38].

More importantly, the proposals are clearly built on the assumption, that cutting wages and consumption on the periphery of the eurozone will strengthen competitiveness and enhance growth. But aside from what this might mean for standards of living in those countries, there is another flaw in this idea as illustrated by the financial meltdown in 1929 and the ensuing economic crisis. In that case, austerity measures such as cutting state expenditure and lowering wages led to deflation - falling prices that result in lower production and lower growth - and an even deeper crisis.

It is a view upheld by ETUC [39]. Its Secretary General John Monks said in October 2010: “We disagree profoundly with the dominant analysis in the EU that austerity is the right road to recovery. Indeed it could be the road to ruin. Two years ago, EU governments stimulated their economies. Now there is the unmistakable sound of gears being wrenched into reverse as they return to financial orthodoxy. Everyone is cutting, even the strong, real wages are falling, pensions are being reduced; all these are cutting demand for goods and services. This is pro-cyclical economics that risks a return to deep recession”[40].

ETUC has denounced the proposals on the grounds that they will put the whole burden of the crisis on the weakest shoulders, and make the ‘deficit countries’ cut wages and social spending – to achieve what they could do before the introduction of the euro by devaluing their currencies. Workers will have to pay, and the result will not be economic recovery.

Finally, the matters that are to be dealt with by the ‘scoreboard’ on macroeconomic imbalances, and the remedies that are to be framed in the context of intergovernmental and inter-institutional discussions are highly political. They concern the daily lives of millions, and are the basis of intense political struggles, and always were. To see issues like wages and social benefits become the subject of closed debates among EU decision makers, most of whom are not directly accountable to voters, is bound to provoke deep resentment once the consequences become clear.

Conclusion: averting EU shock doctrine

The response to the crisis is in reality determined by power play. It’s the preferences of the strongest that come to the fore – the strongest nations and the strongest corporations. The strongest nations for their obvious interest in the euro, and corporations for their interest in exploiting the crisis to win strong backing for policies on competitiveness

Indeed, few could have received the ideas from the Commission from early this year, with bigger satisfaction than the big business representatives who have worked for years to consolidate their ideas on competitiveness with a new system of EU governance. Naturally, they jumped to it, and did their bit to offer support, and demanded a more heavy-handed approach where they deemed appropriate.

And while some may have dreamt of large transfers to the periphery, of a kind of nascent federal social state of Europe, to make up for the structural disadvantage to those countries caused by the euro, what’s in stock is more of a permanent structural adjustment programme to suppress wages and public spending, and to divert finances to the sole purpose of enhancing competitiveness.

In brushing this and other options aside, the model now being promoted by the Commission and the Council, has been chosen for a variety of reasons - and the solid consensus in European big business on the way forward is one of these. Their interplay with the higher echelons of the European Union - in the Commission and Member States governments - is now paying off and paving the way for their preferred model of a European Union.

This is a very drastic development in a very short time, the speed of which owes to the urgency of economic crisis. A scenario that resembles what Naomi Klein has described as the shock doctrine. A doctrine she ascribes to the famous and infamous icon of neoliberalism, Milton Friedman, who in 1982 wrote: “Only a crisis - actual or perceived - produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable”[41].

As for EU cooperation to drive back macroeconomic imbalances by applying specific standards on fiscal policy, the "ideas lying around" - as Friedman put it – are those that have been promoted by representatives of big business for quite some time, and by the Commission. The idea to back up policies on 'competitiveness' with strong enforcement measures were actually presented to the Council five years ago, but were rejected. This was lamented by several participants at a conference in January this year, not least by Commission staff. They were thrilled to see old visions become realistic, and former Commissioner Mario Monti received a very positive response when he stated: "Thank you, Greek crisis!"

At the same conference, the top civil servant from the Commission had a hard time responding to a critic who claimed that the reforms will do nothing to solve the present crisis[42]. In other words, the reforms thrive on the present crisis. But they're not the solution to the crisis.

Insulated and unaccountable

If a debate from the grassroots is not started soon, the long term consequences could be dire. If the package is accepted, 2011 will mark a step away from popular participation in key social policies that affect everyone. Far removed from any real public debate, it will mark the beginning of a new phase in what was once dubbed "the new constitutionalism" of the European Union.

Already in 1992, social theorist Stephen Gill saw in the European Union a distinctive move "towards construction of legal or constitutional devices to remove or insulate substantially the new economic institutions from public scrutiny or democratic accountability"[43]. This year could see an important building block in such a political order become a reality. Only a few years ago the architecture of European cooperation was on the minds of millions. In the struggle over the Constitutional Treaty, it was the subject of a heated popular debatein many of the countries that had a referendum on the matter. Since then, the Commission and Member State governments have done their utmost to bar the populace from having votes on treaty changes. Now, major decisions on the EU future are being decided with no real democratic discussion. The message seems to be clear: public involvement is a nuisance. And given the stakes, it's no underestimation to say that basic pillars of democracy as we know it are being called into question.

Luckily there are lots of signs that the victims of the euro-crisis, particularly in the periphery of the euro-zone, are not just accepting their fate, but are stepping up pressure on parliaments and governments to refute Brussels' remedies. To succeed in the long term, that struggle will have to be more offensive and must certainly be complemented with a European political struggle - the build-up of pan-European political coalitions that do not shy away from addressing institutional matters in their demand for democracy of the kind that involves real people in all society, and not just a minuscule elite - and which is based on pan-European solidarity. Otherwise the resistance will soon turn out to be short sighted, defensive and ineffective, or at worst be subsumed by those who claim that the proposed form of intervention in economic policies of Member States are a kind of stepping stone to a social Europe. Another Europe will not come as an extension of the present proposals. An alternative to the new model of economic governance is required.

If adopted, the 'economic governance' reforms will be a major step towards a common EU economic policy, underpinned by a corporate agenda, which will go a long way to remove deeply political issues from the sphere of democratic influence, and move them into a world of scoreboards, complicated 'procedures', regular high-level consultations, and the hammering out of political prescriptions well before any public debate.

Judging by the process so far, that debate will not come easily. The high level of agreement in the Council and in the European Parliament means that the chances of a debate in public coming from these quarters are rather slim. Parliament takes the first step to define its position on the proposals in April[44], and - according to the schedule - has the final vote in June. There's a chance that the contradictions in Parliament and between Parliament and the Council, will be easy to surmount.

A real debate, then, would have to come from other sources - via European mobilisation (building of coalitions, protests, manifestos) to impact at the EU level, or through pressure at the national level to influence Member States governments.

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6 European Commission; ”Europe 2020. A strategy for smart, sustainable and inclusive growth”, COM(2010) 2020 final, March 2010.

7 The Commission’s communication from May (overview of upcoming proposals) can be viewed at http://ec.europa.eu/economy_finance/articles/euro/2010-05-12-reinforcing-economic-policy-coordination_en.htm. The now adopted proposal on a "European Semester" (more on this below) can be viewed at http://ec.europa.eu/economy_finance/articles/euro/2010-06-30-enhancing_economic_policy_coordination_en.htm Finally, a collection of proposals, a so called "six pack" was launched in late September. They are available at http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-09-eu_economic_governance_proposals_en.htm

8 Report of the Task Force to the European Council, 21 October 2010. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/117236.pdf

9 In fact, the handing of proposals for the coming year’s budget is but one part of what is called "the surveillance cycle", which already started in January. More details can be read in European Commission, COM (2010) 367/2, page 11-14, http://ec.europa.eu/economy_finance/articles/euro/documents/com_2010_367_en.pdf

10 Not least for practically any economist who subscribes to Keynesian economics.

11 ETUC, Statement of 28 October 2010, http://www.etuc.org/a/7790

12 European Commission; "Reinforcing economic policy coordination", COM (2010) 250 final, 12 May 2010, page 7, http://ec.europa.eu/economy_finance/articles/euro/documents/2010-05-12-com%282010%29250_final.pdf and European Commission; "Enhancing economic policy coordination for stability, growth and jobs", COM (2010) 367/2, 30 June 2010.

13 COM (2010) 527, page 11, article 3, para1.

14 Price competitiveness is mentioned as an indicator in COM (2010) 367/2, page 4. "Misallocation of resources" is mentioned in COM (2010) 250 final, page 3.

15 European Commission; "Reinforcing economic policy coordination", COM (2010) 250 final, 12 May 2010, page 7, http://ec.europa.eu/economy_finance/articles/euro/documents/2010-05-12-com%282010%29250_final.pdf (our accentuations).

16 European Commission; "Enhancing economic policy coordination for stability, growth and jobs -Tools for stronger EU economic governance", COM (2010), 367/2, page 4, http://ec.europa.eu/economy_finance/articles/euro/documents/com_2010_367_en.pdf (our accentuation).

17 According to the Treaty, non-eurozone Member States cannot be fined for being in breach of a common economic policy. Instead, the Council and the Commission is about to work out proposals that will enable the Union to withhold EU funds. European Commission; "Enhancing economic policy coordination for stability, growth and jobs -Tools for stronger EU economic governance", COM (2010), 367/2, page 9f, and Report of the Task Force to the European Council, 21 October 2010, page 5.

18 European Council; “Final report by the taskforce”, 21. October 2010, page 3, http://register.consilium.europa.eu/pdf/en/10/st15/st15302.en10.pdf

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21 Press release from the Green Group, European Parliament, 29. September 2010, http://www.greens-efa.org/cms/pressreleases/dok/355/355119.economic_governance_package@de.htm

22 Martin Schulz,Chairman of the Social-Democratic group referred to the Commission’s proposals as a "straitjacket

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24 Daniel Janssen; "The Pace of Economic Change in Europe", 2000 Tokyo Meeting, Trilateral Commission.

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26 For example, the Services Directive will make it difficult for Member States to maintain standards in the services sector, since most standards can be questioned with the Directive.

27 The widespread use of the comitology procedure, by which the Commission has the upper hand in implementing legislation, is an important case in point. With this method, decisions that would earlier on be decided in an open political debate in parliaments, are by and large dealt with in Committees made up of civil servants.

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