European Policy Manifesto

Adopted by the ver.di Trade Union Council, 2-3 December 2010

A Social Europe for the Future

A Manifesto on European policy
Outline of an alternative economic and social model for the EU

1. The European Union: social justice on the back foot

For almost three generations, the citizens of the EU have experienced the longest period of peace in European history. This would not have occurred without the process of European integration that has served to promote peace ever since it first began after the Second World War.

Nevertheless, the current state of the European project gives cause for concern. Peace is more than just the absence of war and military force. Within Europe, peace also means social peace, embodied in social justice. And it is on this point that the European Union suffers from major deficiencies that are getting more and more serious. Current trends in the EU's economic, social, wages and fiscal policy are causing social tensions in the Member States. The current policy needs to be abandoned if the European Union's internal peace is not to be put at risk. The EU urgently needs an alternative economic and social model.

Over the past two decades, the European Union has become increasingly important to Europe's workers, for economic, social and political reasons.

1987's Single European Act was the launch pad for the creation of a Single European Market that has largely succeeded in achieving free movement of goods, services, people and capital, known as the four "fundamental freedoms". In 1993, the Maastricht Treaty paved the way for Economic and Monetary Union, and sixteen of the EU's 27 Member States have now joined the euro. Finally, twelve new Member States joined the European Union in 2005 and 2007, ten of them from Central and Eastern Europe. It is important to point out that the average level of economic development in the "new" Member States is significantly below that of the EU-15.

The deepening and widening of European integration has enabled major growth in the exchange of goods and services within the EU. Worker mobility has increased, and more and more European businesses now regard the EU as a whole as their investment location, rather than their native country. Wages policy in individual Member States, particularly those in the Eurozone, now has a very prominent European dimension, and the same applies to social and fiscal policy. Meanwhile, it is the European Central Bank (ECB) and not national central banks that now decides monetary policy. And although budgetary policy continues to be determined by the Member States, it is strongly influenced by Europe, for example through the EU Treaty and the Stability Pact.

Although the citizens of the EU's Member States continue to think along predominantly national lines, in practice they have to compete with citizens of other Member States for their jobs, while their wages, social security contributions and taxes are ultimately determined as a result of competition with other European countries. For employees in the European Union, “globalisation” amounts to “Europeanisation”. The EU-27 nations export some 75% of their goods and services to other Member States, and the percentage for direct foreign investment is very similar. Consequently, it can be said that the EU is to a large extent a single economic region.

However, it is not just the socioeconomic aspects of employees' lives that are no longer solely determined by their “own” nation states but are now also subject to the EU's growing influence. On the contrary, the same is also increasingly the case in the political arena. While it is true that more than 75% of economic legislation is determined by EU regulations and directives, the EU has a growing influence on shaping working life – particularly in the area of employment protection – and on social protection. And the EU institutions' influence is also increasingly strong in areas like home affairs, justice, and foreign and security policy, not least on the basis of the institutional reform enacted by the Lisbon Treaty.

While the EU's influence over economic, social and political affairs has grown apace, support for European integration among Europe's citizens is dwindling. This was demonstrated by the “no” votes in the French, Dutch and Irish referendums on the EU Constitutional Treaty and Lisbon Treaty, and the same trend is evident in turnout figures for European elections. The first direct elections to the European Parliament in 1979 had a 63% turnout across the EU as a whole, but since then the figure has fallen steadily. At the last elections in 2009, turnout had slumped to just 43% across the Union as a whole.

A lot of politicians at both national and European level are all too happy to explain these figures away in an overly simplistic fashion. They claim that the fall-off in popular support for the EU can be put down to the fact that Brussels seems so remote and the EU is too complex, so that the average citizen cannot understand how it all works. They therefore conclude that, wherever possible, it is best to prevent Europe's citizens from having a direct say on EU policy and instead to champion the merits of representative democracy. Thus, the French and the Dutch never got a chance to vote on the Lisbon Treaty, even though it is virtually identical to the Constitutional Treaty that they rejected. In other Member States that feared a "no" vote, such as Germany, the UK, Poland, Denmark and Sweden, the governments ruled out holding a referendum at all. And where a referendum could not be avoided, as in Ireland in 2009, it took huge political pressure to persuade a very reluctant population to vote for the Treaty second time round.

It is quite clear that this policy is not going to do anything to end the crisis of confidence in the EU, the root causes of which lie far deeper than the EU's political establishment is prepared to admit.

Since European integration was taken to the next level with the Single European Market and Economic and Monetary Union, and since the enlargement to Central and Eastern Europe, people in many Member States have stopped seeing the EU as a byword for prosperity, higher incomes and more jobs. On the contrary, they now view Europe as a vehicle for redistributing income from the poor to the rich, social welfare cutbacks, job losses and growing social inequality. The EU's citizens are feeling the impact of a number of drastic socio-economic processes:

- a sharp decline in wages and salaries as a percentage of national income in the EU-27, and especially in the Eurozone,

- a widening income distribution gap between rich and poor across the EU as a whole,

- growth of a low pay sector throughout the EU, encompassing a growing proportion of workers in atypical forms of employment with no social protection,

- cuts in unemployment benefit, particularly for the long-term unemployed, as a result of the liberal labour market reforms witnessed in virtually all the EU's Member States,

- cutbacks in the welfare state that have hit pensions and healthcare across the EU,

- redistribution of the tax burden in favour of businesses and people with high incomes in all the Member States,

- job cuts in companies whose profits have skyrocketed.

These developments have come about mainly as a result of the radical transformation of the economic and social model that began at EU level with the Single European Act in 1987 and the creation of the Single European Market, heralding the start of a shift within the EU from a Keynesian model to a neoliberal one.

The shift from a Keynesian model to a neoliberal one

The European Economic Community (EEC) was founded when the Treaties of Rome were signed in 1957. As far as its internal constitution was concerned, the EEC was founded as a community of national economies whose economic doctrines drew on the experience of the profound economic crisis at the beginning of the 1930s. It was a predominantly Keynesian model based on the following principles:

- Markets left to their own devices do not tend automatically to establish an economic equilibrium with full employment. Instead, the State must pursue a macroeconomic policy geared towards economic stability.
- Economic stability is achieved through an anti-cyclical monetary and fiscal policy. At times of economic crisis, central banks should lower interest rates in order to stimulate investment and consumption, and the government should use fiscal policy to shore up demand by cutting taxes and/or increasing public spending.
- Wages policy should ensure that wage earners participate fully in economic progress. This means that real wages should grow at the same rate as overall economic productivity.
- The Welfare State should be expanded through the social security system. As a result, welfare spending will increase as a percentage of GNP (the social expenditure ratio will rise).
- In addition to economic policy, a properly functioning State also needs to guarantee basic services of general interest (education, health, infrastructure and cultural services including public-service broadcasting). Furthermore, fiscal policy should be used to promote greater social justice by correcting earnings distribution (redistribution of wealth).

This model formed the basis of the unprecedented economic growth enjoyed by the European Community. Greater integration of Europe's markets for goods, services, labour and capital enabled a better division of labour, strengthening of the forces of production, and a reduction of production costs that benefited all the EEC's citizens. Together with Japan, the Community was the most successful economic area in the world during the 1960s. However, it also soon became clear that the effectiveness of national economic policy was being curtailed by the emerging integration of Europe's national economies. Various plans were therefore discussed with a view to the Europeanisation of economic and monetary policy and greater co-ordination of Member States' fiscal and social policies.

These discussions found concrete expression in the Werner Plan that was proposed at the beginning of the 1970s. It both proposed the introduction of a single European currency and called for economic policy responsibility to be transferred to the European level (an economic government), a common European fiscal policy (fiscal union), and the Europeanisation of social policy (social union). However, the plans were abandoned during the mid-1970s as a result of the global economic crisis.

During the second half of the 1970s, the combination of high unemployment and high inflation (stagflation) resulted in the Keynesian model suddenly starting to lose its appeal until it was gradually supplanted by neoliberalism.

The neoliberal model is diametrically opposed to Keynesianism in every respect, and is fundamentally based on the following economic and social principles:

- The market naturally tends towards equilibrium. Government intervention should therefore be kept to a minimum, since it distorts the markets. Government spending as a percentage of GDP (the public spending ratio) should be reduced through spending and tax cuts.
- Budgetary policy should be geared towards achieving a balanced budget on average throughout the economic cycle. Any additional budget deficits should be gradually paid off. In fact, the view that budget deficits are never acceptable under any circumstances – not even with regard to future investment – has now found its way into mainstream neoliberal thinking.
- Monetary policy should be geared mainly towards preventing inflation. The money supply should be expanded steadily in line with productive capacity. Monetary policy interventions aimed at influencing the economic cycle should be avoided.

- Nominal wages should be based on productivity gains. In order to bring inflation under control, wage increases should not take past inflation rates into account. Wage differentiation between industries, regions and individual companies is a good thing. As long as unemployment is a problem, wage increases should actually remain lower than productivity gains.
- In order to strengthen the supply side of the economy, the Welfare State should be kept to a bare minimum. Other factors cited as reasons for social welfare cutbacks are demographic change, the need to balance the budget, and increased competition from abroad.
- In order to reduce the public spending and social expenditure ratios, public services (e.g. healthcare, education, utilities, public transport and transport infrastructure) should be privatised wherever possible. Fiscal policy should not intervene in primary income distribution, but should instead be used primarily to stimulate the supply side of the economy.

This neoliberal philosophy was incorporated into the process of European integration mainly through the projects to create a Single European Market and Economic and Monetary Union (EMU). The single market and EMU became the key drivers for the implementation of the neoliberal model, primarily through strict observation of two very specific tenets of the EU's economic and social framework.

On the one hand, responsibility for the single market and single currency was transferred to the European level. The Maastricht Treaty set out a monetary policy approach that focussed extremely narrowly on achieving price stability and a budgetary policy that focussed equally narrowly on achieving a balanced budget. On the other hand, however, responsibility for welfare and fiscal policy was quite intentionally left with the Member States.

It is these two unconnected pillars of the EU's economic and social regime that have had extremely negative consequences for wage earners, since they lead to structural social and fiscal dumping between Member States, and cause the EU's monetary and budgetary policy to neglect the goal of full employment.

While the Keynesian model still prevailed, the European Commission, under Jacques Delors, continued to focus on harmonising competition rules right up until the beginning of the 1990s. However, since the neoliberal model has come to the fore, the focus has shifted to promoting competition between different regulations, resulting in a downward spiral that has affected fiscal, social and wages policy. It is therefore an urgent political priority to present an alternative to the neoliberal economic and social model enshrined in the existing EU Treaties, an alternative based on the concept of a social Europe. This is the only way that it will be possible to overcome the profound crisis of confidence that is currently afflicting the EU. The EU should stand for a policy of full employment, higher mass incomes, an end to social inequality, stronger social protection on the basis of equal benefits and equal treatment, an end to employment without social protection, and expansion of workers' rights and industrial democracy at the workplace. In the long term, it will only enjoy the support of the people if it proves itself capable of bringing about this transformation of our society.

2. Fundamental weaknesses of the European Union's economic model

1987's Single European Act (SEA) and the Maastricht Treaty of 1993 marked the point at which neoliberal ideology came to dominate the process of European integration. The SEA set itself the goal of creating a Single European Market based on the four fundamental freedoms of free movement of goods, services, people and capital. Meanwhile, the Maastricht Treaty paved the way for Economic and Monetary Union. When they conceived these two key socioeconomic projects, the EU Member States were very careful to ensure that they were not accompanied by a social union, a fiscal union or a European collective bargaining system.

Dumping practices are structurally pre-programmed into the European version of economic and monetary union, where the currency is a collective responsibility dealt with at European level, but where wages, social and fiscal policy remain explicitly in the hands of the Member States. The system causes nation states to compete for foreign investment on the basis of who can offer the lowest wage and social costs and corporation tax rates. European Economic and Monetary Union triggered a general race to cut wage costs, dismantle the Welfare State and lower corporation tax. This competition between nations to attract investment can be described as the "competing nation states system".

The competing nation states system is a key driver for attaining the goals of neoliberalism. It allows the role of the State, and in particular the Welfare State, to be scaled back, and permits wage and social costs to be reduced together with corporation tax rates, while at the same time enabling market forces to operate increasingly freely by promoting deregulation and privatisation.

The Maastricht Treaty not only brought about a new system of competing nation states but also fundamentally reshaped economic policy with the instigation of economic and monetary union according to a neoliberal model. The key elements are that the European Central Bank's sole monetary policy focus is to combat inflation, that Member States' financial policy priority is to consolidate budgets, and that there should not be a European economic government.

Treaty provisions on the role of the European Central Bank make it clear that price stability has absolute priority. Unlike the US Federal Reserve, which is required to give equal attention to the goals of price stability, economic growth and employment, the ECB's main priority must be monetary stability, with economic growth very much a secondary goal. No mention is made of employment as a goal.

The ECB's policy so far shows that it interprets the goal of price stability very narrowly and pursues a restrictive monetary policy even during periods of stagnation. This was illustrated between 2001 and 2005, after the dotcom bubble burst, but has also emerged during the current economic crisis. Although it was clear from spring 2008 that there was economic recession in the Eurozone, the ECB raised its base rate again in summer 2008, citing high rates of inflation, pro-cyclical behaviour that exacerbated the downturn.

Although the responsibility for monetary policy within EMU was transferred to European level, financial policy remains the competence of the Member States. Thus EMU represents an imbalance, with a European monetary policy but national fiscal policies. However, the Maastricht Treaty and EU Regulations forming part of what is known as the Growth and Stability Pact require these national fiscal policies to comply with certain rules. Although Member States can interpret the Pact flexibly, and although it has recently been reformed, there is still evidence of the Treaty and Pact provisions having the underlying effect of creating a fiscal policy that hampers economic management. Member States are still supervised and required to submit consolidation programmes and have to face the stigma of a warning letter from Brussels, recommendations from the Council of Economic and Finance Ministers or even a fine. There is no scope in the EU for courageous, anti-cyclical measures to combat economic crises of the kind seen in the

USA, Japan and, most recently, China. Even now, during Europe's worst economic crisis since 1929, the Growth and Stability Pact is seen in some Member States as a reference framework even though the Commission has bowed to the seriousness of the situation and has long since given the Member States the go-ahead to interpret its provisions more flexibly.

By contrast with the Werner Plan in the early 1970s, the EMU of the Maastricht Treaty is typified by an absence of European economic government. The Werner Plan stipulated that "the basic parameters of overall public budgets, in particular, changes in their volume, the size of balances and the manner of their funding or use, must be determined at the Com-munity level". What this means is, quite simply, the establishment of a European economic government with the power to shape the Community's economic policy and also to determine the fundamental direction of national budgets as part of its responsibility for fiscal policy. The Delors Plan for Maastricht and EMU, by contrast, moved away from this two-pronged approach to Europeanising economic and monetary policy in favour of the asymmetric arrangement we see today. With the shift in direction from Keynesianism to more liberal economic doctrines such as supply-side economics, monetarism and the new classical macroeconomics, fiscal policy shifted away from economic stability and refocused instead on balanced budgets. This paradigm shift came at a cost, however: the EU lacks a decision-making centre for economic policy that can effectively specify and co-ordinate fiscal policy within the Member States and, in co-operation with the ECB, ensure an appropriate balance of monetary and fiscal policy.

The weaknesses of this approach to economic policy came under the spotlight in the Eurozone when the new economy bubble burst in 2001 and again in 2008-2009, when the worst economic crisis since the Second World War broke. Unlike the United States, the ECB and Eurozone governments did not actively implement an anti-cyclical policy to combat the economic stagnation experienced between 2001 and 2005. As a result, growth in the Eurozone was much slower than in the US and other EU Member States that are not part of the Eurozone, such as the UK, Denmark and Sweden. At the same time, disparities in economic growth within the Eurozone (an economic boom in Ireland and Spain, stagnation in Germany and Italy) drew attention to the fact that the ECB and Member States' governments were palpably failing to implement an appropriate monetary and fiscal policy mix. The ECB's interest rate policy was too expansive for countries such as Ireland and Spain where the economy was doing well, but too restrictive for countries like Germany and Italy where it was stagnating. To counteract this, fiscal policy should have been used to cool the economy down by encouraging saving in Ireland and Spain, and to stimulate growth and boost the economy in Germany and Italy.

This combination of monetary and fiscal policy is in fact not possible within the Eurozone, since the EU Treaty and Stability Pact regulations narrowly confine the role of Member States' governments to budget consolidation. In any case, it would be impossible to implement, since there is no European economic institution to prescribe the required fiscal policy approach (restrictive or expansive) to Member States in any given situation. In Germany, the Red-Green coalition that was in power at the time attempted to comply with the Stability Pact's targets by cutting public spending. However, all that this pro-cyclical policy ended up achieving was to make economic stagnation last even longer. The resulting fall in tax revenue meant that in the end the budget deficit that they had been trying to reduce actually got bigger.

The current global economic crisis, which has hit Europe on a massive scale, has once again clearly illustrated the shortcomings of Europe's economic policy. The EU's Member States initially reacted in an individual and unconcerted, even contradictory, way to the crisis both in the financial markets and in the world economy. There was a particular disparity between France and Germany on both counts, with diverging opinions on whether this was a crisis that was affecting Europe, how it should be handled, the scale of any response, and when that response should be given. What emerged instead were individual national emergency measures to combat the crisis in the financial markets that varied markedly, both in scale and, particularly, in the level of government intervention to support the banking system. National economic strategies also varied in scope, in the use of available fiscal policy instruments and, most significantly, in the timing of their adoption. Germany's first much-needed economic strategy emerged only after the country had attracted severe criticism from the international community, while it took a threat of ostracisation by Europe for it to adopt its second. Though Germany had been in recession since mid-2008 and its economic performance fell by 5% in 2009, the country's economic strategy did not really begin to take effect until 2010. This was too late and, moreover, its structure meant that there was little impact on consumer spending. A further illustration of the key weaknesses of the EU's economic policy mechanisms is that the ECB first raised base rates in summer 2008 and was then excessively timid in reducing them again from the autumn onwards, acting first too late and then too fearfully.

It is, in fact, impossible for the EU to have any kind of consistent economic policy because of the priority given in its monetary policy to price stability and also because of the way fiscal policy-making is structured, with the Member States making the decisions. The lessons drawn from 2008-2010 show clearly that it responds too late, in an unconcerted way and with inadequate means to any crisis affecting all the Member States. That makes recession worse and causes it to persist for longer than is necessary.

Added to this, the destructive effects of the competing nation state system on the internal stability of the Eurozone have become increasingly evident over the last few years. It is impossible adequately to co-ordinate tariff policy across the Eurozone, producing widening discrepancies between Member States' competitive relationships. Germany in particular is building up increasingly large balance of payments surpluses, while the southern European Member States (Portugal, Spain, Italy and Greece) are building up similarly large deficits (see 4 below). Countries with different currencies can counteract sustained imbalances in unit wage costs by using exchange rates (increases or decreases in the value of their currency), but this is impossible by definition in a zone with a single currency. The wide variation in the rise in unit wage costs is causing a threat of further economic divergence and giving rise to tensions within the Eurozone; and following serious discussion in Italy in 2005 about the country leaving the Eurozone, there is now speculation about Greece's future within it.

This criticism of the EU's current economic and foreign trade policy framework leads us to call for the following economic policy reforms:

- The European Central Bank should give equal weight to pursuing the goals of high economic growth, full employment and monetary stability. The conflicts arising from the fact that all three goals are equally important will simply have to be accepted, and will force the ECB to adopt a flexible monetary policy that is co-ordinated with fiscal policy and wage policy. This would prevent both the ECB's pro-cyclical interest rate policy and implementation of its restrictive monetary policy.

- In the short term, it will be essential to better co-ordinate national policies at EU level to ensure better use of the full range of economic policy options and to achieve appropriate co-ordination of European monetary policy with European fiscal policy. To this end, it would be desirable to give the European Commission and the Council of Economic and Finance Ministers (Ecofin) joint responsibility for setting the overall direction of Member States' fiscal policy in keeping with their current economic situation (consolidation or expansive phase). This would represent the first step towards setting up a European economic government. And if the EU were willing to cede this responsibility now, then – subject to reforms of the ECB – this could produce a rapid and decisive fiscal policy response to the crisis.

- In the medium and long term it will be necessary to consider transferring economic policy decision-making powers to the European level and to give the EU its own sovereign powers of taxation as well as a bigger budget. France has been calling for what it describes as a European economic government for several decades. The idea is to create an equally strong fiscal policy institution to sit alongside the powerful ECB, in order to ensure that equal weight is attached to monetary and fiscal policy and thus enable an effective European economic policy. In principle, these proposals should be supported: fiscal policy needs to become European, especially within the Eurozone. And this Europeanisation of fiscal policy is a necessary, but not a sufficient, condition for improved economic policy co-ordination within the EU. It should also be used to promote the goals of growth, jobs, balance of payments equilibrium and environmental sustainability. A European economic government would be responsible for implementing an expansive economic policy geared towards achieving qualitative growth. It would also be charged with overseeing EU-wide projects, for example the construction of an efficient transnational infrastructure. Such a transfer of powers to European level would, however, require further democratisation of the EU. The European Parliament needs the power to elect a European government and to exercise powers of co-decision within it on matters of economic and fiscal policy. Without this step towards greater political union, however, a European economic government would lack the requisite democratic legitimacy.

This extension of the EU's powers over fiscal policy would also make the Growth and Stability Pact untenable, since it is based on Member States having powers to set their own budgets. In this case, the EU would have to develop proposals to ensure stability in budgets across the Union. This would also require the power to intervene in individual Member States' fiscal policy. A differentiated over-arching concept would have to take account of both economic and structural deficits within the Union as a whole as well as in individual countries.

- In the interests of correcting foreign trade imbalances against the backdrop of inadequate European co-ordination of tariff policy, it would be helpful to have a foreign trade stability pact as the Hans Böckler Foundation's Macroeconomic Policy Institute has proposed. Such a mechanism would set maximum limits on an individual country's balance of payments of around 2% of GNP. If the limit were exceeded, a multi-stage procedure would be triggered. Countries with too large a surplus would be required to rein in their domestic demand using a mixture of expansive financial policy, investment incentives and structural reforms. Countries with too large a deficit, on the other hand, would have to rein in their expenditure by means of savings or tax increases. The Commission would check each year to see whether the recommendations were complied with. If, within three years, any country's balance of payments was not heading towards the bands laid down, sanctions would come into force and its government would be required to make binding changes to government spending.

A precondition for a foreign trade stability pact, as for a European economic government, would, however, be the democratisation of the European Union referred to above, not least as a step of this kind would give the Union the power to intervene in national budgetary policy.

3. EU must serve as a model in combating the global financial crisis

The European Union has been particularly hard hit by the crisis on the international financial markets for two reasons.

First, the implosion of the financial markets put an abrupt end to the economic upturn between 2006 and 2008 but second, the resulting crisis laid bare the devastating consequences of the neoliberal model. The major crisis enveloping the international financial markets has disproved the model's central tenet that unregulated markets tend towards equilibrium and increased economic efficiency. It is now more important than ever for governments to use monetary and fiscal policy interventions to avert a worldwide recession and to create a new regulatory framework for the financial markets in order to make sure that further crises can be avoided in the future. Consequently, globally networked approaches to re-regulating the financial markets need to be integrated into any alternative model for the EU's economic and social policy. This alternative approach, with its new regulatory framework for the financial markets, could provide a model for the rest of the international community.

The idea of deregulating the international financial markets is actually quite a recent one. The experience of the previous global economic crisis meant that up until 20 years ago, when the Keynesian model was still in place, the prevailing view was that the individual segments of the financial markets should be regulated in order to limit the risks and ensure financial stability. However, this approach was subsequently jettisoned and replaced with the neoliberal policy of deregulation. Since then, the individual financial markets have become closely interconnected, and the constant creation of new financial instruments has led to a sharp increase in the complexity and risks of the financial markets. The harmful repercussions of this trend include:

- Hedge and private equity funds that use credit to finance deals worth billions of euros in any number of sectors of the financial markets and the rest of the economy, but which are completely unregulated or wholly inadequately regulated by central banks or other government institutions. Private equity funds in particular borrow money to buy a stake in a company, and then transfer their high debts to the company and attempt to make huge profits by implementing drastic restructuring measures where employees end up being the ones who pay the price.

- Governments and financial regulators in the US, UK, Spain and Ireland created housing bubbles by authorising insufficiently stringent credit in the shape of subprime loans. The bubbles have now burst in all of these countries, and the global economy went into freefall at the end of 2008. In 2009, for the first time since the Second World War, global economic output fell. It will take years to regain its 2008 level.

- In recent times, banks have made increasing use of the practice of transferring billions of euros worth of securities to organisations known as conduits. These conduits lack any significant equity of their own and instead use short-term commercial papers to generate funds which are then put into longer-term investments such as securitised mortgage loans. These investments do not have to appear on the bank's balance sheet, but the banks are required to step in if their conduits have difficulty in making payments. This business practice was one of the main contributors to the difficulties experienced by many banks, including German banks. Furthermore, the banking sector has also come up with a so-called financial innovation known as "collateralised debt obligations" which are central to the current crisis on the financial markets. By pooling and securitising loans with hugely different credit ratings and then separating them into tranches, these securities contrived to obtain top credit ratings from some rather dubious private credit rating agencies. It seemed like lead had been turned into gold, or water into wine. In fact, however, the people who bought these products were being deceived, and the current crisis has seen the magical properties that collateralised debt obligations appeared to possess vanish in a puff of smoke. The financial sector has lost several hundred billion dollars as a result of the adjustments to the value of these products alone.

- Private credit rating agencies have proven to be an inappropriate means of rating securities, since they stand to gain by rating the issuers' credit or credit derivatives too highly. If the credit rating agencies had not got their ratings so wrong, the subprime loans crisis would never have attained such gigantic proportions.

Urgent action is necessary to remedy these developments on the financial markets. It is immediately apparent that since the financial markets were deregulated, the global economy has been more prone to suffering major financial crises (1987, 1998, and 2007). Since the people who play the financial markets often allow their actions to be driven by irrational herd instincts, successive boom and bust scenarios are pretty much inevitable. But these crises do not just hit the speculators who contributed to the excesses in the first place. They also affect small investors, who see the value of their investments shrink, pension funds, which are supposed to be the second pillar that guarantees employees' income during their retirement, the employees of companies in the financial sector that either go bust or are forced to restructure leading to mass redundancies, and ultimately also the taxpayer, who ends up having to foot the bill for the debts incurred by certain financial institutions, such as the LB Sachsen and IKB banks, or Fannie Mae and Freddie Mac.

What is even more worrying, however, is that crises on the financial markets can cause interest rates to rise and spark a credit crunch which then affects the rest of the economy and leads to a recession. There is no denying that the world's central banks reacted promptly and appropriately in 1987, 1998 and 2007 by making more cash available to the markets and lowering base rates. There is no doubt that this prevented equity markets from plummeting and enabled the economy to regain ground relatively rapidly. However, there is also a danger that greater global liquidity could trigger a new wave of speculation that would allow new 'bubbles' to form in the securities sector.

The financial market crises and their impact on the rest of the economy clearly demonstrate that the neoliberal model is bankrupt. Rather than bestowing wealth upon the world economy, a weakly-regulated financial sector has only succeeded in creating a speculative bubble of almost unimaginable proportions, thanks in no small measure to asset managers' greedy pursuit of profit that led them to come up with more and more dubious financial products. When the bubble burst, it caused economies around the world to slump, and led to rising unemployment. Neoliberal ideology was that deregulation, liberalisation and privatisation should push the role of the State further and further into the background. Now, however, we need the State to implement anti-cyclical policies to prevent the world economy from being plunged into a deep recession. What is important now is that the international community develops plans for re-regulating the international financial markets in order to tackle the root causes of the problem and prevent any chance of further crises occurring in the future.

If the European Union were to consciously abandon its neoliberal ideology and develop a socially-oriented economic and social model, then it would inevitably lead the way in re-regulating the international financial markets. The EU and its Member States should therefore prioritise the following measures:

1. *Tougher regulation of the banking sector*: the transfer of bank debt to conduits should be banned, since the only reason for this practice is to get round the equity rules for credit institutions. Collateralised debt obligations (CDOs) should also be banned,

since they “sex up” very poor quality loans by mixing them with good quality loans so that they get a top credit rating. Ultimately, this amounts to misleading the people who buy the product.

2. *Regulation of hedge and private equity funds*: full transparency through disclosure of all transactions, supervision by central banks and government institutions, lending restrictions through higher capital requirements, no investment in hedge funds through insurance companies and pension funds, limited voting rights for funds that have recently acquired a stake in public limited companies, a ban on transferring the fund’s credit debt to companies that is has acquired, a ban on transferring assets from acquired companies to the fund, no tax exemptions for the funds.

3. *Financial transactions tax*: a tax should be introduced on all transactions involving buying or selling currency or securities of any kind. This would make speculation more expensive and less attractive, and would reduce the associated risks.

4. *Credit rating agencies*: tougher State supervision of credit rating agencies.

However, even if all the measures proposed above were to be fully implemented, they would still not be enough to prevent people who want to make a quick buck from coming up with new “innovative products” and foisting them on the financial markets. This is because of the huge volumes of capital that have been generated and continue to be generated as a result of redistribution and privatisation, for example. International investment companies compete among themselves for a slice of this pool of capital by tempting investors with a steady stream of new and enticing products that promise them a high return on their investment. In order to achieve these returns, investment companies will continue to have to get involved in dangerous speculation and even more brutal forms of raiding companies’ assets. Even if the measures proposed above are put into practice, these pressures will not go away. If something is really to be done about this situation, a more comprehensive package of measures will be required to address the root causes of the problem and counteract the build-up of liquidity pressures. The most important of these measures would include heavier taxation of the people with the highest incomes and most extensive assets, strengthening the pay-as-you-go State pension system, and the introduction of significant pay increases.

4. Inadequate co-ordination of EU wage policy threatens the Eurozone

The early 1980s saw the start of a new phase in EU Member States' wage policy that has continued to the present day. Radical socioeconomic changes have meant that since this time the trade unions have, in general, no longer been able to ensure that increases in real wages keep pace with productivity gains. In many EU countries, the trade unions have seen their power base eroded as a result of mass unemployment, falling trade union membership, tougher international competition caused by the Single European Market, and Economic and Monetary Union. In Germany, "Agenda 2010" and the accompanying labour market legislation reforms have heaped further pressure on wages.

The result has been a redistribution of income from the poor to the rich, and an increase in the percentage of GNP accounted for by revenue from business and assets. Germany has the dubious distinction of having been at the forefront of this development.

While the trend has been apparent to a greater or lesser extent in all the EU-15 countries since the beginning of the 1980s, it has also started to appear in the Central and Eastern European countries (CEEC) since the mid-1990s. The high productivity growth rates that these countries have experienced as they have rebuilt their economies have led to an extremely rapid rise in real incomes. Despite this, in the majority of these countries the percentage of the national income accounted for by wages and salaries has actually fallen, because increases in real wages have failed to keep pace with productivity gains.

One particular problem for the process of European integration is the fact that there are major disparities in unit labour cost trends, causing unfair competition especially within the Eurozone. Over the past fifteen years, Germany had the slowest increases in unit labour costs in the Eurozone and has therefore seen a steady increase in its competitiveness. Countries with different currencies can use exchange rate adjustments (revaluations and devaluations) to compensate for sustained imbalances in unit labour cost trends, but this is in principle no longer possible in a common currency area. Differences in unit labour cost trends across the Eurozone are threatening to exacerbate economic imbalances and tensions. Distortion of competition resulting from Germany's wage policy has enabled it to consolidate its position as the Eurozone's leading exporter. This has placed huge pressure on France, Germany's main competitor, but also on Portugal and Italy. The extent of these imbalances can be illustrated by balance of payments figures. In 2007, Germany had a balance of payments surplus equivalent to 7.5% of GDP and the Netherlands was in surplus to the tune of 6.1% of GDP. Many other Member States had deficits, however: France's was 1% of GDP, Italy's 2.4%, Ireland's and Slovakia's 5.4%, Portugal's 9.5%, Spain's 10.1% and Greece's 14.1%. If European monetary union is to remain stable, there is a need not only for a European economic government and a stability pact on foreign trade (see section 2 above) but also for co-ordination of national wage policies. The wage policies of the EU Member States must be geared to national productivity and inflation indicators, so that as a minimum, they make full use of the cost-neutral scope for redistribution of wealth.

Consequently, wage policy co-ordination at European level is not only necessary to increase workers' bargaining power, but also to prevent the Eurozone from being destabilised by distortions of competition caused by labour cost disparities.

The prospect of a single currency and the risk of increasing competitive pressure on pay and working conditions triggered what was known as the "Doorn initiative" in 1998, which developed the idea of coordinating bargaining policy across Europe. The message was that, if purchasing power and equal participation in productivity growth could be guaranteed, this would put an end to wage dumping in Europe and further redistribution at the cost of earned income. Trade union confederations in Benelux and Germany signed up to the initiative's provisions on co-ordinating their national bargaining policies, agreeing in 1998 to move away from competition-oriented bargaining policy; pay settlements under collective agreements would be required at least to match inflation and to ensure that employees benefited equally from growth in productivity. This "co-ordination rule" was intended to serve as guidance and as a yardstick for unions' pay policy.

Co-ordination of bargaining policy was designed to pursue three goals: limiting cross-border wage and wage cost competition; preventing wage dumping; and strengthening the ability of trade unions to co-operate and act autonomously at European level. This would also strengthen national negotiation positions as a result.

There are three levels of approach to bargaining policy co-ordination: inter-regional co-ordination through the Doorn initiative; sector-level co-ordination through European trade union confederations (the European Metalworkers' Federation (EMF), the European Federation of Public Service Unions (EPSU), the European Transport Workers' Federation (ETF), and Uni Europa, the European confederation of unions in the private sector).

These different approaches share a common principle: common goals, rules and minimum standards are first negotiated and agreed for national negotiations. Then cross-border trade union institutions, networks and a structure for open communication are developed. Finally, there is permanent support for and assessment of national bargaining policies at European level, building up to mutual support in bargaining disputes. As well as wage policy, co-ordination focuses on working time, further training and measures to combat wage discrimination.

Co-ordination of bargaining policy at sectoral level has many features that are specific to individual sectors and is best developed in sectors in which working conditions and pay systems are subject to European competition. The EMF was a clear pace-setter in this respect, as it was the first to agree co-ordination rules for pay negotiations and working time. It also developed a dense network of bargaining institutions and communications and set up the European Collective Bargaining Network (eucob@), which co-ordinates regular updates from correspondents and produces an annual overview. However, there are also substantial moves towards co-ordination in some individual sectors covered by ver.di.

For example, since the early 1990s, the printing sector has had a collective bargaining committee and since the late 1990s, national bargaining policies have been co-ordinated and debated at annual conferences. The co-ordination rule includes not only a commitment to wage increases but also standards for working time, initial and further training, equal pay, health and safety, consultation on the work of European works councils (EWCs) and support for regional co-operation and cross-border solidarity. Compliance is assessed in widely differing ways, and although negotiations rarely produce outcomes that comply wholly with the rule, there is steady progress towards it. Since 2007, there has been a specific network for gravure printing that holds special annual conferences and carries out its own specific analysis of sector data against a backdrop of the huge concentration taking place. Here, the aim is to achieve a different quality of co-ordination, focusing not only on common standards and compliance with key demands at company level but also on scope for sanctions, for vetoing pay settlements and for cross-border negotiations. The long-term goal is to have collective agreements at European level.

The banking sector meanwhile has had a bargaining network since 2000. It does not enforce compliance with the co-ordination rule, but its aims, structures and methods are in line with those in other sectors. Following a co-ordination crisis, co-operation with selected members was stepped up. The insurance sector has also been working on co-ordinating bargaining for some years.

EPSU has also instigated bargaining co-ordination in line with the Doorn initiative. It focuses on mandatory pay co-ordination but also provides for sharing of information on working time, equal pay, lifelong learning and occupational pensions. Here, too, there are structures that include annual conferences, an information network (epsucob@) and an annual overview.

Over a few years, co-ordination practice has achieved much, despite cultural and language barriers. The problem of the “race to the bottom” has been acknowledged, and commitment to the co-ordination rule and the transparency achieved by the institutions at least puts pressure on the players to legitimise processes. Co-ordination of national bargaining policies needs, however, to be extended beyond these few “beacon” sectors; it needs to be intensified and made more binding on all groups involved. The European perspective needs to become everyday practice at all levels of trade union activity.

In this context, a particular challenge is posed by the EU’s enlargement to the East and especially the expansion of the Eurozone to include the Central and Eastern European countries (CEEC), a process that is already underway in some of them. Trade union membership in the CEEC is low and the number of workers covered by collective agreements is thus well below the European average. This is also partly due to the fact that although freedom of association is guaranteed by the constitutions of the Central and Eastern European countries, in practice it is actually non-existent or severely limited by legal barriers and illegal corporate practices. In many of these countries, for example, temporary and part-time workers and various categories of public sector workers are not allowed to join a trade union. This means that even if they do enjoy freedom of association on paper, in reality this means nothing. In addition, the thresholds for the minimum number of members required to form a company union represent an effective barrier to the creation of trade unions in small and medium-sized enterprises. Finally, many employers in the CEEC prevent employees from organising by changing the working conditions of workers who have joined or intend to join a trade union, transferring them to other sites, or even sacking them. All of these factors were overlooked in the race to achieve enlargement to the East, and were not taken into account when assessing the accession candidates.

All of this makes it even harder to co-ordinate the Member States' wages policies. It means that further difficulties regarding competition between the Eurozone countries and tensions between the Member States are inevitable. The EU needs to understand that tolerating these anti-trade union policies will have dangerous economic, social and political repercussions. An effective European wage policy co-ordination system needs to be developed in order to halt the erosion of the integration process. This is not only of fundamental importance to the interests of Europe's trade unions; it is also of obvious relevance to the political interests of the EU and its Member States.

At the same time, the European trade union movement urgently needs to develop a strategy for achieving minimum wages that secure the livelihood of workers across the EU. It is true that the vast majority of EU countries do have a national minimum wage, mostly laid down by law. However, with only a few exceptions, these are not sufficiently high to guarantee people an independent livelihood.

Germany urgently needs to contribute to a transnational minimum wage policy as part of a European social model by finally introducing a long-overdue statutory national minimum wage, accompanied by an extension of the German Law on the Posting of Employees (*Entsendegesetz*) that allows sectoral minimum wages to be negotiated that go beyond the bare minimum.

At European level, a sliding scale of national minimum wages should be established based on countries' average national income. This would ensure that the minimum wage was linked to the strength of the country's economy. All the EU Member States should be aiming at ultimately achieving a national minimum wage of 60% of the average national income, with an interim target of 50%.

This would also effectively amount to the introduction of a common European strategy for achieving convergence of living standards, which would make people more likely to identify with Europe without robbing national policy of its ability to promote development. This minimum wage strategy could be combined with a major social policy drive to eliminate or at least reduce the gender pay gap. It would also have a positive economic impact insofar as it would help to stabilise domestic demand.

5. Welfare policy in the competing nation states system – the EU needs a social stability pact

Since the shift in the ideology of our society occurred at the beginning of the 1990s, Europe's welfare states have also come under pressure as a result of a variety of factors such as mass unemployment, budget deficits, and demographic changes. According to supply-side philosophy, the role of the State and in particular the Welfare State should be curtailed in order to create incentives for growth. This thinking has led to reforms of healthcare, pensions and labour market systems throughout the EU that have involved drastic welfare cuts for Europe's citizens. Cutbacks to healthcare services have been accompanied by increases in the amount patients pay for part or all of their treatment and many services have been rationed. As for pensions, more stringent entitlement criteria have been introduced, and changes have been made to the way that pensions are calculated, and in the vast majority of EU-27 countries, the pension age has been raised to 65 for both men and women. The upshot is that the relative level of pensions, i.e. the income replacement ratio, has fallen substantially, and this process is set to be exacerbated over the next few decades as a result of pension reforms that have already been decided on, making a substantial increase in pensioner poverty likely. Similarly, the amount of time that people can draw unemployment benefit and the income replacement ratios for unemployed people have also been reduced, with the long-term unemployed being especially hard hit by these measures.

The competing nation states system within the EU has only served to accelerate the downward spiral in social welfare benefits. It is alleged that lower social welfare spending, which on average accounts for 30 percent of GDP in Europe, helps to increase international competitiveness. As recently as the 1970s and 1980s, social welfare spending was still rising faster than GNP. The social expenditure ratio, which measures welfare spending as a percentage of overall national income was thus increasing everywhere. The richer a nation was, the higher its social expenditure ratio, and the strength of this correlation was demonstrated by a coefficient of determination that stood at 80%. However, since the 1990s the correlation has grown weaker in Europe. Nations such as Sweden, Denmark, Finland and the Netherlands, that had a very high social expenditure ratio compared to other European countries, have cut back their Welfare States. In some cases their social expenditure ratios have fallen sharply, although in Scandinavia they remain well above the average for Western Europe. Up-and-coming economies such as Ireland and Spain decoupled the Welfare State from economic growth, and as a result their welfare spending ratios fell significantly. A similar process has occurred in the Central and Eastern European countries, especially in the three Baltic States, Slovakia and Poland.

When countries start reducing social welfare spending by decoupling it from economic growth in order to gain a competitive advantage vis-à-vis other European nations, they are in effect implementing a policy of social dumping. There is a high risk of other countries adopting the same tactics. It can therefore also be said of the Welfare State that unless policy is co-ordinated at European level, social dumping practices can be expected to proliferate.

A new European economic and social model would need to put an end to the competing nation states approach by re-regulating welfare policy at European level.

A social stability pact should be created for Europe's welfare states. This would link the size of a country's welfare state to its economic development. On the basis of per capita income, the EU can currently be divided into four clubs of nations. A range or band for social expenditure ratio should be established for all four clubs. The range for the richest nations would be set higher than the range for the poorest nations. As poor countries' economies caught up with the richer nations they would move from a lower band to a higher band.

The banding model of a social stability pact

Various bands are set for social expenditure ratios that are determined by per capita income in the Member States. The expenditure to be included in these ratios has been laid down in detail by the EU as part of its comprehensive "European System of Integrated Social Protection Statistics" (ESSPROS). This stipulates a lower band (for example, 20% below the mean) for the poorer Member States and a higher band (for example, 30% above the mean) for the wealthier Member States. Groups, or clubs, of Member States in the mid-range would be allocated by agreement to an appropriate band. Then, as their economic performance improved, these countries would move up to a higher band.

Those with a per capita income falling between clubs could be allowed to move from band to band, and allocation of bands would be subject to political decision-making. The introduction of these bands would achieve the following:

1. The policy of social dumping would be prevented. Individual nations would no longer stand to gain a competitive advantage from having a social expenditure ratio below the average for countries with a comparable national income.

2. The less-developed economies would not be put under excessive pressure by this type of social policy regulation. They would only have to provide a level of welfare services in keeping with what they could afford based on their national income.

3. As the economies of the less-developed nations started to converge with the rest of the European Union, social expenditure ratios across the EU would also begin to converge. Spending on pensions, healthcare, occupational invalidity and unemployment should converge not just in relative but also in absolute terms. As economic harmonisation proceeds, the bands for the countries with low or average per capita incomes would gradually move upwards and eventually coincide with the band including the wealthiest EU Member States.

4. The quantitative regulation of social policy by the EU would initially be kept to a minimum, and there would be no attempt to redistribute income between different Member States. Regulation would be confined to the macroeconomic total spent on social welfare, meaning that Member States would initially still be free to determine the percentage of overall spending devoted to individual welfare services (pensions, healthcare, unemployment, family benefit), in accordance with the principle of subsidiarity.

It is important that each club includes both a lower and an upper limit – a band – so that if Member States diverge from their band, the reasons will be clear. For example, if Member States deliberately set their social expenditure at a higher level than is provided for in their band, this should be accepted. However, if the divergence is caused because the Member State is disadvantaged by its demographic trends or particular labour market conditions, for example, then the rules would provide for compensatory measures to be taken. This means that wealthier Member States could get some relief from their contributions to the EU budget. By contrast, Member States for which demographics or labour market conditions represented an advantage would leave the band and move into a lower one or make higher contributions to the EU budget to compensate.

The procedure would be different if Member States were to move down a band deliberately, so as to reduce their social expenditure. Such action would have to incur a sanction mechanism to motivate the Member State or States concerned to bring their social benefit expenditure back into line with the mid-range for their club.

If this kind of regulatory framework were to be introduced, it would put an end to the neoliberal regime of competing nation states in the realm of welfare policy. A social stability pact as described above would mean that the EU could pursue an economic and social policy based on convergence and progress. This would automatically rule out dumping strategies as witnessed in Ireland and Spain in the EU-15 and also in the three Baltic States and Slovakia among the more recent countries to join. An extended concept of social policy also includes education spending as one of the tasks of the welfare state. The band-based approach could also be applied here. And beyond that, minimum quality standards could be laid down for the right to have a share in education, culture and the media in the EU. Above all there should be a right to free initial and further education ranging from crèches to on-the-job vocational and university training. A broader definition of social policy also includes education expenditure as part of the welfare state, and a banding approach could also be taken to education expenditure. Moreover, qualitative minimum standards could also be specified in the EU for entitlement to participation in education, culture and media. The most important right here would be the right to free basic education and initial and further training, spanning nursery level and vocational skills up to higher education.

When implementing the bands model, care would have to be taken to ensure that net rather than gross values were used to calculate the social expenditure ratios. This is because welfare benefits are subject to different levels of taxation and duties in different countries. Furthermore, forms of tax relief designed to pursue social policy goals, for example child allowances, would also have to be taken into account when calculating welfare spending.

Another aspect that would need to be considered is the quality of welfare benefits. The quality of pension benefits, for example, clearly depends directly on the quantitative level of the benefits and the income replacement ratios that are achieved. In other words, benefit quality is in this instance directly related to benefit levels. The same is true for unemployment benefit and active labour market policy measures, income support and family benefits (crèches, kindergartens, parental benefit and child benefit).

Healthcare is one important welfare service where this correlation between quality and quantity only applies to a limited extent. Obviously, high quality healthcare (e.g. hospital and health centre infrastructure or highly qualified healthcare staff) cannot be achieved without a substantial level of spending. On the other hand it can sometimes be possible to achieve the same service quality with different levels of spending, for example by prescribing generic drugs instead of drugs that are still under patent. The salaries of healthcare professionals with the same skills can also vary even in countries with similar per capita incomes, as evidenced by the difference between Germany on the one hand and Denmark and Sweden on the other.

The bands model could address these problems if it was expanded to include sectoral indicators. For example, the healthcare sector could use indicators such as the number of hospital beds and doctors per head of the population, hospital infrastructure facilities, time spent training staff, life expectancy, neonatal death rates, etc. In recent years, preliminary discussions have begun at OECD and EU level about which indicators would be suitable for quality benchmarking of the different systems. An expanded bands model could incorporate the findings of these studies.

Notwithstanding these provisos about the correlation between quantity and quality in the healthcare sector, there is no denying that there is an extremely close quantitative relationship between a country’s economic development and how much it spends on healthcare. According to our calculations, the coefficient of determination for 1998 and 2004 was over

70%. Richer nations are able to provide a higher quality service because they spend more on healthcare in relative terms, have better hospitals, better qualified and better paid healthcare professionals, and better medicines, treatments and surgical techniques. If it were really possible to do all this with a significantly lower level of spending, then the correlations described above would not be so close. As such, it may be concluded that the quality of healthcare provision is extremely closely related to the quantity of healthcare spending.

6. A new direction for EU labour market policy

In order to combat unemployment in Europe effectively, what is really needed is a shift in economic policy (see Section 2). Labour market policy measures and structural reforms can only succeed as part of a favourable macroeconomic framework geared towards tackling the current low growth rates. If it wants to improve its international competitiveness, Europe needs to build on this by competing globally on the basis of quality rather than joining in the race to the bottom in wages and social standards. Europe needs to play to its strengths, which are high-quality goods and services, a highly-skilled workforce, and properly regulated jobs with adequate social protection.

It is therefore necessary for the EU to focus on pursuing a more positive approach through a preventive and active labour market policy.

Active labour market policy measures are essential in order to get more people into the labour market and counteract its segmentation. People should be provided with individual support to assist them with the transition from unemployment to the world of work. However, they should also have the opportunity to leave and then return to employment at different stages in their lives.

Labour market policy measures to assist disadvantaged groups in the labour market need to be expanded and improved rather than being sacrificed in a culture of budget cuts. Promoting initial and further training opens up new opportunities for young people and those with low skills levels and helps to solve the shortage of skilled labour. The EU's employment policy should also set itself ambitious targets regarding disadvantaged groups on the labour market and access to education and training.

In order to prevent the casualisation of labour, it will also be necessary to launch national and European initiatives aimed at improving contracts in new forms of employment so that atypical jobs are guaranteed the same employment and social standards as “normal” jobs, and so that this kind of work is no longer marginalised by being excluded from the regular labour market.

Of course, all of this presupposes a strategic labour market policy model that sees improving the quality of work as its core goal. The poverty trap and the vicious circle of insecure jobs need to be combated by improved EU labour market regulation with regard to part-time work, fixed-term jobs, temporary agency work, working time, protection against dismissal, wage compensation regulations for the unemployed, and active and preventive labour market measures.

In fact, however, the opposite has occurred in recent years, with the EU and its Member States adopting a model based on the promotion of deregulation and flexibilisation that has been responsible for the increased casualisation of labour. There has been a growing tendency to abandon the political goal of introducing minimum social standards in order to achieve a high level of social protection across the whole of the EU and to protect workers’ rights against the negative effects resulting from the development of the single market. The creation of an independent regulatory framework for EU social policy is once again moving down the political agenda. What we are increasingly seeing instead are predominantly non-binding regulations that can end up being used primarily as marketing tools for major corporations, as demonstrated by the debate on corporate social responsibility.

In addition to the above, it is clear that cross-border employment and posting of workers are increasingly becoming one of the key areas of European social policy. The rise in migration flows, free movement of workers and unrestricted freedom to provide services poses a threat to the European social model if the interests and acquired rights of employees remain at the mercy of a neoliberal single market policy instead of becoming the main focus of EU policy. Member states are called upon, in accordance with their national traditions, to promote regular employment contracts and limit the extent to which atypical forms of employment are used instead. One first step in the right direction could be to create the concept of a “European worker”. In this regard, it would be important for Member States to retain full decision-making and monitoring powers in order to prevent attempts to get round the regulations and to avoid social dumping.

Europe needs minimum standards with regard to working conditions. Furthermore, it is important that these minimum standards should not just exist on paper but should be transposed and implemented effectively. In order to achieve this, it is necessary to have powerful trade unions with a strong presence in the workplace.

Rather than the moratorium on EU social legislation called for by the European employers' associations, what we actually urgently need is an ambitious European social legislation programme.

In the short term, this should focus on:

1. continued efforts to improve the EU Working Time Directive that do not contradict the ECJ ruling on on-call time, that limit the extension of basic working hours to exceptions negotiated by collective agreement, and that put an end to the use of “voluntary” agreements (so-called individual opt-outs) as a means of getting round the weekly working time limit;

2. a review of the EU's Posting of Workers Directive in order to achieve consistent and unambiguous implementation of the place of work principle, making it a legal requirement for people doing the same work in the same place to have the same working conditions and pay.

7. European integration cannot be allowed to jeopardise universal services

The last 30 years of neoliberal intervention on both sides of the Atlantic have produced a radical shift in post-war capitalism that has put the characteristics of Western European social models (such as a comprehensive welfare state and public sector institutions and services) under growing pressure. The change has taken place at several levels simultaneously but the growing impact of the European level has been particularly significant. Precisely because the changes have been very contentious at national and local level in many countries, they have been instigated at European level by means of sector-specific Directives and, particularly over the past two years, enforced by means of ECJ rulings. These Directives covered, inter alia, the telecommunications and media sector, postal services, gas and electricity supply and rail transport. The stated aim of the Directives is primarily to create competition, but in many cases, the outcome of the process of liberalisation has been to increase the number of private companies providing public services, even though the Directives make no provision concerning forms of ownership. Meanwhile, the impact in terms of creating competition was minor, because state monopolies were often replaced by private oligopolies during the liberalisation process. At the same time, world trade was being liberalised and the monitoring of the free movement of capital was being relaxed, making it possible in virtually all Western European countries to privatise state companies and public services. As a result, many areas that had not previously been subject to market forces suddenly became new markets in themselves. At its simplest, what was called a “reform” of the European social model saw market forces freed at the cost of human labour, which itself then became a good like any other. This process was accompanied by media pressure to sideline the principle of solidarity.

Access to services in the general interest is a key pre-requisite if citizens are to share in the life of their society. And this goes beyond services that serve general public economic interests, such as telecommunications or energy; it also includes non-commercial services in the general public interest, such as culture and education or health care. If citizens do not have adequate access to these services, they are significantly limited in their ability to exercise the basic right to participate in society. Provision of such services cannot, therefore, be left solely to market forces and to open competition but needs public supervision. Against this backdrop, the issue is whether the new EU Treaty provides opportunities to remove non-commercial public services from the conventional logic of the single market – or whether services in the general public economic interest that are subject to market forces and open competition should not also be subject to stricter social standards. Under Article 2 (26) of the Additional Protocol to the Lisbon Treaty, non-commercial services in the general public interest fall under the competence of the Member States. Moreover, Article 1 of the Protocol stipulates that, in relation to services in the general public economic interest, the Union’s values include:

- respect for the diversity of these services, which may reflect geographic social and/or cultural factors, and
- an aspiration to high levels of quality, guarantee and viability, equal treatment, and promotion of universal access and user rights in relation to these services.

Article 14 of the EU Treaty also, finally, stresses that services in the general public economic interest play an important part in promoting social and territorial cohesion.

In this context, ver.di supports the position of the ETUC in calling for each Member State to be given the power to compile a register of non-commercial public services that are explicitly removed from internal market forces and the legislation on competition and subsidies. Such a register could, for example, include education, health and culture, to name just three sectors that would fit this description. This would be the only way to counter the Commission's practice of categorising non-commercial services as commercial services as soon as a rival provider expresses an economic interest in supplying them. What the Commission is seeking to do here is to undermine the powers of the Member States and to force through supremacy of the single market. The ETUC is also calling for Article 14 of the EU Treaty and the Additional Protocol to be invoked to adopt Regulations that use the principles of subsidiarity to strengthen the powers of local, regional and national government and public bodies in relation to universal services in the general economic interest. General public interest must take priority over the interests of the single market and of competition. Implementation of the Lisbon Treaty must be reviewed so that this rebalancing of powers over services in the general public interest in the EU is allowed to take place.

A further variant on privatisation is what is known as the "public private partnership", or PPP. In a PPP, a private investor establishes a public infrastructure and undertakes to operate it over a period of years, so achieving private sector efficiency in public provision of services and savings in both time and money. The problem with such projects is that the contracts governing them are complex and opaque. Moreover, the continual pressure to drive down costs often impacts directly on the working conditions and pay of those employed on the projects. There is now a substantial corpus of negative examples of this kind of partnership in respect of costs to the public purse, quality and employees' conditions. As a result, a PPP is frequently nothing other than privatisation of public infrastructure in another guise.

A revitalised European social model means a central role for the public sector and, in particular, for public services. Publicly organised services available to all strengthen workers' status. Redistribution through welfare systems can help to mitigate social inequality but does not fundamentally challenge it. However, public services genuinely available to all, regardless of individual purchasing power, help boost social cohesion and social integration. A modern welfare state should not just redistribute wealth but should organise social services itself, to ensure equal access, certain quality standards and satisfactory working conditions on the part of providers.

A social infrastructure organised along such lines would include not only social services but also a broad range of other public services, including water and energy supply, transport, communications, house-building, banking, public service broadcasting, and a spread of cultural institutions, among others. Common to all these public services is that they are geared not to maximising profit but to meeting socially defined objectives. History shows that it is not enough for services simply to be in public ownership. Germany's public regional banks (*Landesbanken*) behaved in largely the same way as their private sector counterparts and sought to make quick profits in the globalised and liberalised financial sector. To prevent such behaviour, it must be made clear what duties a public service does and does not have, with the concrete purpose of the services always taking precedence, in contrast to private sector profit-oriented operations. This would require new, participatory user models that give service users not just a choice between two or more providers but also an opportunity to become involved in the planning and provision of those services. Public services would then not merely meet needs but would also be crucial to driving forward sustainable democratisation of society and of business.

The ver.di-supported "Railways for all" alliance is an example of this new type of public service. In March 2007, the alliance presented proposals for membership of the supervisory board of Germany's railway, Deutsche Bahn AG (DB AG). The proposals made no changes to employee representation but sought to ensure that the shareholders' side include representatives not only of government but also of rail groups representing the interests of passengers; currently, representative of business dominate the supervisory board. This would mean the new supervisory board giving a strategic steer to managing and overseeing DB AG in line with a transport policy of increasing rail traffic, the only way of overcoming a policy currently geared solely to making high profits. Similar models could be envisaged in other areas of public service provision.

The public sector should be used to create high-quality jobs, cut unemployment and put pressure on the private sector to improve its own working conditions. The public sector can also play a key part in developing innovative products, manufacturing techniques or services that help to create a new model of manufacturing and consumer spending. A progressive tax policy is not enough to secure a transition to an environmentally sustainable and socially just economic model. A large and innovative public sector makes the state and society less dependent on private capital and its investment decisions, another key reason why the public sector has a contribution to make to limiting private sector market forces.

8. Extending workers' rights and industrial democracy in business

Safeguarding and developing workers' rights and industrial democracy in workplaces across the EU is an indispensable central pillar of a European social model.

The European Union has built up a solid foundation of (minimum) social standards and legal employment rights in the realm of individual and collective employment law. These need to be consolidated so that they can withstand pressure from neoliberal forces, adapt to new challenges and continue to be developed still further.

There is a whole range of different EU directives that (supposedly) guarantee workers' consultation and participation rights within the European Union or European Economic Area. The European Works Council (EWC) Directive that came into force on 5 June 2009 is especially important in this context.

8.1 European Works Councils

Because of the number of people they now represent and the potential they offer for employee participation and representation at transnational group level, European Works Councils have a pivotal role in the continued Europeanisation of employee representation and trade union policy.

Since the EU's enlargement to the East, the number of companies that meet the requirements for the establishment of an EWC has risen to approximately 2,200. Of the 800 or more European Works Councils that have been set up so far, some 500 have a presence in Central and Eastern Europe. Enlargement to the East has led to an increase in the shortfall in coverage. This is tempered by the fact that it has hitherto proved possible to establish European Works Councils especially in the larger companies with European operations, and approximately 60% of all eligible workers (measured on the basis of the number of companies that meet the requirements for an EWC) are in fact currently represented by an EWC.

In terms of EWCs' quality, the main conclusions from our experience to date can be summarised as follows.

No two EWCs are the same. Many continue to be little more than symbolic or passive bodies where what is done in practice falls short of the requirements, rights and possibilities provided for by the Directive's subsidiary minimum requirements. Meanwhile, a reasonable number of EWCs more or less comply with the subsidiary requirements and are thus able to generate a limited "European added value" for employee representation. Finally, a significant number have grown into their role as transnational bodies capable of demanding and actively making the most of the regulated information and consultation rights and possibilities provided for either by the directive or by their own EWC agreement.

In (too) many cases, what EWCs can and actually do achieve in practice falls well short of the official goals of the EU legislator and the regulated information and consultation role explicitly described in the Directive. In this respect, the European legislator has still not achieved the goals set out in his own Directive as early as 1994 and repeated in the new (2009) version. Despite the improvements made in the latter version, there are still many weak points in the EWC Directive.

Key demands in this regard continue to be:

1. Improving the way EWCs operate in practice: in view of the speed with which companies take decisions, a second regular full EWC meeting each year is essential. The continuing restriction to one regular meeting each year weakens a key aspect of the EWC's work and is one of the major shortcomings of the 2009 version of the Directive. These shortcomings make the new version largely unacceptable, despite the compromises it represents. The demand for a second meeting each year includes the need for an internal post-meeting for employee representatives, as well as for formal rules governing when external experts and trade union officials can be brought in.

2. Expanding the scope of the EWC Directive: the threshold for setting up an EWC should be lowered to a total of 500 employees with a minimum of 100 employees in at least two countries. The high thresholds specified in the 2009 Directive and the protection of special interests are weakening the European social model at the level of supra-national European co-determination. In addition, the

provision for sanctions in case of breaches by the employer of the EWC's mandatory co-determination rights is still much too weak.

It is worth recalling, however, that despite these shortcomings, the EWC Directive 2009 still represents progress for EWC members and makes their work easier. It defines information and consultation more clearly, bringing these definitions very largely into line with those set out in the European Company Directive. These better definitions will force companies in future to involve their European works councils in many more cases before decisions are taken.

A new skills training entitlement will also offer EWC members a better chance to resolve the problems that arise particularly during the very early stages of an EWC's life, since all members will now be entitled to attend language classes and training in intercultural communication and the practical interpretation of management information.

On balance, however, the new Directive still falls substantially short of trade unions' expectations. It may be a step in the right direction, but it does not mark the end of the struggle for more employee involvement in co-determination in the European context.

8.2 Co-determination in the European Company (SE)

After more than 30 years of heated debate, the legal entity of a European Company (SE) was finally established in 2001 through a Statute governing the company law aspects that came into effect immediately throughout the EU, and a Directive on employee involvement and participation that had to be transposed by the Member States by 2004. The basis of the directive is the establishment of a Special Negotiating Body (SNB) made up of employee representatives, which negotiates employee involvement and participation in the European Company with the management of the founding companies. Its bargaining position is strengthened by the fact that if the negotiations break down, a set of fallback provisions apply that not only ensure a minimum standard for information and consultation but also guarantee employee involvement at board level under certain circumstances.

The jury is still out as to whether the European Company is a successful model as far as employees are concerned. On the plus side, it improves the rights of foreign workers, albeit at the expense of national employee representatives, who end up with fewer seats. The extent of employee participation at site level is in principle rather limited, although this could be improved during the negotiations. The problem is that the negotiations are not at all easy for the employees who sit on the Special Negotiating Body, since they are dealing with board members who are advised by international law firms at every stage of the process.

It is striking that German enterprises have shown the greatest interest in forming European companies, while there is very little interest indeed in, for example, the UK, where businesses are put off by the fact that employee involvement is guaranteed. It is also striking that more and more companies with no employees and thus no employee involvement are being set up “to be on the safe side”. It remains to be seen whether SNBs will be retrospectively created to protect employee interests if employees are eventually recruited, as deemed necessary by proponents of this practice. If this proves not to be the case, any new version of the Directive should prohibit the creation of European companies without employees.

8.3 The future of workplace industrial democracy in Europe

The EU’s Member States have very different traditions with regard to social democracy in the workplace. One of the consequences is that national trade union movements take very different approaches to the employee involvement provisions contained in the EWC Directive, European Company Statute and Information and Consultation Directive.

Where these differences are the result of legal restrictions on freedom of association, as is the case in several Central and Eastern European countries (see Section 4), European initiatives to put an end to this infringement of employees’ basic social rights are urgently needed.

Where the problems are caused not by the directives but rather by Europe’s trade unions themselves, the trade union movement needs to come up with its own platforms and approaches for developing strategies to resolve these failings. The issues that need to be tackled include differences in the way that the EWC Directive has so far been implemented, trade union opposition to EWCs, national trade unions’ attitude regarding the importance of EWCs, and the politics of how EWCs are run. Why is it that more than half of all EWCs fail even to achieve the level of co-operation officially provided for by the Directive? Why are there such great differences in the extent to which national trade unions co-operate with EWCs? Consideration also needs to be given to the role that EWCs should play within the overall European trade union strategy, for example with regard to European collective bargaining policy.

In order to begin a Europe-wide debate on these problems and on Member States' experiences of the different cultures of social democracy, closer co-operation is needed in this area within the European Trade Union Confederation and the different European trade union federations. This would allow the European trade unions to develop common guidelines and begin an intensive discussion of positive examples of workplace industrial democracy in the different Member States. This would include experiences with the implementation of the Information and Consultation Directive, EWC Directive, and employee involvement in European Companies. ver.di therefore advocates forming working groups at European level to focus on strengthening the work of European works councils. This would make it possible to learn from and transfer best practices, thereby laying the foundations for a more uniform culture of social democracy throughout Europe. This would eventually lead to minimum Europe-wide standards for employee involvement at site and company level, which could also help to overcome the shortcomings of European works councils described above.

9. In favour of precedence for basic rights over market freedoms

The long-running debate about the European Constitution and, following its demise, the Lisbon Treaty should have been an opportunity to put an end to the decoupling of Europe's economic model from its social model. Instead, however, the Treaty has officially sanctioned the dual system comprising a neoliberal European economic regime on the one hand and the Member States' national welfare state traditions and social protection mechanisms on the other. However, the two sides of the dual system are not equal. This inequality stems from the fact that the so-called "fundamental freedoms", i.e. "free" movement of goods, "freedom" of establishment, "freedom" to provide services, and "free" movement of capital – in other words the market freedoms – are given precedence in the law.

The frankly ridiculous choice of the term "fundamental freedoms" is an attempt to cover up the fact that what is going on here has nothing whatsoever to do with freedoms in the European tradition of basic values. What we are dealing with is actually no more than a set of binding contractual rules blatantly aimed at deregulating the European market. The Charter of Fundamental Rights of the European Union only provides a superficial counterbalance to these flaws. The fact that the Charter's general provisions in Article 53 attach the same importance to these "fundamental" market freedoms as to human rights devalues the constitutional guarantees regarding basic rights by qualifying them in terms of market freedoms.

The European Court of Justice has increasingly taken on the role of paving the way for a virtually unlimited extension of the EU's "fundamental freedoms" to the detriment of the fundamental guarantees provided by national constitutional law.

The ECJ's 2007 rulings on the Viking and Laval cases systematically decree that freedom of establishment (in the case of Viking) and freedom to provide services (in the case of Laval) take precedence over freedom to strike and free collective bargaining, once again without any justification on the basis of the EU Treaty. Viking is a Finnish ferry company that decided to re-flag its vessels under the Estonian flag in order to take advantage of lower wages in Estonia. Laval, meanwhile, is a Latvian construction company where the Swedish trade unions tried to support employees who were working in Sweden but being paid the rates stipulated by the Latvian collective agreement. According to the ECJ, EU Member States can only place restrictions on the freedom to provide services and freedom of establishment when there are compelling reasons of public interest. So the ECJ now sees fit to ride roughshod over the individual Member States by assessing whether or not the reasons for every single strike and collective agreement are really compelling in accordance with its own preconceived ideas that are of course totally unclouded by social considerations. According to this way of thinking, the social content of collective agreements cannot be allowed to be the deciding factor, since workers' interests are not the same as the public interest. The freedom to strike and free collective bargaining are not protected for their own sake, and are only considered as part of the process of checking whether there are compelling reasons of public interest, which means that ultimately they are treated as being of secondary importance. In the Viking case, the ECJ even had the temerity to declare that human dignity needs to be "made compatible" with market freedoms.

In the Rüffert case, the ECJ refers to the Laval ruling in support of its ruling that German legislation requiring pay to adhere to the collectively agreed rate violates the Posting of Workers Directive, since it places restrictions on the freedom to provide services. The ECJ's Rüffert ruling came down in favour of allowing workers posted to Germany from a

Polish company to be paid less than German workers doing the same work. As such, it flatly contradicts the German Constitutional Court's previous ruling on this issue, which states that priority should be given to upholding collective agreements, not least because of the obvious benefits for the labour market and social security system. The ECJ ruling even contains a technical legal flaw. In its haste to overturn Lower Saxony's law on awarding public contracts, it managed to overlook the fact that the contract with the Polish construction firm that was the subject of the case had been signed in 2003, before Poland had actually joined the EU.

The ECJ's ruling against Luxembourg's legislation on employee protection continues this trend. Its rigid approach to social policy in its interpretation of any potential objections to individual rules in Luxembourg's law on the posting of workers demonstrates just how incredibly broadly the ECJ is prepared to interpret the Services Directive. For example, Luxembourg required the provisions of the Directive on an Employer's Obligation to Inform Employees of the Conditions Applicable to the Contract or Employment Relationship, as well as the provisions of the Part-time and Fixed-term Work Directives, to be complied with by the posting company as well as the receiving company, and allowed spot checks to be carried out to ensure that this was being done. This ensured that compliance was being checked twice – once in the posting country and once in the host country. The ECJ, however, considered this to be an unacceptable restriction of the freedom to provide services. This ruling is a throwback to the Bolkestein era, and completely overlooks the improvements that the European Parliament made to the Commission's original draft of the Services Directive with regard to the interpretation of the Posting of Workers Directive.

And if this dismantling of social constitutional rights were not enough, the EU Commission used the mainstream of ECJ rulings late in 2008 to accuse Germany of breaching Treaty provisions, claiming that benefits for trade union members laid down in collective agreements were subject to European procurement legislation.

Primarily, this dispute centred around the issue of whether German local authorities and workplaces were required to put out to EU tender occupational pension contracts for care providers or whether they could, as provided for in Section 6 of the collective agreement on salary-to-pension conversion in the local government sector, award such contracts direct to the three bodies and companies provided for in the concluding section of the agreement and overseen by employers and unions.

The ECJ's ruling of 15 July 2010 was that the contracts should be put out to tender, and Germany was sanctioned accordingly. The Court used the case as an opportunity to put the final brick in a wall it had been building since 2007 to protect what it calls "the basic freedoms" enjoyed by the market and free competition against social harmonisation and specifically against guarantees of free collective bargaining laid down in Member States' constitutions. With a brief reference to its earlier rulings, but without any more detailed explanation, the Court ruled that exercise of the basic right to engage in collective bargaining had to be made compatible with protection of the freedoms provided for under the Single European Market and with the principle of proportionality. In so doing, the Court waved away Article 9 (3) of Germany's Basic Law, which provides for protection of free collective bargaining with a cursory reference to the fact that this right is exercised in accordance with EU law under Article 28 of the Charter. In its haste to do away with any obstacles to the so-called basic economic freedoms of the market and of competition, the ECJ deliberately fails, in this ruling and in earlier decisions, to acknowledge that by dint of the way they are negotiated by the social partners, collective agreements have already undergone a proportionality check, since they have to be limited in a way that is determined by the Member States' constitutional provisions on bargaining. If the freedom to bargain is to be more than an empty concept, there is no scope for further, wider-ranging and more results-oriented proportionality checks against the criteria of the "free" market and "free" competition.

The ECJ, which remains the least transparent EU institution and the one with the least democratic legitimacy, has taken it upon itself to create a body of law that no longer falls within the provisions of the EU Treaty where nothing whatsoever is said about the respective status of basic rights and market freedoms or even about the primacy of basic rights over market freedoms. The ECJ has styled itself as the institution responsible for paving the way for and systematically enforcing a neoliberal economic order that is to a large extent not subject to regulation in terms of compliance with basic rights. It has proclaimed the supremacy of market freedoms over the Member States' own employment and social welfare regimes, and even over human dignity, stating that they need to be "made compatible" with market freedoms.

It is nothing short of astonishing that the ECJ should see fit to do this at a time when people's reservations about the European project have been growing, as was clearly demonstrated by the results of the Irish, French and Dutch referendums. The ECJ’s recent rulings are stretching the loyalty of workers in the core nations of the EU to breaking point, and should be completely overturned. The requirement for pay to adhere to the collectively agreed rate for all workers should continue to be a fundamental social principle in the law on awarding public contracts.

The following steps need to be taken in response to this predicament:

- The tension between so-called fundamental freedoms and basic social rights must be resolved in the interests of the latter. Basic social rights must be given priority over competition regulations. This must be made compulsory by amendment to EU primary law. The treaties must also lay down in legally binding form the fact that the EU serves not only economic but also social progress.

- In this context the principle of “equal pay for equal work at the same location” must be applied. The Posting of Workers Directive must be amended to ensure that the pay and working conditions of posted workers – applying the principle of advantage – are clearly and completely in line with the collectively agreed pay and working conditions at the location of posting.

- The EU Council of Ministers should be called upon to immediately make clear its support for these basic principles. The European trade union movement can and will not accept any continuation of European integration policy under the banner of neoliberalism as this represents a fundamental threat to the interests of millions of European working men and women.

- Notwithstanding the above, the German *Länder* that have legislation requiring pay settlements to adhere to the collectively agreed rate should summon up the political courage not to fall over themselves in their haste to obediently adopt ECJ rulings as the basis of everything they do. They need to stand by their own laws on adhering to collectively agreed pay rates, interpret the ECJ’s rulings on a purely case-by-case basis, show that they are prepared to take the ECJ on over new individual cases, and thus contribute to the systematic politicising of this debate. The Rüffert ruling is only binding in the state of Lower Saxony. It does not directly affect other German *Länder* such as the state of Berlin, whose law requiring pay to adhere to the collectively agreed rate was explicitly endorsed by the German Constitutional Court as recently as 2006.

10. Democratisation and parliamentary feedback of EU decisions

The debate surrounding basic rights and "fundamental freedoms" cannot be separated from the debate on the democratisation of the EU. The EU's institutions are in need of fundamental reform.

The fundamental ruling of Germany's Constitutional Court on the Lisbon Treaty on 30 June 2009 increased the scope for greater European democracy, coupled with critical popular debate of European issues in Germany. This opportunity must be seized. It is important to note that this is not tantamount to reverting to nation-state patterns of thinking. We cannot celebrate the sixtieth anniversary of Germany's Constitution as a milestone in the country's democratic development and at the same time accept that the basic freedoms guaranteed under it – the dignity of human existence, freedom of speech, free collective bargaining and the right to strike – are reduced at European level to a rapidly-dwindling source of secondary legislation.

If then – to quote the Constitution – EU Member States are to remain "masters of the Treaties" and to have the power to intervene via direct involvement of their national parliaments in their "responsibility for integration", for example when their representatives in the European Council or the Council of Ministers are debating and agreeing policy with other Member States, then that will produce a strengthening of democracy. This is much more important than unwieldiness in the consultation procedure. And having to argue more strongly for policy on European integration "at home" would also make that policy more transparent. It will become more difficult to play the opaque and, in some cases, politically dishonest game of "passing the buck" that the governments of the EU Member States play in Brussels when helping to frame legislation that would have no chance of being passed by their "home" parliaments. Parliamentary debate is always also a forum for opposition, something that can help to strengthen European democracy.

A social Europe can develop only on the basis of a clear separation of powers. It is no longer acceptable for the EU Commission to blur the distinction between legislative and executive powers, and any future EU government must be elected by the European Parliament and accountable to it. The Parliament in turn must have real powers to initiate legislation that go far beyond its current right of veto.

11. Outlook: not less Europe, but more Europe, just not more of the same!

This analysis of the EU’s economic and social regime and the ECJ’s rulings has shown that, in its current form, the European Union is harming the interests of workers in many different ways, some of them fundamental. The fact that ordinary people are losing interest in the EU is linked to employees’ loss of confidence in the Union’s ability to protect their social rights. Their suspicion of Europe is based on their personal experience of how current EU policy promotes wage and social dumping and is no longer succeeding in generating full employment. It is spurious to suggest that it is actually caused by an “information deficit” with regard to European integration, or by a hangover of nationalistic attitudes among the population at large.

The main focus of our criticism is the attempt to enshrine the current neoliberal economic and social policy in the EU Treaties, thereby making it part of the European constitution and perpetuating it practically for all eternity. The structure of the economic and social regime described above has been incorporated into the EU Treaties since 1993, and was retained in the same form in the Constitutional Treaty and Lisbon Treaty. In this respect, the EU Treaties therefore go far beyond the political scope of Member States’ own national constitutions. After all, not one of the EU’s Member States has a constitution that decrees the direction to be taken by monetary and fiscal policy. No member state is based on a system of competitive federalism enshrined in its own constitution. Just imagine what things would be like if Germany’s sixteen *Länder* could all independently determine their own corporation tax rates, social security contributions and wages! The vast majority of the German people would never accept the resulting destruction of common living standards and downward spiral in socioeconomic conditions. Nonetheless, what would be politically unthinkable in Germany is exactly what has actually been happening in the EU since 1993, as the European Commission and ECJ have pursued a policy of promoting competition between regulations.

The unilateral adoption of the EU Treaties violates the content and social policy safeguards of many Member States’ constitutions. Rather than simply confining itself to establishing the EU’s institutions and regulating their powers and decision-making processes, the Lisbon Treaty virtually confers constitutional status upon neoliberal economic policy, by narrowly restricting the ECB’s role to combating inflation and limiting budgetary policy’s role equally narrowly to budget consolidation. Thanks to the Treaty, the competing nation states system, together with all its negative consequences for wages, social and fiscal policy, is also perpetuated virtually for all eternity.

If the fundamental tenets of government policy are already established by the EU Treaties, then the question of who wins a majority in national elections almost becomes a matter of secondary importance. This could well lead to societies like Germany, which are based on a constitutional model, losing their politically objective character and in the long term being forced to move from their neutral economic system towards the neoliberal model.

This is where one of the EU's key democratic deficits lies. The EU Treaties' provisions concerning the content of economic policy and their structural rules governing wages, social and fiscal policy place such severe restrictions on what Member States' democratically elected parliaments and governments can and can't do – irrespective of what their own constitutions might say – that even when major political changes occur within a member state it is impossible for them to change their policy in these areas.

The growing Euroscepticism in the Member States clearly shows that the consequences of this economic and social regime are causing increasing disquiet among the EU's citizens. People believe that these processes are having unfair effects, particularly as far as the glaring inequality in income distribution is concerned. They are calling for an end to social inequality and for social protection for the poor and needy. Meanwhile, the neoliberal demagogues denigrate social protection systems as nothing more than a "social hammock" that we can ill afford in a world faced with the supposed pressures of globalisation. All the while, however, they studiously ignore the fact that Germany of all places, despite its healthy export surpluses, is one of the drivers of wage, fiscal and social dumping, rather than one of the victims.

Moreover, social injustice, both subjective and objective, works against integration, increasing discriminatory pressure on foreigners and making it easier for the dangerous arguments put forward by right-wing nationalist parties across Europe to be heard.

Following the "no" votes in the French and Dutch referendums and the unreasonable pressure put on the Irish electorate ahead of its referendum, it is high time that the EU finally stopped saying it is going to push ahead regardless. It needs to stop restricting its policy to the legalistic implementation of the Lisbon Treaty and open up a debate on the future of the Union right across European society. This should eventually result in the adoption of a new EU Treaty that does not seek to influence social policy but instead leaves its content and direction in the hands of Member States' democratically elected governments. Monetary and fiscal policy need to be released from their fetters and given the freedom to pursue a strategy geared towards growth and employment. Wage, social and fiscal dumping practices should be prevented by Europe-wide regulations. Our response to the processes inherent in a system of competing nation states cannot be to call for "more nation state and less Europe". On the contrary, we actually need more Europe, just not more of the same Europe. However, to achieve this, we will need a new regulatory framework for European economic and social policy. In other words, we need a policy that gives us a chance of achieving the alternative European social model we describe above.