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Where now for Europe?

Contributions by
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Dominique Strauss-Kahn
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Where now for Europe?



Editorial

The European Union is certainly in a very difficult situation. Only few commentators deny this fact. The symptoms look somewhat diverse on the surface but the diagnosis is quite clear across Europe. Whether it is the French and the Dutch opposing the European Constitution in their referendum or the German election result, it is apparent that Europe's citizens do not subscribe to a neo-liberal philosophy but, to be fair, they are not yet convinced of any alternative either. But these complicated circumstances, at least, lifted basic debates, that should have been led for a long time, on the agenda.

As many contributors to this issue rightly argue, an alternative to the 'Washington Consensus' can only be realistically developed on a European scale. And the left has to come to terms with this situation. Paradoxically, policy reactions to pressures mostly remain on the national level whereas the causes of many urgent issues lie very much beyond the scope of any national government. Today's political challenges are complicated and diverse and so far we have not found comprehensive answers. We know, however, that the elaboration of a credible social democratic alternative needs to have a strong European dimension and that we must not forget to take Europe's citizens with us.

One can see at many issues — such as the fate of the Constitution, the budget dispute and the fight about the future of the European Social Model — that the Union is not sure about what direction it will go. But this uncertainty is also an opportunity. Let us use this opportunity to drive forward a passionate debate about our vision for Europe. If we manage to include and emotionalise Europe's citizens and convince them that our vision for Europe provides the sort of security from unleashed market forces they expect from politics, European social democracy could once again become the dominant political force in Europe.

There are many important policy areas addressed in this issue. Whether it is Dominique Strauss-Kahn criticising the lack of coordinated economic policies in Europe or Erhard Eppler arguing that effective joint positions shared by European social democratic parties have more value than a renewed national party constitution, the realisation of the obvious need for supranational solutions also becomes increasingly urgent. We hope that the contributions to this issue are a stimulating introduction to the debate about the future of Europe.

Henning Meyer
Editor

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A Democratic Left Vision for Europe

by David Clark, Neil Kinnock, Michael Leahy, Ken Livingstone, John Monks, Stephen Twigg



Preface

In a very direct sense this statement is part of Robin Cook's political legacy. He suggested it at a meeting of leading Labour pro-Europeans that took place in the Gay Hussar restaurant in Soho the evening after the French referendum rejecting the European Constitutional Treaty.

The meeting had been organised to plan a British referendum campaign, but became instead a post mortem on the defeat. True to his character, Robin was determined that pro-Europeans should not wallow in despair, but should regroup and set out some practical steps as part of a new and more effective campaign to make the case for Europe. He conceived of this statement as the first of those steps. Sadly, it turned out to be the last project I worked with him on after more than a decade of political collaboration.

The statement itself reflects the views of its signatories, but Robin's presence can still be felt. He had seen and approved an early draft and an extended discussion about it had been the subject of our last meeting a few days before his death. He was so absorbed by the subject that he asked for a revised version to be emailed to a hotel in the Highlands where he was due to be staying on 7th August. He never got there. I have no doubt that had Robin lived to see the final draft he would have gone through it and added his own handwritten amendments as I had seen him do on countless occasions before. But the thrust of its argument — that the democratic left should embrace the European Union as a vehicle for progressive change — was very much his own. It can be seen as an authentic statement of his political beliefs.

The origins of Robin's emergence as a leading pro-European have been the subject of extensive commentary, much of it ill-informed. One particularly erroneous theory is that he "went native" under the influence of officials at the Foreign Office. This conveniently ignores the fact that he had become convinced of the case for European integration long before Labour took office in 1997. He was, as he often pointed out, the Shadow Europe Minister appointed by Neil Kinnock to move Labour away from a position of withdrawal after the 1983 election defeat.

He voted for withdrawal in 1975 when Europe was seen a little more than a common market, but later started to reassess his position when Europe's potential as a political and social project started to become more apparent. By the 1990s he had come to the view that globalisation had limited the ability of nation states to address the most serious challenges on their own and that the future of progressive politics lay in deeper international cooperation and European integration in particular. It was a conclusion that fitted naturally with his internationalist instincts. Britain, he believed, would never succeed in the wider world unless it was first able to make common cause with its nearest neighbours.

He remained critical of specific aspects of EU politics. The last time I saw him he was complaining about what he saw as the European Commission's unwarranted interference in the British horse racing industry, something that was even closer to his heart than Europe. But he remained convinced that Britain, and the Labour movement in particular, should see the European Union as an opportunity, not a threat and was dismissive of the idea that Britain could opt-out.

To the surprise of many, Robin thrived on the European stage during his time as Foreign Secretary. Those who knew him mainly through his combative performances at the despatch box of the House of Commons would have struggled to recognise the Robin Cook who worked the corridors of Brussels, patiently building consensus and agreement. By the end of his time as Foreign Secretary, his officials believed he had become the most respected and influential foreign minister in Europe. But Robin wasn't just a great diplomat for his country. His vision of Europe was deeply political and his work reflected a profound commitment to the solidarity of nations and peoples. One of his proudest achievements was to have served as President of the Party of European Socialists from 2001 until 2004.

Robin disdained the individualist school of history and would have been angered by the suggestion that the European cause had been weakened in any fundamental way by his passing. But the truth remains that those in the Labour movement who support Britain's full engagement in Europe have lost a true friend and an inspirational leader. Those he leaves behind owe it to his memory to continue the fight in his absence.

David Clark

The evolution of Robin's thinking on Europe was gradual.

A Democratic Left Vision for Europe

We are at a decisive moment in the development of both the European Union and the democratic left. Indeed, it is our contention that the prospects of both are closely linked. The European left cannot realise its vision of a more just social order in a continent that is economically and politically fragmented. Europe cannot succeed unless it responds effectively to the demand of ordinary Europeans for material security and social justice. To doubt either of these fundamental truths would be a costly error. It is for this reason that we call on pro-Europeans in the Labour movement to unite and challenge those who see in Europe's present difficulties an opportunity to weaken it or push it in a more neo-liberal direction.

The insight that the peoples of the world are united by common interests and a common humanity is obviously not a recent product of the global era; it has been central to the socialist idea since its birth. Yet the democratic left has often failed to translate its internationalist values into the practical reality of a progressive world order built on strong and effective institutions. The European Union is certainly not perfect, but it is the most advanced and successful international organisation that has ever been created.

For all its faults, it is living proof of humanity's capacity to set aside deep national differences and order its affairs in common. That is too precious an achievement to be squandered lightly or ever jeopardised by neglect.

The democratic left case for modernising reform of the European Union is certainly strong, but no one should harbour any illusions that there is an accessible alternative path to the sort of world we want. The collapse of the European project would not herald a new era of progressive advance: it would condemn Europe to the economic and political rivalry that has proved so ruinous in the past. It is therefore the responsibility of the Labour movement and its allies across Europe to build on what has already been achieved and make the case for radical change from within.

The corollary of this is that Europe must be more than a marketplace for the free movement of goods, services, labour and capital. It must be an instrument for regulating markets in the public interest and restoring human values to the economic life of our continent and the wider world. This is Europe's rationale and its real achievement: not simply the promotion of free trade, but the creation of a framework that allows trade to be managed in accordance with rules and institutions that are politically determined by elected governments. In the real World this is something that even the largest European countries can no longer hope to achieve on their own and must now do by acting collectively. Real progress has already been made on consumer standards, environmental protection, social rights and much else. But Europe has the potential and the need

to do a great deal more simply because the greatest challenges, opportunities and threats it faces today are international in scope.

The purpose of this statement is therefore twofold: to restate the democratic left case for the political and economic integration of Europe and to set out a vision of how the European Union could be reformed to make it a more effective instrument for social and economic progress. No one imagines that this will be easy, but the alternative of disillusionment followed by disintegration would be a catastrophe for progressive politics and the security of nations.

The European Crisis

The failure of the European Constitutional Treaty to win popular approval in the French and Dutch referendums is a symptom, not the cause, of a crisis in European politics. Support for the European Union has declined sharply in the last decade and a half: down from 72% across all member states in 1990 to 54% today. In the same period support in Britain has slumped from 57% to 36%. Yet most of Europe's political elites have failed to heed the warning signs. European decision-making has remained too technocratic and remote, too focussed on process over outcome and insufficiently interested in meeting the challenges of public perception, understanding and consent.



Neil Kinnock

Very few Europeans see the European Union as essential to their well-being. Indeed, few have a particularly clear idea of what it is for. Some of that can be attributed to the passage of time and events over the last fifty years. But the deeper reality is that without a clear reason for existence the European Union will increasingly be seen as just another layer of bureaucracy, or worse, part of a wider phenomenon in which people feel themselves to be at the mercy of anonymous global processes beyond their control. This prevailing uncertainty and insecurity is exploited by nationalist and populist movements who advocate a retreat into old certainties, largely imagined, and practice the politics of national and ethnic exclusion. Unless Europe comes to be seen as part of the solution to the day-to-day challenges of life and work, it will always be seen as a problem.

The mixture of public puzzlement and suspicion about the European Union translates into a perceived lack of 'legitimacy'. That is substantially the result of failures of political courage, vision and consistent advocacy. Europe's leaders have not taken responsibility for explaining the benefits and potential of integration to citizens and have too often found it convenient to blame 'Brussels' when things go wrong. They have also failed to construct a political vision in which a more integrated Europe with relevant policies and accountable institutions is seen to playing an essential role in enlarging the sovereignty and safeguarding the interests

each of member state. This is part of a broader trend of declining faith in the ability of government to change peoples' lives for the better, but it is something which successive governments in several member states have fuelled themselves.

In this respect the European crisis is a particular problem for the left. Those who are happy for the fate of humanity to be determined by the invisible hand of market forces or the aggregate of private choices believe they have nothing to fear from a world in which politics remains purely national. Indeed, they prefer conditions in which the decisions that matter are beyond the sovereign reach of elected governments. By contrast, for those who believe that people should be able to shape their own future, consciously and through their elected representatives, the need for a strong, effective and relevant European Union with accountable institutions should be clear.

Yet in Britain, the pro-European consensus that formed part of Labour's revival in the late 1980s and early 1990s has come under strain.

As in France and other countries, parts of the mainstream left say that they are disillusioned with the apparent retreat from the social vision of Europe outlined by Jacques Delors in his speech to the TUC in 1988 and emphasised by those who changed Labour's policy direction in those years. There has been a reaction against what sometimes seems to be a one-sided emphasis on market liberalisation that has expressed itself in a growing scepticism about the value and purpose of European integration.



Michael Leahy

The Labour government bears a measure of responsibility for this apparent weakening of the pro-European coalition. After initially taking a strong and practical pro-European stance, it has dissipated scarce political capital in seeming to appease elements of the right — particularly in the media — that will never be reconciled to the European Union. That deficiency is being paid for with a loss of support on the left. It makes no sense for Labour ministers to return from major treaty negotiations declaring that their main achievement was to ensure that the treaty would do nothing to improve employment and social rights. That is not an approach that is likely to unite or inspire the Labour movement or anyone else who wants economic change to be accompanied by social progress.

In his recent and warmly received speech to the European Parliament, Tony Blair said that he wanted a political and social Europe, not just a free trade zone. That is a sentiment everyone in the Labour movement and the wider European left must heartily applaud. But words are no substitute for action and the positions taken by the British Labour government on, for instance, working time and information and consultation rights for employees have too often appeared to conflict with that aspiration. It is time for greater consistency of purpose and political action. The task for

the pro-European left must be to contribute to that goal by developing and articulating a clear agenda for the reform and renewal of the European project in a progressive direction.

Europe: a Union of Values

For all its present problems, European integration is a phenomenal success story. It has achieved the original purpose of the community of making war between its members unthinkable, so much so that the peace of Europe is generally taken for granted. It has constructed the largest and richest single market in the world, boosting jobs, growth and living standards. It has given millions of EU citizens the opportunity to travel from their home country to live and work in other parts of the Union. It is the largest trading bloc on the planet with the potential to use that power to address global imbalances while building its own future prosperity. It has shown solidarity with Europe's poorer regions by

providing structural funding and helping countries like Ireland and Spain to make huge advances towards prosperity. It has become the biggest provider of humanitarian aid and untied development assistance in the world. It has promoted political change by embracing new democracies in central and eastern Europe and facilitating their reform and reconstruction.

In the last decade the European Union has undertaken its two most ambitious projects to date: the creation of a single currency embracing twelve states and successive rounds of enlargement that have more than doubled its membership from twelve to twenty-five. Change is always disruptive and it was perhaps inevitable that undertaking both projects simultaneously would provoke a negative reaction in some sections of public opinion. But the fact that Europe has successfully completed them ought to be enough to dispel the fashionable thesis that European integration is in decline.

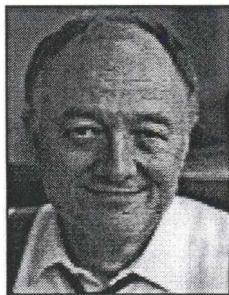
The list of countries queuing to join the European Union and aspiring to be part of the eurozone continues to grow and around the world regional formations like Mercosur, the African Union and ASEAN are now attempting to emulate Europe's achievements. The current mood of Euro-pessimism is fundamentally at odds with the reality of Europe's strength and future potential. Our political leaders should acknowledge that fact and make the argument for Europe with greater clarity and confidence. If they don't, secessionists - mainly on the right - will benefit. Diffidence about Europe does not just mean criticism from pro-Europeans. It means votes for parties that sow and harvest isolationist sentiment.

It is clear, of course, that public support for Europe cannot and should not be secured or retained simply by dwelling on past successes. That support can only be won if Europe continues to adapt, move forward and

provide practical solutions to modern problems. The vision of a peaceful and united continent built gradually on foundations of economic cooperation made sense in the ruins of a war-ravaged Europe. But the objectives of putting an end to war on our continent and creating an economic community are no longer sufficient to sustain the process of integration. The first is too remote from the experience or perspective of most modern Europeans, the second too managerial and depoliticised.

If it is to thrive in the twenty-first century, European integration needs a renewed sense of purpose, one that is capable of commanding the understanding and support of the peoples of Europe and not just its political elites. It is our conviction that the foundations of the European project should be its common values, a shared commitment to put them into practice and a belief that they offer the best route to security and prosperity.

Europe's values are clearly demonstrated in many comparative surveys of international opinion. European nations represent a diverse spectrum of experiences and ideas, yet they have in common a clearly identifiable set of political and social perceptions and preferences that are the product of the continent's unique history and culture. These are clearly evident across a broad range of economic, social, international and moral issues. The Pew Global Attitudes Surveys provide just one of the authoritative sources for this conclusion.



Ken Livingstone

Asked whether it is more important for government to guarantee that no one should be in need or for people to be free from government, Europeans chose the former by margins of approximately two to one: Britain 62%-33%, France 62%-36%, Germany 57%-39% and Poland 64%-31%. Americans, however, chose freedom from government by a margin of 58% to 34%. Those agreeing strongly with the proposition that government has a responsibility to look after the poor were as follows: Britain 59%, France 50%, Germany 45% and Poland 59%. In America just 29% agreed.

This divergence of attitude is not only clear from other similar surveys over many years, it is apparent in the very different policy choices Europeans and Americans make. Whereas European societies exhibit a strong attachment to the welfare state and mechanisms of collective social protection, Americans tend towards a preference for what they see as minimal government and individual responsibility. The reasons for this largely relate to differences of historical experience. Whereas Americans believe that they have created a new world in which the stigma of class status has been removed and individual potential liberated, Europeans still hold that systemic differences in social conditions have a serious and detrimental impact on life chances. Historically, this outlook was represented in the rise of organised labour and democratic socialist ideas and

movements, but it also has strong roots in religious social doctrine, which is why the European Social Model continues to enjoy strong support across the political spectrum from left to centre-right.

Similar differences are observable on other issues. Europeans are much more committed than Americans to multilateralism based on international laws and institutions. The belief that UN approval should be secured before the use of military forces runs at 64% in Britain, 63% in France, 80% in Germany and only 41% in America. The nations of Europe are also more secular and socially liberal. 58% of Americans believe that it is necessary to believe in god to be moral compared to only 25% in Britain, 13% in France, 33% in Germany and 38% in Poland.

Plainly, there is nothing anti-American about recognising that Europe is different in cultural and social perceptions and aspirations. Nor should this diminish our desire for a strong and enduring transatlantic partnership. Despite differences of outlook, Europe and America share a common democratic heritage and a joint interest in defending it. But America has never lacked confidence in celebrating its own exceptional identity and nor should Europe. An alliance of equals in which both sides remain true to themselves is more likely to make a positive contribution to the world than one based on apparent domination, with consequent resentment from one direction and arrogance from the other.

It should be clear from this that Europe's common values correspond strongly with those that have defined the Labour movement since its inception — internationalism, solidarity, equality and the belief that economic life should be compatible with the needs of society. Labour needs partners in order to realise its political goals and there is nowhere in the world it is more likely to find them than in Europe. It should view any proposal that strengthens Europe's capacity to apply its values in the form of common policies and practical achievements with enthusiasm.

This is particularly important since the evidence shows that those values have broad appeal to the British people. Neither surveys nor experience substantiate the widely proclaimed belief that there is an Old Europe/New Europe divide or the argument that British values are closer to those of America. The populations of the new and old member states think very much alike on the key issues. Indeed, British opinion often emerges as more egalitarian and socially progressive than several other European countries. The belief that there are strong divergences of core values in Europe is an illusion, fostered by the right, which needs to be robustly challenged with the facts.

Greater consciousness of Europe's shared values is a vital component of any effort to build support for the

idea that Europe has a joint interest in combining to promote and defend them. It is also basic to the task of dismantling the prejudices about other Europeans that have been assiduously encouraged by Europhobic forces, particularly those in the British press and parts of British politics. This is a challenge of political leadership in Britain and Europe more widely. It is one Labour must now rise to.

Europe and Globalisation

Clearly, European integration was not conceived as a response to globalisation. When the European Coal and Steel Community was founded in 1951, exchange rates were fixed, environmental problems were regarded as national in scope, international travel and communications were the preserve of elites and states retained a virtual monopoly of armed force. The modern challenges of volatile global markets, climate change, mass migration and international crime and terrorism could not have been foreseen. Yet, by constructing a transnational political space, the countries of Europe have created a framework within which effective responses and solutions to these problems have become possible and, in several spheres, have already been developed. This should be a prime mission for the European Union in the twenty first century.

To argue that globalisation is either good or bad is simplistic. Its social and economic impact has been too uneven for that sort of judgement to be possible. On the one hand, globalisation makes it possible for many people to have access to the best of what the world has to offer and has the potential to enrich the human experience. On the other, it has created new forms of insecurity and social disruption that need to be remedied. The answer lies not in either isolationism or crude laissez-faire, but in striking the right balance between openness and regulation in the common interest. That is something that can only be achieved through collective action and agreement at an international level.

Too many on the left accept this analysis without following it through to its logical conclusion. The effective management of global affairs is a huge task and can only be achieved by rules-based international bodies with a strong regulatory capacity. If the European Union, with the strongest set of common institutions and values of any international organisation, is not to form an essential component of this project, then how else is it to be achieved? The left's internationalism cannot be merely declaratory; it must take a practical form. To imagine that there is a better option on offer is, as Altiero Spinelli once put it, to 'quit the ground of reality to take refuge in vain and cloudy hopes.'

The fact that the peoples of Europe want it to play that role was clear enough in the position taken by many French and Dutch voters in their referendums. Most

were not voting to reject European integration as such. They were using the opportunity to call on Europe's leaders to take seriously their desire for greater security and certainty in a rapidly changing world. The response of our leaders cannot simply be to repeat the mantra that 'globalisation is good for you' and that Europe must 'modernise or die' or to appease populist forces that campaigned for 'No' votes with isolationist and racist arguments. If it is, the result will be a rise in support for political movements preaching nationalism, chauvinism and protectionism.

The neo-liberal vision of globalisation as an irresistible force of nature beyond the control of governments is fundamentally at odds with reality. Political power plays a critical role in determining its course. It is striking that the nations that have benefited most from globalisation have done so by ignoring key tenets of neo-liberal ideology. America, China and India are continental-sized nation states with sufficient clout and geopolitical presence to interact with the outside world on their own terms. America uses the international reserve status of the dollar to run external deficits that would force any other country to deflate their economy. The economic modernisation of China, patently not a democracy, has involved a heavy element of state direction in the form of capital controls, along with the state ownership of banks and significant parts of its industry. India, the world's largest democracy, also has capital controls and an interventionist economic policy.



John Monks

Those penalised by the process of globalisation have been countries with relatively small domestic markets and a correspondingly high dependency on international trade and investment. The financial crises experienced in Southeast Asia and South America, and the persistent underdevelopment and indebtedness of sub-Saharan Africa, are the most obvious examples of how the vulnerable can be affected. But Britain's 1976 IMF crisis and the capital flight that destabilised the Mitterrand government in France in the early 1980s demonstrate that Europe is not immune to this threat. For the nations of Europe the lesson ought to be self-evident. In globalised conditions — now permanent — they can only hope to safeguard their interests effectively by acting together.

The European Union's goal should be to influence and manage the process of globalisation in ways that maximise its benefits and minimise its costs to Europeans and the wider world. It should seek to emphasise the primacy of democratic politics and ensure that it is used to make the operation of the market compatible with the needs of human society. Central to this must be the creation of a new international economic order in which the pursuit of national advantage dressed up as liberalisation is replaced by a conscious attempt to manage the global economy equitably and in the common interest.

This could have a number of components. One option that deserves positive consideration is a new international system of managed exchange rates and capital controls to prevent speculative financial flows from disrupting otherwise stable economies. In the last decade alone Russia, East Asia and South America have all experienced the chaos and social destruction caused by large and sudden exchange rate movements. But the potential for a much larger crisis is inherent in the huge imbalances that characterise the modern global economy. America's \$500bn current account deficit and its dependency on the willingness of East Asian central banks to buy and hold dollars pose a particular problem. A sudden unravelling could create a world recession. The single currency makes Europe a real force in the global economy. That influence should be used to press for a more stable and equitable international monetary order.

A counterpart to this could be a mechanism for managing global trade imbalances. A proposal to achieve this has been put forward by the Fabian Globalisation Group in the form of an international clearing union similar to the one advocated by John Maynard Keynes in the 1940s. The essence of this idea is that countries with trade surpluses would be obliged to recycle them in ways that sustain global economic demand and allow countries with trade deficits to restore balance. Such a system would facilitate free trade, but in ways that benefit all.

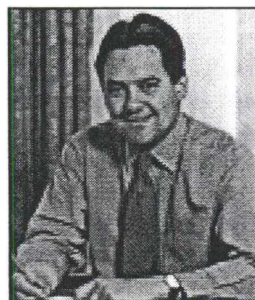
Another objective should be the global benchmarking of social and environmental standards and their integration into the body world trade rules. There is nothing protectionist about insisting that free trade should be fair trade. It cannot be acceptable for countries to seek competitive advantage by exploiting their workforce and degrading our common environment. In order to secure guaranteed access to world markets, countries should be expected to meet certain minimum standards. These should be set at realistic levels, but the ambition should be to raise them over time as the living standards of poorer nations begin to rise.

Of course, fairness must cut both ways. European Union countries are not the only ones guilty of disadvantaging the developing world by handing out market distorting agricultural subsidies: America, for instance, protects its farmers with billions of dollars of aid every year. But the European Union should lead the way in abolishing these and other unfair trade practices. Initial steps should include further and more radical reform of the Common Agricultural Policy, the phased abolition of the sugar regime, the termination of subsidies for agricultural exports and a more substantial opening of European markets to the primary produce of many developing countries.

Finally, there is wider recognition than ever before that it makes material as well as moral sense for manage-

ment of the global economy to be based on solidarity. Consistent with that, there should be mechanisms of redistribution that replicate the European Union's social and regional policies on a global scale. The development agenda has recently taken a significant forward stride, and Tony Blair and Gordon Brown deserve great credit for the leading role they have played. But there are still doubts about whether the resources and the political will are likely to be evident elsewhere on the scale necessary to meet the UN's Millennium Development Goals. The objective should be to develop a funding stream that is independent of charity and the vagaries of intergovernmental horse-trading. One idea that deserves positive consideration is the French proposal for a levy on international air travel.

These policies would form the basis for a global New Deal: a social and economic compact between the developed and developing worlds in which the rules of globalisation are structured to benefit all. But they presuppose a Europe that is able to speak and act as one. The alternative is a Europe in which there is a multiplicity of national policies with the result that global markets and big and powerful countries shape globalisation to their advantage.



Stephen Twigg

A Sustainable Economic and Social Model

European values are embodied in the political choices Europeans make. In social and economic policy, these include support for political pluralism and democracy, endorsement of the mixed economy and a strong commitment to public welfare, social cohesion and wealth redistribution. It may be something of an over-generalisation to talk about *a* European social model, but there is certainly a common social ideal that is clearly represented in the way European countries seek to guarantee social well-being through collectively funded services, universal entitlements, equitable opportunities for education and employment, and rights to health and safety in life and in work. In Britain, this comes across most obviously in unwavering public support for the NHS and other features of the welfare state such as free schooling and benefits to the infirm and the elderly.

This social ideal is under ideological attack as never before. Weak growth and stubbornly high levels of unemployment in some of the larger European economies are cited by supporters of the American business model as proof that the social market economy is sclerotic and inefficient. Yet on any objective analysis there is no correlation between levels of labour market regulation, taxation and public spending on the one hand, and economic performance on the other. If there were, the Danish, Swedish, Finnish, Dutch and Austrian economies would be amongst the least successful economies instead of being amongst the best performing.

Indeed, there are good reasons for supposing that these countries have succeeded precisely because they have < maintained decent welfare and labour standards and modernised structures to anticipate and match changing economic realities. Because of their small size and a greater relative exposure to world trade, these 1 economies have developed programmes of public 1 assistance and strong frameworks of social bargaining 1 that involve trade unions as ways of managing economic change. Since the future of Europe's larger : economies is one in which they too will become more integrated into the global economy, there are obvious] conclusions to be drawn. There is a proven and practical alternative to neo-liberalism.

Economic reform is certainly needed in Europe, but it should start from a recognition that where countries have been willing to reduce non-wage labour costs, embrace social partnership and adopt welfare systems that train for adaptability and incentivise work, the European social model has shown that it is still capable of combining well developed mechanisms of social protection with improvements in productivity and high and sustained levels of growth and employment. The Lisbon Agenda adopted by the European Union remains the right way forward, but more efforts are needed to raise the proportion of Europeans who are economically active, boost investment in research and development and human capital, promote skills and lifelong learning, and combat social exclusion.

The British Labour government can certainly be proud of its record in creating jobs, expanding the economy, i reducing poverty and improving public services. But it should be more ready to acknowledge the extent to f which these achievements have been intelligently r evolved in other European countries, not least in rela- r tion to welfare reforms and active labour market policies. Neither Britain under Labour, nor any other 1 country, has a monopoly of wisdom about how to succeed in the modern world. The need, therefore, is to r spread the use of best practice in the delivery of economic efficiency and social justice.

Unfortunately, by being reluctant to acknowledge the European character of many of its most popular and effective policies, the Labour government has allowed itself to become seen, at home and on the continent, as the odd one out. The government's positioning on issues such as the Working Time Directive has created the false impression that Britain's approach is at variance with those of the rest of Europe and helped to obscure its positive achievements, such as the high levels of occupational health and safety performance in the UK. The effect has been to weaken Britain's influence in Europe and encourage notions of cultural separateness that strengthen anti-European sentiment at home.

Portraying Europe as an economic failure is not only factually inaccurate, it undermines support for integration and fails to provide a realistic assessment of where

we stand in relation to our nearest neighbours. Many of our European neighbours have bigger and stronger manufacturing sectors, trade surpluses in comparison to our trade deficit, lower personal debt and higher productivity. Moreover, many still have better public services at the point of use and most experience significantly lower levels of social inequality. In the interests of learning, we should perhaps approach the European debate with more curiosity and less presumption of superiority.

European politics must not be allowed to become a competitive struggle between different national approaches. The basic European social model of the future must reflect a synthesis of what is best in each whilst still facilitating advances which accord with national preferences and conditions. In this process, Britain has much to offer, but it also still has much to learn.

Many of these questions are matters of national policy, but Europe has provided an essential framework for economic and social progress by constructing a single market with minimum social standards. There is a compelling case for it to do more, especially in meeting some of the key challenges identified by the Lisbon Agenda, such as social exclusion, the need for higher rates of economic participation, and an ageing society. In view of their importance in influencing economic opportunity and quality of life, particular priority should be given to pre-school education.

There is now clear evidence that the provision of good quality universal childcare and education for the under-fives helps to boost educational performance and promote social mobility. And because it enables many more mothers to seek and gain paid employment, it also helps to raise levels of economic participation, boost growth, advance gender equality, reduce child poverty and increase the birth rate. All of these elements illustrate the way in which social justice and economic efficiency go hand in hand.

A number of European countries already provide universal childcare, and Britain is making strides in that direction, but coverage elsewhere is patchy. The European Union should set minimum standards covering all member states. Those that already provide a service that meets those standards would receive a rebate on their budget contributions. For the rest, the European Union would allocate direct funding to local providers from the voluntary sector. This would obviously require substantial additional resources and part of this could be found from reductions in agricultural spending, but Europe's leaders will need to look again at the overall question of the European Union's budget to find the money needed. The benefits that would accrue from a European childcare guarantee have already been identified as a common interest. Finding those resources is therefore a test of Europe's political will and economic intelligence.

It is clear that the strength of Europe's social model will depend ultimately on its economic performance and coordinated efforts to boost and sustain growth and employment rates must be given fresh impetus. However, Europe will not achieve economic success by deregulating its labour markets and triggering a race to the bottom in employment standards. Supply side reforms of the right kind are certainly necessary, but they will not be effective if the need to raise Europe's stagnant levels of domestic economic demand continues to be neglected.

The creation of the euro has reduced Europe's external exposure and should have increased its policy autonomy in ways that allow it to pursue a more expansionary approach. But the political vision and decision-making mechanisms required to achieve this have been lacking. The Stability and Growth Pact has been gradually loosened in response to increased budgetary — and therefore political — pressures, but a more coherent and less reactive approach to managing Europe's economic affairs is essential.

One possibility was advocated by the Labour Party ten years ago when it proposed the establishment of a European Recovery Fund along with enhanced economic governance and fiscal coordination through the EU's Council of Economic and Finance Minister. This was designed to allow for the effective regulation of demand at a European level. The European Parliament has put forward similar ideas for drawing on the European Investment Bank's lending facility to fund new infrastructure projects. These and other practical options for counter-cyclical economic management need to be considered once again if Europe is to achieve and sustain higher levels of employment and growth.

Britain's exclusion from the euro hampers the Labour movement's ability to contribute to this debate. But whether we are in the eurozone or not, the only rational position for Britain is to want the euro to succeed. The eurozone accounts for much the largest part of our trade and many of the new member states are planning to join the single currency over the next few years. The further growth and integration of the eurozone will mean that for profound political and economic reasons the option of British membership must continue to be a live possibility and the decision on entry cannot be postponed indefinitely.

Europe's International Responsibilities

One area where the democratic left should want Europe to make a stronger impact is in the field of foreign policy. The current imbalances in global power are incompatible with a progressive global condition and must be redressed as a matter of priority. A unipolar world order in which one country is able to assert its power and pursue its interest unilaterally is not only inconsistent with democratic values; it is a persistent source of international instability.

The emerging European perspective of international order is based on support for multilateralism, the rule of international law, global governance through legitimate institutions, solidarity between rich and poor, peaceful diplomacy where possible and military intervention where proved to be necessary. It is one that is today inadequately represented in world affairs. It will remain so unless Europe is able to forge a genuine common foreign and security policy.

Europe must not only assert its belief in a multilateral world order, it must will the means to make it happen. Most predictions for the end of the unipolar era focus on the rise of the big Asian economies. On current trends the combined GDP of China and India is expected to match America's within twenty-five years. But the European Union already matches America in the size of its economy. Its failure has been its inability to translate that into an equivalent political power, not as an armed juggernaut, but as a major influence promoting fairer trade, greater stability, environmental sustainability, democratic governance, common security and poverty reduction.

The near-monologue of existing transatlantic relations can only become a real dialogue if Europe is able to provide a strong, alternative voice. This is not to argue that Europe should seek an antagonistic relationship with the US based on rivalry — far from it. It is simply to point out that an effective alliance requires a measure of equality of power and esteem. It is no longer possible for anyone in the UK to pretend that equidistance between Europe and America is possible. Britain's long-term interests require us to prioritise our relations with our nearest neighbours, abandon any relationship in which we are perceived as a supplicant or accomplice and capitalise on our advantageous position as an influential part of a European Union that is capable of being an equal partner of America.

Europe's unwieldy and inefficient foreign policy structures need to be reformed and streamlined. The proposal of the European Constitutional Treaty that two existing posts — the CFSP High representative and the External Affairs Commissioner — should be combined in the office of a European Foreign Minister was a sensible component of that and there is no reason to suppose that it contributed to the Treaty's rejection. The European Council should enact that reform at an early opportunity.

But there also needs to be a change in decision-making procedures if Europe is to develop a strong international role. Agreement amongst twenty-five member states will always be difficult when it comes to the most serious issues and a foreign policy that is confined to second order matters will fail to make an effective contribution. There is a basic and essential need to distinguish a *single* foreign policy from a *common* foreign policy. At the very least, there needs to be agreement that those in a minority will exercise a constructive abstention and save the veto for genuine issues of vital

national interest. This could be achieved by political agreement without the need for a Treaty amendment. The major change that is required is attitudinal. Each member state needs to regard the achievement of a common European position as a foreign policy objective in itself.

Europe must also keep the door to further enlargement open. The prospect of membership has been one of the most important factors in helping to sustain democratic change and economic reform in Europe for almost thirty years. It would be irresponsible for the European Union to abandon countries that are still struggling to make that transition. Ukraine, Moldova and the countries of the former Yugoslavia must be embraced as potential members, as should Turkey. The government in Ankara has already gone further than many expected in complying with European norms. It still has a long way to go. But it would be wrong to prevent Turkey from joining if it met the conditions for membership. To rule it out on specious grounds of cultural difference would send a dreadful message about Europe's unwillingness to accommodate diversity and the Islamic identity in particular. A prosperous and democratic Turkey would be a great asset to Europe as well as a great gain for its people. The democratic left should therefore strive to ensure that it becomes a reality.

Strengthening European Democracy

The rejection of the European Constitutional Treaty has put the debate about Treaty revision on indefinite hold. But there are things that can and should still be done to make the European Union more open and accountable. The main problem here is not fundamentally a lack of democracy. The European Union's detractors may wish to ignore or obscure it, but the legal and political fact is that the decisions that count are taken by the elected governments of the member states, usually with the directly elected European Parliament exercising the power of codecision and decisions are often exhaustively scrutinised. This hardly adds up to a serious democratic deficit. The main problems are a lack of transparency and the absence of a genuine and informed Europe-wide political debate.

The first of these should be addressed by implementing the proposal contained in the Constitutional Treaty obliging the Council of Ministers to hold its legislative proceedings in public were implemented. It isn't acceptable that the European Union is still able to pass laws in secret and while public proceedings are not the whole answer, they would provide a significant start. Whether this is done or not, however, the governments of the member states, the Council, the Commission and the Parliament should make an unprecedented and active commitment to informing the peoples of Europe about the nature, purposes, financing, management, operation and potential of the Union. In the absence of such efforts, widespread public suspicions about 'Europe' are inevitable and the opportunities for

nourishing Europhobic sentiments are exploited.

A second step would be to open up the European Union's intergovernmental policy areas - the common foreign and security policy and justice and home affairs - to genuine scrutiny. The European Parliament has no powers in these areas and there is currently no effective oversight by national legislatures either. Joint meetings of European and national parliamentarians would have both the legitimacy and expertise to hold the Council of Ministers to account and being seen to do so. Given the rapid growth of police and security cooperation as part of the war on terror, a step of this kind would make a real contribution to strengthening European democracy.

What is really lacking, however, is the sense that European citizens are involved in a common political debate about their future. Politics has remained stubbornly national in its focus and even the European parliamentary elections are usually little more than an opportunity for voters to give their national governments a bit of a kick. This will need to change if the European project is to regain popular legitimacy. Among the options suggested is to proceed with the creation of a new position of Chairman or President of the European Council, as suggested in the European Constitution, but to subject it to direct Europe-wide election. It would be impossible to treat such an election as being about anything other than Europe, especially since voters in most member states would not have a candidate of their own nationality to choose from.

Creating an electoral opportunity of this kind would allow Europeans to have a meaningful debate about the options in front of them, including the sorts of issues described above. Finally, the peoples of Europe may come to feel that European integration is something they take part in instead of something that is simply done to them.

Conclusion

The Labour movement should be positive about the European experience and the potential it holds for a better world. Although the practice of European integration can certainly be faulted in specific respects, the creation of a transnational framework of democratic and law-based governance is a breakthrough in the development of human civilisation that ought to be cherished. If the European Union didn't exist, the consequences of globalisation mean that something very much like it would need to be created. The nations of Europe no longer have the luxury of being able to go it alone, but they do have the opportunity - and the means - of acting together for their own benefit and to secure wider progress.

Moreover, it is clear that European values and preferences correspond closely with those that have always defined the democratic left. As the American author,

Jeremy Rifkin, has argued: 'The European Dream emphasizes community relationships over individual autonomy, cultural diversity over assimilation, quality of life over the accumulation of wealth, sustainable development over unlimited material growth, deep play over unrelenting toil, universal human rights and the rights of nature over property rights, and global cooperation over the unilateral exercise of power.' It is only by working together with the rest of Europe that we can hope to make that dream a living reality in the UK and across the continent.

The response to Europe's current problems cannot be to retreat into the politics of national isolationism or to narrow our agenda to the solitary task of creating an

economic market. The peoples of Europe want much more than that and, in Europe, a high growth modern market can only be achieved if it has a strong social dimension. Europeans want the opportunity to thrive in the global era without compromising their prosperity, security, freedom and social standards. Our ability to meet those aspirations has always been the fundamental test of our relevance as a political movement. It is a challenge we can only now realistically face as part of a strong and politically united Europe with a clear progressive agenda.

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About the Authors

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Michael Leahy is General-Secretary to Community. He is also Chairman of the National Trades Union Steel Co-ordinating Committee, the Employees' Secretary of the Corus European Works Council, Honorary Secretary of the International Metalworkers' Federation and a member of the UK Steel Enterprise Board. Michael first joined the Iron & Steel Trade Confederation (later to merge with the National Union of Knitwear, Footwear and Apparel Trades to form Community) in **1965**, becoming assistant General-Secretary in **1993**.

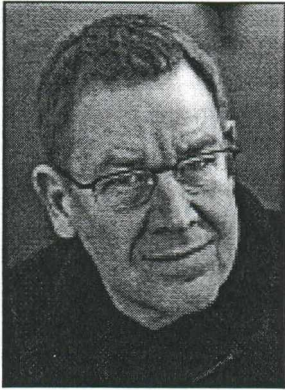
Ken Livingstone has been Mayor of London since May **2000** and was re-elected in **2004**. Prior to taking up his post at the Greater London Authority, he had served on the National Executive Committee of the Labour Party between **1987** and **1989**, and again from **1997** to **1998**. He was first elected as a Labour MP for Brent East in **1987** and held the seat until **2001**. Before joining Parliament, Ken had served on the Greater London Council as well as on Camden and Lambeth Councils.

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Renewing Not Rolling Back Social Europe

by Poul Nvrup Rasmussen
President: of the Party of European Socialists (PES)
and former Danish Prime Minister



Social Europe under attack

'Social Europe' is a beacon of hope and inspiration to anti-poverty campaigners in developing countries with rapidly growing economies. For many people in Brazil, China, India and elsewhere 'social Europe' represents an alternative to the individualistic, dog eats dog, free-market free-for-all that is held up by others as an ideal. It represents the

hope that capitalism and justice and equality are not incompatible.

Yet 'social Europe' is coming under attack. People say that with globalization, increased economic competition and an ageing population, Europe will no longer be able to afford current levels of social protection. It is said that some of our current social protections — such as labour market regulations — are preventing economic growth. High levels of unemployment are cited as proof both that 'social Europe' is failing and that Europe can no longer afford the same levels of social protection. Inequality is on the increase.

These are not questions that can be ignored. There are real challenges ahead. Times are changing — economically and socially — and 'social Europe' will certainly have to adapt. Economic globalisation does mean increased competition, and there is real fear that if Europe fails to maintain competitiveness there will be further job losses and greater pressure on budgets which in turn threaten to squeeze social spending. Enlargement of the European Union has brought greater diversity and inequalities of wealth to Europe and

**We must renew social Europe
and denounce those who wish
to weaken or destroy it**

makes us question what constitutes 'Europe's social model'. The consumer society has given citizens a taste for choice that cannot be ignored — uniform provision for all is not as acceptable as it once was. Demographic changes, our ageing population and altered family structures, also demand different types of provision.

All these factors suggest that reform is needed. The question is — what sort of reform? We need reforms based on a new vision of the social rights and provision that matches the economic and social circumstances of the 21st century. People understood, and indeed fought for, the post-war welfare states with 'jobs for life' in a large state sector including many nationalized industries, basic universal health and education, and increased access to justice and, in many cases, housing. But now people are less clear what is on offer.

New Socialist vision needed

Politicians and business leaders talk a lot about the need for reform — labour market reform, tax reform, pension reform, increased charges or insurance for health and education, privatization — but no one offers a clear view of the guarantees society will offer. As a consequence citizens feel insecure and uncertain about the future. The 'no' votes in the French and Dutch referenda on the European Constitution were symptomatic of that unease.

The welfare states were largely the creation of socialist and social democratic parties and it is that movement that must redefine the 'social contract'. Our vision of 'social Europe' must enable us to make a clear distinction between the reforms offered for the renewal and modernization of 'social Europe' and the neo-liberal reforms offered by those who wish to roll back 'social Europe' under the pretext of modernization. We must renew social Europe, and denounce those who wish to weaken or destroy it. We must avoid a race to the bottom not only at a global level, but also within the enlarged European Union.

Voters distrust neo-liberal 'reform'. Despite difficult times in Germany, voters did not give a majority for Angela Merkel's tax cuts for the rich or the removal of tax breaks for ordinary citizens. Even in Poland, where the ruling socialists suffered a heavy defeat, voters unexpectedly gave more support to the Law and Justice Party which is suspicious of economic liberalism than to the Civic Platform which wanted to introduce a flat rate tax, and speed up deregulation and privatization. But socialists and social democrats must translate this distrust of neo-liberalism into a clear alternative and clear vision for social Europe. We must show how 'social Europe' can once more become an integral part of the fabric of our society — and not a luxury that we can only afford when Europe is booming. We must demonstrate that social Europe is not a cost to society but an essential element of what holds society together.

There is a clear need for a new vision but the task needs to be properly understood. Academics are quick to point out that there is not one but several European models — some

distinguish between an Anglo-Saxon model, a Nordic model, a continental or Rhineland model and a Mediterranean model. Obviously there are significant differences, but the similarities are more important — especially when compared to the US or Asia. Regardless of how they are organized or financed all Member States spend between 7-10 per cent of GDP on health and 7-12 per cent of GDP on pensions. Despite the differences, you cannot convince an American or Indian that Europe does not have a unique system of social protection!

However, the sort of new vision for Social Europe that socialists and social democrats need to paint for the citizens of Europe is not a 'one size fits all' system of social protection. Member states will continue to provide services such as health, education and income protection in a way that is appropriate to that society.

Of course, there does also need to be a debate about strengthening the 'social acquis' - the basic social provisions that are required in all EU member states. There is a whole set of EU laws directives covering social dialogue, safety at work, the mobility of workers ----- and freedom of movement, and European labour market regulations.

Values and principles for a new social Europe

Our vision of a renewed social Europe must be an articulation of common values and principles. Perhaps it can include a common understanding of the range and types of social policies required in today's Europe. A political and social direction is what is needed, not a blueprint for the actual provision of specific services.

It is not hard to identify some socialist principles that must underpin our vision. Solidarity, equality, and justice remain as relevant and popular as they have ever done.

Solidarity means that everyone has the chance to access basic necessities such as health care, education, decent housing and the opportunity to work. It also means collective provision. Socialists, and indeed most Europeans, support the idea of collective provision: that everyone pays for services that everyone has the right to use when necessary. All health services in Europe are based on collective provision of one type or another — in the US they are centred on the individual provision. Solidarity also involves a measure of wealth redistribution — within and between Member States of the European Union.

Social Europe must also address how we deliver social justice in today's changing society. Universality is at the centre of our approach, and for this reason, we must modernise social protection in order to provide it in today's world. The rise of new disadvantaged groups in our societies — like single parent families and second and third generation immigrants — highlight the need to rethink our approach to social justice and target it pro-actively to these groups for labour market and also societal integration. Public policies — in

social protection, employment and education — must be modernised in order to address new societal issues, for example, ensuring a smooth transition for divorcing families, a period in which many women and children fall into poverty.

Policies for a new social Europe

What are the sort of policies a new social Europe might embrace?

I believe 'flexicurity' is one policy that deserves wider consideration. This means increasing labour market flexibility while providing income support and assistance to get back into work during periods between jobs. There does seem to be evidence that this approach is more efficient than the very strong employment protection adopted in some countries. However, the left must insist the any increase in 'flexi' is accompanied by real improvements in security — income protection, training and support to find new employment. And 'flexi' cannot simply mean making it easier to fire people. It also means making it easier for people to enter

employment — whether by providing better child care facilities or introducing anti-discrimination legislation. It involves active labour market policies, with concentrated investments in training, re-skilling as well as personalised career advice for the unem-

ployed.

There is an increasing difficulty for young people to make the transition between education and work. There is a need for more access to vocational training, workplace experience, modular education and credit accumulation - "small steps" education and training so young people don't fall off the ladder.

I believe there is a case for a more thorough debate and comprehensive approach to equalities issues. Attitudes and legislative action on racial discrimination, on the rights of gays and lesbians to a family and working life, on equality for women vary greatly. There is a need to take a look at initiatives on gay rights in Belgium and Spain for example, on racial discrimination in the UK and elsewhere. There are women in Europe who still do not have access to affordable childcare and do not have individual fiscal and social security rights.

There needs to be a calm assessment of the policy requirements of demographic change. An ageing population is not necessarily a disaster either for the pension system or for health costs but the implications cannot be ignored. The third and fourth ages of life — which are rising rapidly in numbers — also require new, pro-active public policies for active ageing. Active ageing is not just about paid employment, but about maintaining health and actively contributing to society, through engagement in local communities and in politics.

Falling birth rates can be tackled, and indeed there is evi-

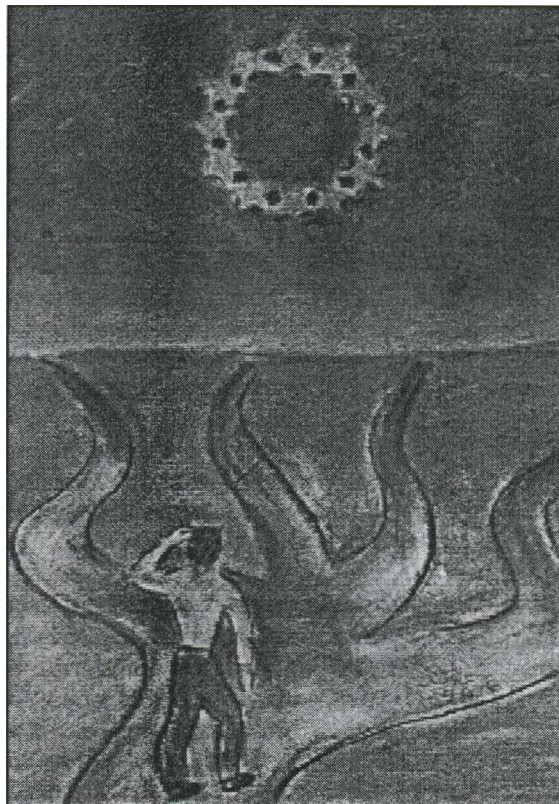
Solidarity means that everyone has the chance to access basic necessities

dence that women in countries with low fertility rates would like more children, and require better childcare, improved parental leave and closing the gender pay gap.

There is an urgent need to improve how Europe looks at, and deals with, migration and integration. Here a new EU common framework for admissions is needed alongside the reinforcement of anti-discrimination legislation and clearer rights and duties for migrants. There can be no new social Europe without a new approach to migration and asylum that combines solidarity and respect for the individual, a positive appreciation of the economic value of migrants, and mechanisms for helping migrants to integrate and enter the job market. Here Europe should not only share experiences and build on best practice. Europe has made tremendous strides in becoming a multi-cultural society, yet the right continue to exploit migration and integration problems to whip up resentment and undermine solidarity, and Socialists cannot ignore the truth that dissatisfaction is high both among migrant communities and in many 'host' neighborhoods.

Party of European Socialists

This is not a cry into the wilderness for a debate. In addition to the Informal European Summit on Europe called by Tony Blair under the British Presidency of the EU, the Party of European Socialists is kicking off a dialogue between its member parties on how to combine social security with international competitiveness, growth and jobs in new and modern ways. Following an initial conference in Brussels involving several Ministers and European Commissioners, and a discussion among PES Party Leaders, before the informal Social Summit, the PES will set up three Forums for the different parties to discuss An Active Society, An Inclusive Society and The EU Dimension until mid 2006. These forums will allow us to exchange experience and best practice, and develop fundamental common principles in our approach at the national and European level. The launch conference for this initiative will take place this December and a comprehensive policy report will be presented to party leaders at the PES Congress in autumn 2006. As President of the Party of European Socialists I am proud that the PES is fulfilling its role to bring together the socialist, social democratic and labour parties of Europe to forge a new vision for Europe for our new millennium.



Deciding a new direction for Europe

Some Reflections on the European Social Model

Vladimir Spidla

Member of the European Commission
Responsible for Employment, Social Affairs and Equal
Opportunities

The rejection of the proposed EU constitution in the recent referendums in France and the Netherlands raised difficult questions about the direction the EU should take. One of the interpretations of the outcomes of the referendums is that Europe's citizens are worried about jobs, quality of life and growth.

In this context, the reflection about the European social model is not only timely but of great importance.

The public debate around the social model often boils down to two opposing perceptions. Firstly, there are those who consider that the economic and social insecurity stemming from globalisation is a threat to the 'European social mode'. Europe, in their view, would thus be powerless to satisfy its citizens' need for security.

Conversely, there are those who consider that it is the 'European social mode' itself which is threatening Europe's capacity to adjust to globalisation and international competition. Lack of flexibility on the labour markets, combined with the excessive cost of social protection, is seen by them as an obstacle to economic efficiency and to essential reform.

But this does not give the full picture. Europe today has to face up to major changes — demography, globalisation, technical innovation — which are in the process of transforming society and our economies. Adapting and modernising the social model will therefore be a major challenge in the years ahead and this is the objective the Union must pursue. However, due account must be taken of the legitimate concerns of our fellow citizens in Europe and action is needed both at the Community and the national levels to allay these concerns and misgivings.

The European social model rests on common values

The European social model is based on a set of common values. These values are shared among all the member states. They are reflected in the founding treaties of the European Union and in the national legislations of member states. Among these fundamental values are the commitment to democracy, the rejection

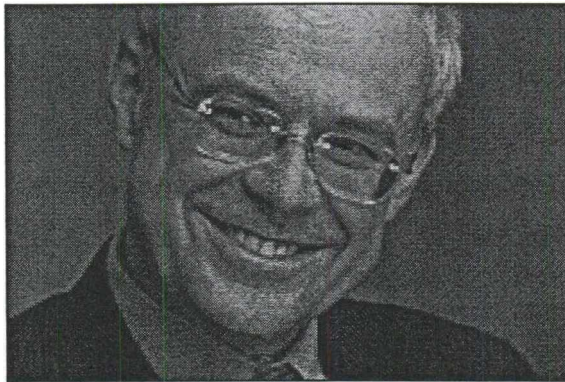
of all forms of discrimination, universal access to education, accessible and good quality health care, gender equality, solidarity and equity, the recognition of the role of the social partners and of social dialogue. These values are constitutive for Europe. In other words, Europe ends where these values are not shared.

The role of Europe

Europe is not a monolithic block, nor is the European social model. The levels of prosperity, the traditions, the policy choices vary between regions and member states of the European Union. To some extent, Europe is defined by its diversity, which makes up much of its richness.

The same diversity can be found when we reflect on the European social model. Here as well, there are indeed several different concepts, different approaches

and policy choices, in other words different ways to develop the common values.



There are also shared values and shared elements stemming from integration. But in the architecture of the founding treaties and in the division of competences between the national and the European level, employment and social policies are essentially of the domain and competence of

member states. In the area of social policy, the European Union cannot, and, from efficiency point of view, should not aim at playing the role of the member states. According to the principle of subsidiarity, policies must be designed and implemented at the level which is the most effective.

Diversity in the policy responses

Member states are diverse when it comes to their social systems and their responses to change. When we look at the respective performances of the member states in coping with the challenges of demography, globalisation, technical innovation, we can draw some interesting lessons.

First, in countries with good economic and employment growth results, like Sweden or Denmark, social policy is seen as a productive factor. These countries have not been afraid to carry out institutional reforms in order to maintain their social objectives. Their overall approach combines economic performance and

social cohesion.

In my own country, the Czech Republic, we made the difficult transition from a planned economy to a free market and had to rebuild a social system from almost nothing. The Czech Republic's growth rate was at 4% in 2004 and is expected to reach the same rate this year. It has managed to stay competitive and maintain social cohesion, combined with a level of poverty at 8%, one of the lowest levels in the EU.

Second, the Nordic countries have also shown how a more flexible labour market can cope with change. In the throes of recession in the 1990s, Finland chose to innovate. The Finnish economy became more flexible and adaptable by investing in its human capital and taking up active inclusion policies. Combining flexibility with security and finding new ways of working was thus vital. Flexibility was not just introduced and encouraged in the interest of employers, but also for workers, for instance to help them to balance work and family life through part-time or flexi-time work.

Equally, as the Finns have demonstrated, employment security is no longer about keeping a job for life. Today, security means acquiring the tools to remain and progress in the labour market. To become adaptable, workers must constantly be able to learn, ensuring solid basic education. Lifelong learning pays off - an additional year of education can increase a worker's salary by 10% over his or her working life. An additional year of education also increases productivity for companies in the long-term, by as much as 3%. Improving the quality of our human resources is also vital for the EU's ability to innovate. We need to become a leader in this area and can no longer be happy to keep up with, or imitate the latest developments in technology- even if we do this quite well. We need policies that will allow us to raise investment in research and innovation in order to reap the full benefits of the single market.

Third, the quality of governance has proven to be of fundamental importance in the process of coping with change. Again, the Nordic countries, but also Ireland and Austria, have shown the importance of involving the social partners in drawing up employment and social policies and in the management of change. The social partners' specialised knowledge and experience of workplace realities give them a crucial role to play, particularly in areas such as work organisation, health and safety and attracting more workers to the labour market.

The added value of Europe

European economic integration has always had a strong social dimension. The single market is complemented by the free movement of persons and fundamental rights like equal treatment and gender equality. Common legislation for health and safety at work and cohesion policy are important elements of the Single Market.

The European Union disposes of a range of different policy instruments to complement, encourage and reinforce the member states' social policy with the aim of enhancing the single market. There is the possibility to legislate at the European level in certain areas, in order to minimise distortion of trade and competition between member states. There is the European Social Fund which financially supports employment and inclusion policies of the member states. There is a long and successful record in fighting discrimination on the basis of nationality or gender, and of encouraging mobility of workers. In the framework of the European Employment Strategy the Union has worked with the member states on the definition of common policy objectives and monitored their implementation, in order to allow for the dissemination of best practices. Best practices are also exchanged through the open methods of coordination in the fields of social protection and social inclusion.

Furthermore, in order to meet the challenge of protracted weak growth and the erosion of competitiveness in some member states, as well as to face and adapt to the rapid changes brought about by globalization, it seems obvious that Europe must act in a coordinated way if it is to have a chance to succeed. The policy responses defined in the framework of the Lisbon strategy for growth and employment are of prime importance when it comes to sustaining the European social model and thus command all the attention of European and national policy makers.

Safeguard the values by modernising the instruments of the social model

When we try to draw lessons from those members states and societies that seem to succeed in the rapidly changing environment of today's world, we see that their social model does not act as a brake but, on the contrary, as a tool, as a factor for success. In the uncertainty generated by rapid change, functioning social systems enhance flexibility by giving people the necessary security, the proverbial safety net that allows them to take risks, to change, to grasp new opportunities.

There is no single answer to today's challenges. But the countries who succeed and achieve good results in terms of employment and growth are those which have undertaken coherent and comprehensive reforms, tackling their social protection systems, their employment policies their approaches to governance and the social dialogue. They have managed to safeguard the fundamental values and to foster a social model that is instrumental in enhancing competitiveness. These lessons should be guiding our work in the very welcome and timely discussion on the European social model.

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Rapid approval of the amended Services Directive guaranteeing competition and high social and environmental standards (with a legal framework for public services alongside) and of the Working Time Directive creating flexibility and preventing exploitation.

nSfjp

More user-friendly and effective European laws, with simpler legislation in future, and more cooperation between national parliaments and the EU institutions to bring the European Union closer to its people.

Dovetailing of the Foreign Policy of Commission, Council and the European Parliament, in preparation for the appointment in due course of the EU Foreign Minister.

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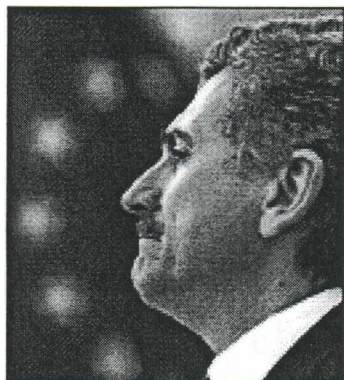
Socialist Group in the European Parliament

We who live in Europe - the world's biggest market - share the task of strengthening both that market and the solidarity, inclusivity, social justice, pluralism and cultural diversity that we all treasure. We must also promote peace, a good quality of life and a healthy environment for all. We must build on our strengths and concentrate on joint action to win new trust in the European dream.

How to overcome the European Crisis?

by Massimo D'Alema

Member of the European Parliament and Former Italian
Prime Minister



Europe is having a hard time. The results of the referenda in France and the Netherlands have hampered the European Constitution ratification process. Public opinion across European Union countries is increasingly less enthusiastic about Europe.

Many have interpreted this rejection as a reaction against enlargement; for some time the political debate has been dominated by the *„Aa?periofas“* the polish plumber.

However, the real reasons are far more complicated. Fears that have completely different origins have result-

The expansion of Europe means the expansion of stability, peace, democracy, and respect for human rights

ed in opposition to Europe. In countries such as France, where massive immigration from Maghreb has raised tensions, the possible admission of Turkey to the European Union is perceived as a risk of Islam expanding ever further across Europe. Some feel that there has been a progressive reduction in fundamental social rights which is directly related to the European Union, whereas others fear a loss of national identity.

The tragedies of terrorism have fed and strengthened these fears, leading to new nationalistic policies. Moreover enlargement shows the institutional weakness of the European Union, underlining the inadequacy of its decision making mechanisms. For instance, it is evident that a unanimous voting system cannot guarantee the governance of a 25 member Union, and maybe the European Union should have been more courageous by initiating an institutional revision before any enlargement. The enlargement process forces us to face the issue of external borders: the European Union cannot expand indefinitely, invading neighbouring continents, but hopefully these can benefit from integration too.

The expansion of Europe means the expansion of stability, peace, democracy, and respect for human rights.

Turkey is a good example. It is proceeding towards respect of minorities' rights, abolition of the death penalty, prohibition of torture and rights of women. It has begun an extraordinary process of civilisation with the objective of entering the European Union.

To make all this possible we have to create mechanisms that will enable certain countries (countries that are not even becoming members of the EU), to extend their relationship with Europe. This means building even stronger relationships, not just by making commercial treaties; and in doing so these countries will have the opportunity to benefit from the advantages of the European Union.

Currently, there is no intermediate level between full membership and the Association Treaty. If such a level existed it would enable a varying degree of relationships which would be extremely useful when facing situations such as the Balkans and the Middle East.

In the past, many have proposed the entrance of Israel into the European Union. I believe it would be better to focus on a special relationship between Europe and some countries in the region, for example, Palestine, The Kingdom of Jordan and Israel itself; this would also avoid further isolation of Israel. Europe would guarantee not only development and integration, but also security needs in the region. The model for this could be NATO and their 'Partnership for Peace' designed with the former Soviet Union countries, they have not become members, but they have built a stable cooperation towards security.

Enlargement can be an opportunity to integrate countries and regions with a high growth rate, and so contribute to the global development of the European Union. It might also be beneficial for our countries, as the results of companies who have invested in new markets have already demonstrated. We also need to ask why our citizens are so apprehensive about enlargement, and why public opinion has rejected the idea of a politically stronger Union. The roots of this crisis are twofold. The first big break occurred with the war in Iraq, with so many in Europe opposed to United States policy, Europe was not able to build a common position. It was unable to prevent the war or hold the United States to account; in fact there was more of a coalition of the so-called willing countries.

European public opinion has lost its faith when tens of millions of citizens have rallied for peace and the European Union has appeared totally powerless. This is due to its internal division. At that time, the mechanism appeared totally ineffective.

The second reason for this crisis is the failure of the Lisbon Strategy; the failed take off of a policy that is

still the most courageous reformist manifesto ever written in Europe. That document was issued by another Europe undoubtedly showing its colours, it was the product of a Europe with 11 governments who were all centre-left oriented. It has remained a sort of dream book because neither the mechanisms, nor necessary resources were ever defined: even that centre-left Europe was unable to make the required steps forward. The defeat of European reformism and the reason why a different political season followed afterwards is also there: it was the lack of courage in facing the European integration process.

Today these problems haunt us. When Tony Blair invites us to build a common defence policy and to move policies towards innovation, he is making a very important step, especially as the leader of a country that is historically prudent towards political integration of Europe. The British presidency of the Union is the time to really measure Europe's political willingness to face up to the most sensitive issues and to begin searching for an agreement on financial strategies.

There is no doubt that if the answer to the defeat of the referenda is severe reduction of the budget of the EU and of the common policies, then a dramatic increase of lack of confidence in the Union will be unavoidable. On this issue the European Parliament has approved, with an extremely large majority, a very courageous document on financial issues facing the EU. It is an extremely advanced compromise that proposes that the common budget should be 1.18% of the GDP of the Union, instead of the 1%. This is very close to Prodi's proposal. The same document calls for an end to the British rebate and proposes to nationally co-finance the common agricultural policy. It is a very good starting point for working out the financial issues and concerns, and it is hopeful that the British Presidency considers it as a base for an advanced compromise.

Another sizeable topic that Europe must face in the months to come is how to save the Constitution. It is not unreasonable to reflect and suspend the ratification process for a while, as it was clear that a domino effect rejection of the Constitution was increasingly likely. Anyway, while waiting to restart the process, it is well advised to allow those who feel the need for a greater level of unity, to use the existing mechanism to achieve it. Today we can work for a challenging project of reinforced cooperation allowing a group of countries of the Union (in the framework of the European Union), to develop more intense integration on specific issues, as happened for the Euro. In order for the structure of the Union to remain intact it is necessary that developments take place strictly within the legal framework of the Union, allowing those who wish to, to easily take part. It is evident that the first possible issue for reinforced cooperation will be an economic one.

There is a need for flexible use of the stability pact in order to facilitate a response policy to the economic cri-

sis. This would be even more effective if applied by great European investment programs, which would be better than giving back to individual national governments higher margins of flexibility in the budget. Deficit spending does not solve the problem of European competitiveness; we need to invest in those issues that actually limit our competitiveness. First we need to address the low innovation rate and then work on a qualitative change in the European economy. The International Monetary Fund says that the impact of the Chinese economy on a global level will make our manufacturing products less competitive, whilst increasing the global demand for qualified services, luxury goods and technological innovation. The most advanced countries that are in a position to face this demand will take most advantage of the situation. China could be an advantage for us, if we courageously look at the desires of its consumers, around 200 million people becoming more and more oriented towards foreign origin goods. The problem with European competitiveness (and even more for Italy's) is the lack of renewal of its development model, resulting in the absence of investment in innovation and research. All of this could be much more effective if implemented through a European coordinated program, rather than giving margins to national policies. The first big reinforced cooperation could be on those issues, starting in the Eurozone and focusing on the integration of taxes and budget policies.

A second key issue should be common defence, and therefore common foreign policy. The first group could be composed of the Saint Malo Pact countries: Great Britain, France and Germany (Italy could easily join them). Common defence policies not only mean decisions on a military level, but also integration of industrial and research policies. It is absurd that each European country invests in every single specialisation field. This result is enormous expenditure, and importantly always immeasurably inferior to the United States military and defence. Defence (and foreign policy) and economic policies, are two sectors in which reinforced cooperation could develop into a so-called variable geometry, in that they refer to two different groups. The founding countries could concentrate on projects of reinforced cooperation.

In the future, if the opportunity arises, the Constitutional Treaty issue could also be reviewed. The required time for ratification could be extended (for example it could expire after the French presidential elections), as it is of course very difficult for a weak government recently defeated to come back and face a referendum on the same issue. But it is reasonable to expect that a new president could ask the French people to vote on a lighter version of the treaty, without the technical parts. A Constitutional Treaty reduced to the actual first and second part, essentially the principles of the Nice Charter and the basic rules for the functioning of the institutions. The most controversial parts will be cut out, the countries that have already ratified would not need to have another vote, while those

who have not yet voted could be called to ratify a different text; without those sections which the 'No' supporters were focusing upon. This could be a way to enable Europe to start afresh by 2007.

The European reinforcement process could be restarted now, but we need the strength to face complicated issues and make daring choices. To support the leaderships that care for this process, it is necessary for political and opinion movements to start cooperating and give a push to this process. It is necessary for European left parties to play a major role in this process and to convince leaders of this challenge.

For us it is of priority that Italy comes back to the leading group of the European integration process, indeed it is possible that Europe can be the issue that will enable us to return to government.

(Ls/EolaxVorsotJj) (



Massimo D'Alema at the Global Progressive Forum
2005 in Milan

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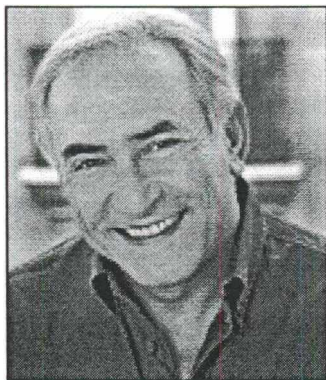
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What is the way forward for the European economy?

By Dominique Strauss-Kahn

Former French Minister of Finance and the Economy
and former Minister for Industry



The French 'non' and the Dutch 'ne' to the proposed European Constitutional Treaty sent shockwaves across the continent, as these two nations rejected the Europe that was under construction. Above all they voiced disapproval of a completely free-market Europe, for they feel that it affords insufficient protec-

tion against the risks of the new globalised form of capitalism. They also gave the thumbs down to an ineffective Europe, which although built around the economy is in fact failing economically.

The verdict is beyond doubt. The lack of economic growth is chronic. Since the 1980s Europe has been one of the areas where growth has been the most sluggish. Between 1980 and 2000 the average annual growth rate of the 15 EU member countries was 2.4% compared to 2.5% for Africa, 3.4% for the United States and 9.7% for China. Only Russia achieved a lower rate of economic growth with an annual drop in GDP of 1.9% between 1993 and 2001¹. *Per capita* growth of GDP in Europe also remains weak, for during the same period it was only about 70% of that of America.

This persistent deficit is a threat to the viability of the European model. The virtuous circle that was an engine of growth has turned into a vicious circle. Lacklustre economic performance has hampered the process of social redistribution which has in turn held down consumption and hence growth. Environmental protection is also adversely affected, as many companies are unable to fund the investments required to reduce pollution in their production processes. For this reason improvement in the quality of growth, i.e. the achievement of growth without damaging the environment has become more difficult. The slowdown in economic growth has thus put a strain on social cohesion and the values of openness inherent in the European model. The very funding of the welfare state is under threat, as room for manoeuvre is reduced while expenditure increases.

The first cause of economic failure is microeconomic in nature since Europe has yet to see through the transition from a strategy of imitation to one of innovation. This transition was made necessary by the completion in quantitative terms of the post-war catch-up process. No further progress appears achievable though reconstruction and the assimilation of existing, mostly American, technologies, and economic growth now rests on technical advances and innovation.

This transition has also been made necessary by changes in contemporary capitalism. The old industrial capitalism was based on standardised production aimed at a developing middle-class consumer market, productive investment in known technologies, a stable low-skill labour force and financial backing from the banks. Contemporary 'post-Fordist' capitalism has all the opposite characteristics: a wide range of products with strong technological innovation and high added value, a mobile, flexible workforce and market-based financing. This transition has been forced on us by economic globalisation which has increasingly put western countries in direct competition with the emerging countries of the south. This competition has become unbearable in labour-intensive sectors, where wage costs are pricing developed countries out of the market. For western countries, the 'only way out is up' i.e. by specialising in the most innovative products and services.

European countries have, however, largely maintained ways of working dating from the post-war period: large mass-production industries, investment in plant, concentrating education in the primary and secondary sectors and trade apprenticeships, a particular form of capitalism in the relationship between companies and their bankers, i.e. what might be called the German, as opposed to Anglo-American model. In an innovation-led economy, the main factor for success is research and development (R&D). Now the proportion of gross GDP ploughed into R&D in the 15-member EU was much lower (1.9%) than that of the United States (2.7%) or Japan (3%). Only one quarter of the working population of the 15-member EU has graduate-level education compared to over a third (37%) in the United States. Of greater concern is the fact that the United States' annual expenditure on higher education is more than double that of Europe — 3% as opposed to 1.4% of GDP². To encourage innovation, new entrants to a market should be favoured compared to existing operators whose size constitutes a barrier to entry. OECD figures show that this is not happening enough in Europe. The increase in the number of jobs in start-ups is much higher in the United States than in Europe,

with 12% of large American companies (measured in terms of stock market capitalisation) have been set up within the last 20 years, compared to a mere 4% in Europe[^].

The development of the European community itself was based on this traditional approach. The single market was designed mainly to encourage economies of scale, rather than to stimulate innovation by encouraging new firms. Laws on competition are oriented towards relations between large companies and are not designed to favour new entrants. Moreover, barely 5% of the Union budget goes into innovation and knowledge.

The lack of economic growth in Europe also has macro-economic causes. While the United States has succeeded after the rocky years of the 1970s in re-establishing price stability, without apparent cost in terms of growth, Europe has put in place a policy of macro-economic stability that has held down its growth rate.

This explanation of this is three-fold. Firstly, it may be attributed to the procyclical character of budgetary policies implemented by member states. Their capacity to boost the economy in times of slowdown has been reduced by the stability pact which limits the deficit to 3% of GDP. Secondly, Europe or at least the Eurozone appears to have a less reactive monetary policy than the American Federal Reserve. Thirdly, and most importantly, the inadequacy of European macroeconomic policy derives from an absence of a Union-wide policy mix. This virtually total absence of co-ordination of economic policy among member states of the Eurozone tends to cancel out the benefits of the single currency. Moreover, this situation makes any coherent discussion with the European Central Bank impossible. Those who hold macro-economic power in Europe thus do not work together, whereas in the United States the Treasury and the Federal Reserve co-operate to decide on macro-economic strategy.

This is now the economic priority for Europe. Before seeking to relaunch a political Europe of the future, we have to make Europe economically successful today. We need to base economic development in Europe on solidarity and sustainable growth.

What are the ways forward?

Fiscal and social competition: a scourge that must be banished

This lack of growth is better dealt with by Europe as a whole than through any of the member states acting separately. Yet European countries have chosen to approach the problem in divergent ways which have brought them into competition to attract economic activity to their national territory which turns into a race to be the 'lowest bidder' in terms of tax breaks and social legislation. One tactic is to lower corporation tax,

which has been cut from 50% to 33% in France over a period of 10 years, and reduced to a mere 25% in Germany and 10% in Ireland while there is none at all in Estonia. This crazy rivalry erodes the bases on which the funding of social protection and environmental policy rests and could easily, were it allowed to go unchecked, cause European countries to abandon their model of social justice in favour of a more strongly free-market approach.

An even more alarming development in this competition to attract business is the setting up of 'tax havens' for multinationals. Some member states have allowed large international groups exemption from national taxation and other advantages if they set up company or financial headquarters on their national territory. This is a purely European phenomenon, which led to relocations and diverting of investment within the 15-member European Union. These fiscal regimes which apply only to 'stowaway passengers' decrease tax revenues without bringing any comparable benefits to the countries which implement them since all member states are acting in similar fashion.

Europe must invest massively in the future to achieve the ambitious targets of the Lisbon strategy

In order to achieve the transition to a knowledge economy, Europe must invest in research, innovation and education, since that is where most of its future will be played out. Given the cost differentials between EU companies and their competitors in emerging countries no strategy based on competitive pricing can succeed.

The comparative advantages that emerging countries enjoy as regards production costs will not, however, remain forever. For instance, the economic development of South-East Asia will gradually lead to production costs becoming aligned to western levels. The current economic structures of the EU have undergone painful changes to achieve the transition that is now reaching completion but they will not be able to resist the infinitely greater pressure resulting from competition from countries with such large populations as China and India. For this reason, the only viable strategy is one of innovation, based on knowledge and the re-orienting of economic activity towards innovative products and services. This is the only strategy that will enable Europe, as is the case for the United States, to make the technological breakthroughs that will allow her to complement rather than compete with the South. It is a matter of urgency. Production sites and certain services (call centres, accounts) are already being transferred to emerging countries and this could lead in the future to the delocalisation of research and development activities to emerging countries for which, given their investment in education and training, e.g. in China, they provide a favourable environment.

Yet it is a matter of concern that Europe is falling behind in R&D. In order to keep up, it has set itself the

objective of investing 3% of GDP into research each year, with 1% in the public and 2% in the private sector. This level of 3% is based on best practice in western countries, yet it must be considered as a minimum if we are to achieve the ambitions of the Lisbon programme and become the world's most dynamic economy by 2010. Currently the 25 members of the EU devote only 1.9% of their GDP to research. The Union can make up lost ground in R&D, if three types of reform are implemented. Firstly, R&D must become a priority within the EU budget. Europe must set herself the clear objective of becoming the area that invests the most in R&D. This requires that the EU take on a much more active role and that it set aside a budget equivalent of 0.25% of the Community's GDP for research each year. In time, this community-wide effort on public-funded research could go on increasing until it becomes, in terms of volume, the primary policy of the EU. Secondly, public-funded research must become more effective, and funds correctly allocated. The setting up of a European research agency would help to increase the qualitative impact of the public funding of

research by basing the awarding of grants on scientific criteria, and not, as still often happens today, on geographical considerations, such as the expectation of a fair proportion being awarded to contributing countries through

the community policy on R&D. Thirdly, too little money is invested in private research in Europe. The EU could encourage the setting up of tax credits for R&D and for innovative investments, for third is the most appropriate instrument for stimulating private research through a European Council resolution, or indeed by fixing a minimum level of tax relief for the whole of Europe through a framework law.

An economy of innovation requires at the same time a massive investment in higher education. As the EU has achieved full participation in secondary education, it must now seek to increase participation in higher education (HE) which is indispensable for bringing about transition to an economic model based on knowledge and innovation. There is, however, a major gap between the United States and Europe as regards HE, with the USA having 50% more graduates than the EU. Nor can any individual country match the US in this area. This gap derives from the different levels of investment in HE with America devoting 3% of national income compared 1.4% for Europe. Even public funding is higher in USA, 1.4% of GDP compared to 1.1% in Europe. The rapid achievement of mass participation in university education is a major challenge for Europe, and first and foremost for individual member states, since HE is their responsibility. The EU can, however, help increase European funding for this area, firstly, by setting the objective to be reached through a European Council resolution, i.e. 50% of the population completing a course of study in HE; and secondly, by investing in a network of univer-

sity centres of excellence which can seek to become world leaders in their specialisms. It is reasonable to plan that the EU will devote 0.15% of its GDP to quality higher education.

Boosting the European economy also requires a community-wide industrial policy to combat deindustrialisation and maintain the attractiveness of Europe as a business location

Industrial policy is not currently part of the Community's brief and the only elements of a European industrial policy concern laws on competition. Economic Europe has been built in an inward-looking manner to bring down national barriers in order to create a single European economic area. Globalisation and the dangers of delocalisation now force us to look outward in order to maintain the industrial competitiveness of Europe in an environment where international competition has increased. Europe cannot resign herself to a gradual depletion of all her industry, for industry possesses potential for future

growth. Even in a service-dominated economy, productivity gains come from industry.

Loss of industry does not only mean delocalisation, although it is the most visible and socially painful man-

ifestation of it. When a firm, whether European or from outside the Community, chooses to invest outside Europe (even without relocating a production site) it contributes to the depletion of Europe's industrial base. The problem must therefore be seen in the wider perspective of Europe's capacity as a business location for attracting international investment. In competing for such investments, Europe has three rivals who must be countered with different strategies. In the face of competition from emerging countries, Europe must invest in knowledge. In order to compete with developed economies, and in particular with the United States, Community law on competition must be modified so that European players with the critical mass necessary in the world market can be formed and not simply to maintain competition between European companies in each national-market segment. In the face of competition from within Europe itself, unfair tax regimes must be banned by law by extending the principle of equality of treatment, which prohibits 'negative discrimination' arising from the positive discrimination inherent in such regimes.

The transition to an economy of innovation requires that the single market become more dynamic. This can be achieved through three types of reform: firstly, the entry of new firms into the market must be facilitated, since new entrants or start-ups bring in innovations. This implies a refocusing of European policies on market regulation and competition which were not designed for such a purpose. Secondly, the single market must be complemented by a genuinely unified

1 Europe must invest in knowledge

labour market. Thirdly, the physical unity of the single market has to be strengthened. The costs of improving European transport networks have been estimated at 500 billion Euros over the next 10 years, or 50 billion Euros per year. The European Union could cover between a quarter and a half of this expenditure. This would mean that the proportion of community budget spent on infrastructure would rise to between 0.125% and 0.25% of GDP compared to current levels of under 0.1%.

Boosting the European economy also requires reform of our macroeconomic framework, i.e. the setting up of an actively managed economic policy

In the macroeconomic domain, the malfunctions of the management of the Eurozone are now obvious: pro-cyclical budget policy, the relative lack of dynamism in monetary policy and an absence of policy mix. The weak reaction to the rise in the value of the Euro is a recent example. These malfunctions fuel the disenchantment felt by an increasing number of European citizens as regards the single currency. It will not be enough to adjust the instruments of economic policy in the Eurozone, the philosophy underlying European macroeconomic management has to change. That its management has been up to now so loosely co-ordinated is a consequence of the EU's contenting itself with a kind of 'automatic pilot' based on a set of mechanically applied rules, particularly as regards budgetary policy. Although necessary during the period of convergence of European economies and absolutely vital for preventing overspend, this form of management is not appropriate when the objective is to restore growth and develop the job market. Closer co-ordination of economic policy has thus become unavoidable. It is therefore time to reform the macroeconomic framework of the EU and to reinforce the rules by active political monitoring.

This applies to budgetary policy. The weakness of the current economic government of the Eurozone is largely due to the informal status of the Eurogroup - the forum which brings together the finance ministers of the countries who have adopted the Euro. Since it cannot take a decision with the force of law, its co-ordinating role has never really developed resulting in a lack of direction for the Eurozone. It has neither a common budgetary strategy nor an effective dialogue with the European Central Bank. This deficiency results in obvious weaknesses: inappropriate policy mix, an exchange rate dictated by the dollar and the absence of a united front and a strong voice for the Eurozone to the rest of the world. The Eurogroup must be given formal institutional status with full legal powers to decide the economic policy of the Eurozone, introducing consultation on the budget and exchange policy and dialogue with the ECB to define the policy mix, and prepare common positions on issues in international fora. It also needs a stable presidency with the elected president serving as European

finance minister.

More active management of monetary policy is also necessary since the ECB acts as a brake on growth because of its preoccupation with price stability. The objectives of growth and job creation could be pursued without change of statutes and in co-operation with other central banks.

Changing the statutes of the ECB would, however, send out a strong signal politically. It would not mean revoking its independent status, which is now common to all major democracies. The revision would come down to including in its statutes the fact that economic growth and job creation need to be taken into account. This would bring them into line with those of other western countries, in particular the American Federal Reserve and the Bank of England, which have proved their effectiveness.

Conclusion: creating the conditions for development to benefit the whole of Europe

Here are the principal proposals for boosting the European economy: investing massively in the future; putting in place a common European industrial policy; setting up economic governance by granting formal institutional status to the Eurogroup; ensuring that the European Central Bank takes on board the objectives of growth and job creation.

Such a boost is essential since without growth it is impossible to maintain the level of social protection that is the hallmark of the European model. The reforms that I have suggested here will facilitate the transition to a knowledge economy and revitalise the philosophy of macroeconomic management in Europe and thus constitute a strong foundation for sustainable growth and development to the benefit of all countries in Europe.

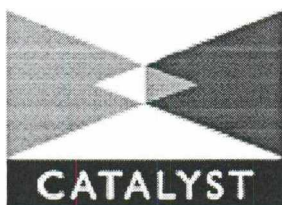
¹ Figures taken from *IPartEconomic Outlook-E* published by the IMF in 2002.

^ Figures taken from AMECO database of the European Commission.

J Source : OECD, *Economic Outlook*

^ Source: *An agenda for a growing Europe* — Report by a group of independent experts set up as a result of an initiative by President Prodi and chaired by André Sapir, July 2003.

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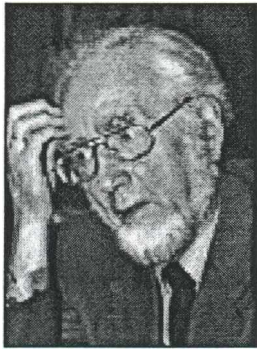
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The German Election: the 18th of September and Europe

by Erhard Eppler

German Minister for Economic Co-operation

(1968 - 1974)



This year's German election was seen as an international and foremost as a European event; as predicted by CNN. Even though the outcome of the election remains unclear, this election has not become a signal, as many feared, others hoped for and much of the German media (TV, radio and print) tried so hard to influence.

The long predicted and seemingly inevitable landslide for the Neo-liberals did not happen nor were the election results the end of the SPD as a 'Jb/Apart' (people's party). It is likely that rifts in the other German 'Jb/Apart', the CDU, will soon become apparent.

For the third time in a row the parties left of the Christian Democrats won the majority of votes

The anger, Schröder displayed on Election Day, was aimed at the media. With unprecedented unanimity, the media bashed the red-green coalition, and in doing so generated a sharp drop in the opinion polls. Then we were bombarded with reasons why and how the SPD had no chance of being re-elected. Now the parties are almost level. This outcome shows that Germans do not only distrust their politicians, but also their media. The main losers of the election are Mr. Diekmann (BILD), Mr. Aust and Mr. Steingart (SPIEGEL) and Mr. Jörges (STERN). The Germans — and this is extremely important and deserves respect — are emancipating themselves from the media.

II. For the third time in a row since the unification of Germany, the parties left of the Christian Democrats won the majority of votes. A total of 51 % cast ballots were for the three left wing parties (SPD, Greens and the Left), whereas only 45% voted for the right wing parties (CDU/CSU and FDP). However, this time, unlike 1998 and 2002, the left majority is unable to form a government. The

legal successor to the Socialist Unity Party (SED), which ruled the GDR, supported by disgruntled and disenchanted social democrats, with 8.7% of the vote, has helped to prevent a conservative-liberal coalition, but it has also stopped a left-wing government. The extended PDS is neither able nor willing to join a government. It attempts to gain more influence as populist opposition party. It is unlikely that the split among the left parties will be as permanent as it was between the SPD and the German Communist Party (KPD) after the First World War. At that time, a deep ideological gap divided these parties. While the SPD wanted to sustain the Weimar Republic, and therefore supported and defended it; the KPD even agreed with the Nazis that the Weimar Republic must be destroyed.

Today, the SPD and the Left Party are mainly separated by three challenging, but in the long term surmountable obstacles. The first is foreign policy. Out of all the parties it is the successor to the SED, which had militarised the GDR, even the schools, which now argues for pacifism condemning every out of area operation of the 'Bundeswehr', even if it is under a UN mandate, where the only conducts practical police tasks. None of the other parties have failed to see that in the 21st century, there is neither European nor German imperialism, but the issue is taming privatised and commercialised violence, which is victimising entire states in the south.

The second obstacle is the inability of the 'Left Party' to understand the 21st century. Today, the 'Left Party's economic and social policy claims do not differ much from what the SPD advocated and also implemented in the early 1970s. However, today we have to cope with globalisation and especially with powerful multi-nationals who can even blackmail big states. At best, this reality is mentioned by the 'Left Party' in a polemic manner. Politically, it is completely factored out.

The third and greatest problem between the SPD and the 'Left Party', which currently cannot be eliminated, is Oskar Lafontaine. Firstly the way he resigned as finance minister from Schröder's cabinet, then how he sold confidential government material to the highest paying newspaper, and his permanent and highly-paid attacks on the red-green government in the right wing tabloid BILD, all of this disqualifies him as a dialogue partner.

III. As neither the Conservatives and the FDP nor the SPD and the Greens won a majority in the 'Bundestag', they now have to find a compromise. No preferred coalition can govern against the other.

Realistic possibilities include above all grand coalition, minority government, or re-election.

Germany made relatively good experiences with the grand coalition, which governed in Germany from 1966-1969, but the conditions at that time were more favourable. In 1966, the CDU/CSU had a clear relative majority in the *Bundesrat* and so none of the other parties contested the Chancellorship. Since the last election was more than a year ago, in 1965, the election manifestos of the parties were not seen as relevant. The CDU/CSU / FDP coalition, led by Ludwig Erhard, was broken. Therefore, the CDU/CSU was looking for a new Chancellor as well as a new coalition partner. Today, after a closely fought election campaign, in which the Conservatives permanently stressed the importance to save Germany from its downfall caused by the red-green coalition, the CDU/CSU and the SPD won, nevertheless, almost the same number of seats in the *Bundesrat* (226 to 222 seats). Furthermore, in contrast to 1966, the German electorate voted for a clear majority of the left wing parties in the *Bundesrat*, who will probably not cast their votes for Ms. Merkel as Chancellor. On the other hand, the CDU/CSU will not enter a grand coalition led by Schroder.

Minority governments are not common in Germany and should be seen as alien for the Germans. Even thoughts about such a government evoke insecurity. Nevertheless, this might be the course of events. If Merkel is nominated as Chancellor Candidate and fails to win an absolute majority in the first voting round, as is expected, one is allowed to nominate rival candidates for the second voting round. If Schroder as a rival candidate receives one third of the votes of the 'Left Party' (in the secret ballot) he would achieve a relative majority. The result would be a red-green minority government. In order to push legislation through it would have to find compromises with the conservatives already in the *Bundesrat* and not just in the *Bundesrat*.

There are other European democracies, where such a stalemate would rapidly lead to re-election. In Germany however, there are many constitutional barriers. Numerous re-elections of the *Bundesrat* entailed the quick rise of the Nazis in the early 1930s. In 1932 alone there were two elections, and an additional one in March 1933. Therefore, the constitution does not give the parliament or the Chancellor the power to dissolve parliament. Only the German President is authorised to dissolve parliament, but just in case the government is not capable of acting anymore.

It is obvious that it will be difficult to clear one of the three ways out. Nobody can say if and how this will happen. But the grand coalition seems more likely.

IV. It now seems that in Germany, the Left has a chance, only if it appears as a European left. If it is

correct that globally acting capital can prevent every genuine social democratic policy on national level, then, the time for social democratic policies in and for Europe has come. If the chances of tackling unemployment on national level are increasingly difficult, then social democrats throughout the EU need to work out new European policies.

Our neighbours in France and the Netherlands have put the question, what type of Europe do we want, on the European agenda. This question will become more urgent and important every year. Although the SPD and Green members of the *Bundesrat* voted for the European Constitution, there is a link between the German election and the *Bundesrat* the French to the European Constitution. The French and Germans revealed, although in different ways, that they will not support a European Union which promotes accelerated globalisation and increased power for globally acting capital. A majority of Europeans, not only among the Left, want to have an EU, that can provide protection from the moods, impertinences and pressures of the free market economy. The majority want the EU to restore the economic framework that has become fragile at a national level.

If social democrats throughout the European continent succeed in putting forward a plausible concept for this kind of Europe, and implement it into policies, they could become the leading power in an emerging Europe. They will also be encouraged by some Christian democrats, who can force their parties and groups into discussions.

Many Europeans differ in their perceptions of the state and its functions from the now prevalent Neo-Cons in the USA. That became clear both in the election in Germany and in the referenda in France and the Netherlands. However, those perceptions can not be realised anymore on the national level. More precisely: they will only have a chance to be realised within the nation states (that will continue to exist) if European politics provide them.

The SPD is, once again, working on a new party constitution. That is a worthy job. But, two dozen of joint theses by social democratic parties of Europe would have greater political impact. These must try to set out in detail what Jacques Delors meant by the 'European model'. They would have to clarify, what, in a Europe which grows together should be left to the markets, what cannot be taken from the state and what can be better fulfilled by civil society rather than by both, market or state.

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Romania's Expectations for EU Membership

by Adrian Severin

Former Deputy Prime Minister and Foreign Secretary of Romania, Currently Observer in the European Parliament



1. General Assessment

Romanians are among the most enthusiastic supporters of the European Union. According to the polls (see Eurobarometer 62 and 63 — July 2005) about 75% of Romanians' support their country's accession to the EU; with only 4% revealing that they are sceptical in any way of or about the EU. Interestingly, the same poll indicates that only 48% of the present EU member states' nationals welcome Romania's accession. It seems that the majority of the Europeans (within the EU) are unenthusiastic about Romania's membership in the near future. (Turkey, Croatia and Albania have been greeted with even less enthusiasm.) Any discussion on Romania's expectations for its EU membership should start from here.

When we examine to what extent the various European nations value the benefits of the EU membership, or consider Europeans perceptions of the status of the EU, or even consider the level of popular trust in the EU, it is apparent that Romanians have the most positive opinion. 76% of Romanians, (compared to an EU average of 53%) are convinced that the EU membership is both beneficial for them and for their country. 76%, (against a EU average of 50%) believe that the EU has and deserves a positive image (within the EU the most positive view is that of the Irish which is 75%); and 74% of Romanians (against a EU average of 50%) indicate that they maintain trust in the EU (Lithuania is the next nearest with just 68%).

It is fitting to note that although Romanians are greatly dissatisfied with their own democracy and the way in which it functions, (67% think the democratic deficit is unacceptably large compared with 57% of the EU member states' citizens who are satisfied with their national democratic development), the majority of Romanians are convinced that within the EU democracy is fully functional (57% against a EU average of only 48%). Could one claim that the conflict between Romanians' belief that their own democracy might not progress unless it's integrated within the European order on one hand, and the fear of the EU's citizens to accept an insufficiently democratic member, on the other hand, helps to explain the contrast between the formers' enthusiasm and the latter's reservation?

However, in spite of what appears to be European rejection, the highest level of European pride was recorded in Romania; 83% of Romanians are currently

proud to call themselves European, although the average among those who are already members of the EU is just 68%. One might say that Romanians feel more European than the Europeans themselves! (If, of course, being European one understands only the citizens of the EU member states.) Likewise when talking about the degree of attachment to the EU a massive 85% of Romanians proclaim their loyalty to the EU (the average in EU member states being 67%).

Europeans should not treat the Romanian's level of attachment and devotion to Europe so casually. Such positive feelings would be a real asset within EU strengthening, especially for the development of a more closely integrated Europe.

2. What do the Romanians expect in return for their EU membership?

2.1. In order to answer this question it is necessary to understand the values, processes and policies that Romanians associate with the EU, and the positive or negative light through which they view them.

According to sociological research, 64% of Romanians associate the EU with the freedom to travel, to study and work anywhere in the Union's member states (as compared with only 53% at the whole EU level). 60% associate it with peace securing (as compared with only 36% at the whole EU level), 56% with democracy (as compared with 25% at the whole EU level and with only 12% in Finland), 60% with economic prosperity (as compared with only 22% at the whole EU level) and 42% with social protection (as compared with only 12% at the whole EU level). In every case Romanians have offered the highest score among the EU and candidate states altogether.

If we turn to the single currency (Euro) and to the capacity of the EU to play a global role, the average perception of Romanians is equal to and greater than the average perception of the rest of the Europeans (44% and 30% respectively). This shows that even in the two fields which are intimately linked with the status of being an actual member, and therefore could hardly be evaluated from outside, Romanians views are similar to those of the current EU member states' citizens.

On the contrary the negative perceptions are quite different. Bureaucracy and the loss of the cultural identity, both of which concern most of the other Europeans (taking the average, 22% associate the EU with bureaucracy and 14% with a loss of cultural identity — in the UK this opinion rises to 31%), are considered to be of marginal importance to Romanians (6% and 5% respectively). Conversely for Romanians, the

EU is associated with a more positive concept, that of cultural diversity.

Could one claim that such perceptions reflect Romanians' ignorance about the way the EU functions? No. Unfortunately bureaucracy is overdeveloped in Romania; and even if one concedes that Romanians are not familiar with the European institutions' *modus operandi*, such a lack of familiarity does not lead to fear of Brussels bureaucracy.

As for cultural identity, the explanation for Romanians' apparent lack of regard for their own cultural identity is more profound. This requires an analysis of Romanians' anthropological background. The authoritarian and equalitarian dimensions of Romanians' character — which have their origins in the structure of relationships within families (parents and children, on one hand, brothers, on the other hand) and have determined their concept of their relationship with the divinity (Christian Orthodox religion) and with the other members of society — explains their individualistic approach as well as their rejection of ethnocentric nationalism. As for most Latin people in Europe, Romanians see every human being as equal to every other human being. The citizen (including the European citizen) is just one expression of the universal person. Thus, lacking an organic view of the nation, Romanians do not attach to that concept a cultural but rather a geo-political connotation. This leads towards an instinctive tolerance, which surprisingly enough ignores diversity — specifically cultural or identity diversity. (This should not be confused with disrespect for diversity but simply indifference towards diversity.) Therefore, even if very conservative — as any still psychologically rural society is, where the old traditions are passed from the old generation to the younger ones through the authority of the *fiarfandă* — Romanian society is not obsessed by the past and it is not concerned with temporal continuity, i.e. the persistence of the past in the present and its transmission in the future. Consequently, Romanians are not affected by the kind of national egoism which many believe is hampering the progress of the EU into a completely federal system. On the contrary, it is their universalistic approach that leads to their acceptance of a political Europe.

There is not any anthropologic Romanian resistance against strengthening European integration. If the future of Europe depends upon the capacity of Europeans to give a definition for 'the other' or 'the stranger', then Romanians, with their virtually unlimited capacity to accept and integrate the stranger, present no obstacle to it; on the contrary they would be a blessing to the task of furthering European integration.

2.2. What are the main problems that Romanians are confronted with, in the European context? In

answering this question we will also further our understanding of Romanians' expectations for their country's EU membership. Clearly they hope that the Union will

help to solve their problems. We should also compare Romanians' concerns with other Europeans' concerns.

According to public opinion polls the factors which Romanians' cite as their main concerns are: i) economic situation (38%); ii) inflation (36%); iii) crime (32%). These are followed at a long distance by iv) unemployment (24%). With their two lesser concerns being v) pensions (16%) and vi) healthcare (15%).

If we take the smaller factors first, for both pensions and healthcare the figures are fairly similar in size to the concern on the same issues within the EU (12% and 16% respectively). This does not mean that Romanians have the same degree of satisfaction. Most probably they think that these issues are national and should be solved at a national level.

While for EU citizens terrorism and immigration are two relatively important matters (16% and 13% respectively), for Romanians they do not count as much (4% and 3% respectively).

The most interesting observation is related to the problem of the unemployment. This is regarded, by far, to be the most important challenge for the Union (46% of respondents at the whole EU level indicate it as the number one problem). Romanians' concern on the same issue (just 24%) is only half that of the Europeans' one. This suggests that employment is not such a big issue for Romanians. When it comes to the fight against unemployment being one of the EU's main priorities, Romanians are again below the average European percentage (34% in Romania against the EU average of 44%). One possible explanation might be the fact that following the post-communist ownership reform several millions of Romanians became either landowners (even though this often leads to agriculture subsistence only) or small entrepreneurs. Therefore they are more interested in improving the business and economic environment (which engages the macro-economic policies as well). This is consistent with the point that, while the economic situation and inflation are of great concern to Romanian respondents (38% plus 36% giving a total of 74%), for EU respondents they only have a secondary significance (27% plus 16% respectively giving a total of only 43%). Thus Romanians are twice as concerned with economic development compared to the average European, and only half as concerned about employment. One interpretation could be that Romanians' see jobs creation as following economic development — which reflects a market oriented mentality — and also that employment should not be a problem for an economy with the potential of the EU's one — this might be an overestimation.

2.3. What is the Romanian view on the EU's priorities? No less than 67% of Romanians are of the opinion that the first priority of the EU should be to fight poverty and social exclusion. This compares with an average, at the whole EU level, of only 40%. As men-

tioned before, for European citizens the first priority is to fight unemployment (44%). The second priority from the Romanian point of view is to maintain peace and security in Europe (39%) and the third is to fight organized crime (36%). Fighting unemployment is only the forth priority (34%)

This hierarchy of priorities requires an explanation; once again the origins may be found in the research of the Romanian anthropological background. The authoritarian dimension of the Romanians' disposition speaks, in principle, of their readiness to accept and their desire to benefit from a hierarchical order. Romanians are definitely looking for protection from above — the head of the family, God, the State. If the EU could protect them as well or even add something to the protection they already receive from their nation-state, then all the better. From this perspective one could say that while welcoming the actions and intervention of European institutions, Romanians will desire the enhancement of the Social Europe's principles. For Romanians Europe is necessary in order to assure solidarity rather than to arbitrate free competition. (Romanians' concept of the market is not based on free trade philosophy but on political regulation of the economic game including redistribution policies.) Therefore economic, social and territorial cohesion, as well as European policies leading to them are and will be of paramount importance to Romanians. Likewise, any action meant to promote social inclusion is more important in Romanians' eyes than those promoting equality of opportunity.

Unlike the British, the Dutch or the Danes who prioritise free trade and free competition thus accepting inequality; and unlike the Germans, the Austrians and the Swedes who accept the state's role as a means to make such inequality redressed, the Romanians expect the state to respect and assure equality amongst individuals. The somehow schizophrenic combination between the authority (authoritarian dimension) and the equality (equalitarian dimension) puts obvious limits to the former. Thus for Romanians authority is always relative and accepted rather than desired. They are used to bargaining with authority rather than respecting it. As far as the role of the authority is concerned, with reference to their anthropological background, Romanians, due to their equalitarian inclinations, are placed somewhere between British liberalism and German enthusiastic submission to the state's intervention in the market. Consequently, Romanians will meet Anglo-Saxon Europe right in the middle. They will look for the enhancement of the principle and the mechanisms of the subsidiarity but, being neither ethnocentric nor isolationists, they will not insist on the growth of national parliaments' role within the EU's system.

Putting all these together — acceptance of hierarchic authority, desire for assistance and protection, inclination towards subsidiarity as a means for achieving a more flexible and better adapted decision making sys-

tem, low interest for the role of the national parliaments — one might conclude that Romanians are ready for a federal EU, provided that such an Union will not touch the geo-political equilibrium which has been achieved within the borders of the nation-state. In other words the Romanian mood will naturally be in favour of a European federation of nation-states. In fact this conclusion is confirmed by the polls according to which the highest level of support for a European political Union was recorded in Romania with a score of 82% (against the EU average of 59%).

2.4. How do Romanians perceive themselves within the EU? Apparently Romanians have accepted the fact the biggest member countries have the biggest role in the EU. (72% of Romanians think like that.) However 57% of the Romanians believe that their own country, once a member, will have a voice within the EU.

More important is the fact that 76% of Romanians think that the EU membership will make Romania more secure and more stable economically, and 68% think that it will become more stable politically. On all these issues once again Romanians show higher expectations for their EU membership than the assessment of the actual members on the advantages related to their membership. (Only 50% of the European citizens believe that because their countries are members of the EU they are more secure, 44% that they are more stable economically and 42% that they are more stable politically.)

In contrast to those hopes, the level of fears related to membership is rather low. Romanians' concerns about a possible transfer of jobs, an increase in crime, an unbalanced rate between the costs and benefits of the membership, a more difficult life for farmers, a loss of social benefits, a diluting of national power or a loss of the national identity are situated at the highest as half the level of the same fears expressed by all other European citizens.

3. Romanian expectations in respect of the EU's future. There is and there should be a direct relation between what Romania expects for its EU membership and its vision for the future of the EU.

Romanians' optimism about their own future within the EU is evident in their desire for further development of the EU. Thus Romanians have a three times greater desire to see the expansion of the EU escalated, with 75% of them expecting a greater role for the EU in the future. Within such a context it is not a surprise to hear that 76% of Romanians support further enlargements of the EU (certainly having in mind the Republic of Moldova, Turkey and the Western Balkans, as well as, perhaps Ukraine and Belarus).

From a Romanian point of view it is globalisation which makes both strengthening and enlargement compulsory for the EU.

Enlargement is not about compensation, a kind of

reparation being offered to Central and Eastern European states, which since the end of World War II lay behind the Iron Curtain left to the mercy of Soviet totalitarianism. Enlargement is imposed primarily by the need for reconciliation of Europe's history with its geography. Without such reconciliation, the EU could not take advantage of its control over its human and natural resources. It could not provide itself with the chance of becoming coherent, and of achieving a pan-European economic, social and territorial cohesion; could not face the competition with the other centres of the multi-polar globalized world; could not overcome its demographic problems; could not cope with its structural weaknesses; and could not obtain the recognition of those rights which represent the consideration for undertaking major geo-political obligations in the global arena.

On the other hand the strengthening of the EU's integration should not only be regarded as the consequence of the enlargement process. Indeed, a Union with more members needs political institutions which can harmonize and coordinate national agendas, options and actions, as well as a decision making procedure which can create reasonable majorities which generate legitimacy for action. Nevertheless, strengthening is necessary whether there is any enlargement or not. Global competition requires more efficient management of the EU member states' common interests, and therefore the transformation of the Europe-market into a political Europe is essential. This would mean in fact the reinvention of the EU.

Starting with these convictions, within the European Convention, Romania has supported the principle of the dual nature and the dual legitimacy of the EU as a union of states and a union of citizens. On that basis it has accepted the principle of dual majority (states and people) in terms of the voting system. Likewise, it has expressed the opinion that the role of the Commission (formed on the basis of merits and not of the principle 'one state - one commissioner') and of the European Parliament should be increased in order to give them the capacity to take care of European common interests more effectively.

4. The enlargement process and Romania's membership. From Romania's point of view the EU is a political project achieved with economic means and not a mere economic exercise. Therefore the enlargement is a political process as well and should be approached accordingly.

The fact that for European citizens welcoming the new member states is the last priority, at only 5%, is indeed disturbing for prospective members. Even more disturbing and disruptive is the blockage — legal, political and psychological — which follows the rejection of the European Constitution with the French and Dutch referendum, and the failure of negotiations on the future budget of the Union. These have either accompanied or succeeded the general fear of the old EU member

states about their capacity to absorb the newcomers. Such events put into jeopardy the future, and perhaps even the very existence of the EU.

Romania is afraid that these negative developments indicate an internal crisis within the EU and might delay its accession. Such a delay will of course, be detrimental for both Romania and the EU. As for Romania the most important negative consequence will be the collapse of its national mobilization, which during the last decade ensured the necessary dynamism, requested by the EU, for dramatic changes in the country to take place. Those changes made possible the assimilation of the greatest part of the *argusochimic*.

As far as the EU is concerned it will not only lose the opportunity to integrate a large market and a political player who could increase its effectiveness in shaping a friendly strategic neighbourhood, but also a member which could and is willing to contribute to the definition and the construction of the united Europe identity — in cultural, economic and geo-political terms.

The context is complex, but it should be clear that Romania waits for the resolution of this current crisis, and it is ready to co-operate in such a way as to make its membership possible for the 1 of January, 2007 as agreed and expected.

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Europe Forward, Not Back: Using the Reflection Period

Hannes Swoboda, Vice-President of the Socialist Group in the European Parliament
and Jan Marinus Wiersma, Vice-President of the Socialist Group in the European Parliament



Jan Marinus Wiersma

Just four months after the 'No' votes in referendums on the Constitution in France and the Netherlands, the sense of deep crisis that swept through Europe has gone underground. Things seem to be back to normal in many ways. The legislative process chugs along as before; Turkey's accession bid again demands attention; and the 7 July London attacks have — rightly — altered the Presidency's priorities and have apparently put the programme set out in Tony Blair's speech to the European

Parliament on 23 June on hold.



Hannes Swoboda

However, we have only the appearance of business as usual. The reasons behind the rejection of the Constitution in the two countries will not go away and need to be addressed. But so far not much has been done. Immediately after the referendums, our Group held a thorough debate to assess our position and what needs to be done. Our conclusion was that the answer to the two 'No' votes must not be inactivity, passivity and pessimism. We need to develop a clear view of our citizen's concerns and translate it into political action. We need to 'renew Europe through concrete action'

Points of reference

In our enthusiasm for the Constitution we have reflected the EU's poor reputation for being complex, distant and adopting unnecessary regulations. The EU is seen as an elite project, disconnected from citizens' daily lives. This creates a democratic deficit that surfaced not only in the Dutch referendum but earlier and elsewhere.

What has been especially damaging in the general attitude shown by national politicians to Brussels over the years. Everything good comes from the national capitals; all wteftgs-arc-_- blamed on the EU. Add to that a strong focus on internal politics and you have a poisonous mix. There was also a clear lack of leadership. Chirac and Balkenende were both weak V campaigners. But it would be too simplistic to conclude that better campaigns would have swung the vote.

The "too much, too fast" argument played an important role. In the Netherlands there were complaints about both the single currency and rapid enlargement. Since voters were not directly consulted about these issues, they felt free to use the referendums to voice their dissatisfaction. Of special concern is the fact that both in France and in the Netherlands a majority of socialists voted 'No'. This should be a major factor in our response.

We do not feel a need to redefine the subsidiarity principle, but it should be more prominent. Our citizens want the EU to deal only with major issues that member states cannot handle alone. At the same time, disappointment with Europe's economic and social achievements in general, and employment in particular, was an important reason for the 'No' vote.

Some voters expect old-style national and European protectionism, some complain about threats from the enlargement countries.

We all agree that we need more democracy and transparency and that the EU has to be able to cope with globalisation and geo-political realities. We need more effective institutional arrangements. It is understandable that many supporters of the Constitution want to continue the ratification process, out of respect for those who have already ratified and because of the intrinsic value of the text. Another strong argument is that France and the Netherlands cannot decide for the others. On the other hand the results were very clear and the turnout high, so it is hard to envisage second referenda in France and the Netherlands. The European Council will have to decide at a later stage what will happen with the current text. But it is clear that the views of those who rejected the Constitution in France and the Netherlands will have to be reflected in our position. We set out below a brief outline of what we consider to be the most important points.

1. Pulling the emergency brake

The European Council's decision to have a period for reflection was a sensible reaction to the rejection of the Constitution. But we cannot sit around indefinitely and wait for inspiration.

The European summit that decided on the period for reflection produced a very disappointing declaration² that did not provide any direction for the debate. It accords an important role to the European institutions, especially the European Commission, in the debates that would follow. But at the time of writing, not a single initiative has been taken. It is still completely unclear what will happen to the Constitution or what the period for reflection will be used for.

An answer must be found in the near future because the Nice Treaty is not up to the task of running an enlarged EU. In the meantime, initiatives should be taken to structure the debate on the future of Europe. On the one hand, the debate should continue within and between Council, Commission and Parliament. The Commission should be asked to submit its view while European leaders should try to find common ground. At the same time, we must translate national debates and concerns into political views and actions. One possibility would be to organise "citizens' fora" in all 25 member states, in which national governments, parliaments and civil society would discuss the future of Europe. These various national debates would bring the process of reflection into the national public domain and carry it back to Brussels.

This should be followed by an assessment of the state we are in and the way forward, at the latest by the end of 2006. To get things moving, the Presidency should urgently produce a framework for the debate.

2. Retaining the social model

The Socialist Group feels that to regain the trust of our voters, we must take social Europe forward. We need to present a credible programme for growth and jobs. Our European economic and social model needs to develop if it is to survive and prosper. We have to learn from social democratic best practice, especially that of the countries with high flexibility in their economic structures and a strong and active labour market policy.

Our citizens must neither be the victims of uncontrolled international forces nor must they be given the impression that national governments or the European Union can completely

pipeline. The Parliament, however, should carefully oversee the process of legislative simplification because we reject any attempt to make the EU abandon important social and environmental legislation.

Forward

It will take time and effort to find a broad consensus on European cooperation. Our point of departure is clear: we need to go forward. But we need to address the unease of our citizens in order to restore trust in the European project. That requires debate and direction, for which responsibility falls first on the Council and Commission. They need to act urgently.

Our own daily communications and legislative work must also be part of a forward-looking strategy. We cannot deny the many challenges facing our Union.

That said, a skilful combination of raising competitiveness, creating new jobs and protecting social rights - supported by our external trade and foreign policy - can raise Europe's capacity to influence globalisation and its effects.

We must go forward to the European model and the Constitution of tomorrow, a model that combines strength and diversity, fairness and competitiveness - not back to the national model and the institutional arrangements of yesterday.

1 Open letter to European leaders by Socialist Group leader Martin Schulz, 20 June 2005. Available at: www.socialistgroup.org

“ Declaration by the Heads of State or Government of the Member States of the European Union on the Ratification of the Treaty establishing a Constitution for Europe (European Council 16 and 17 June 2005).

Open letter Martin Schulz, 20 June 2005.

A Europe of Excellence

Harlem Désir, Vice-President of the Socialist Group in the European Parliament
and Robert Goebbels, Vice-President of the Socialist Group in the European Parliament



Harlem Désir

What is the Lisbon strategy?

The Lisbon European Council of March 2000 set Europe a new strategic goal for the new decade: “to become the most competitive and dynamic knowledge-driven economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”. The strategy it set out to get there has become known as the Lisbon strategy.



Robert Goebbels

The Lisbon strategy has been much criticised for its complexity. With its multiple objectives and instruments, spanning social, environmental and economic policy, it has been likened to a Christmas tree.

But at the heart of the Lisbon strategy is something very simple, yet poorly understood. The Lisbon strategy is the expression of the economic and social model through which Europe will build its future. Faced with a choice between a high road and a low road to competitiveness, Lisbon represents Europe's choice of the high road. It is a profound misunderstanding to talk - as many do - of a trade-off between the economic, social and environmental dimensions. It is an even more profound misunderstanding to say that first we must have the growth, so that later we can afford to pay for the social and environmental progress.

The essence of the Lisbon strategy is the interdependence of economic, social and environmental progress.

Europe's choice, expressed in the Lisbon declaration, is to base its competitive strategy on excellence, on the high quality of its infrastructure, its public services, its workforce, its environment, its industrial relations, its legal system, its labour markets, its companies and much more.

That choice reflects a farsighted recognition that Europe has no long-term future trying to compete as a low-cost producer in a global economy. We cannot and should not seek to imitate the lowest labour costs, most biddable labour forces, lowest taxes, lax environmental, social and health & safety standards of our competitors. Such a strategy cannot work, and we cannot save our economy by destroying our society.

Investors will choose Europe for its first-class communications, its skilled and motivated workforce, its efficient public administration, its vibrant universities and research centres, its social peace, its quality of life. These are the source of Europe's competitive edge and can help build the agile, fast-moving companies of the 21st century and a new vision of active citizenship.

Understanding the economic model which underlies the Lisbon Strategy is crucial to making a success of the strategy, because it has far-reaching implications for policy. On public finances and public services, on labour markets, on education and training, on the internal

market, on research and development, on social and environmental policy, on all the strands of the Lisbon strategy, a precondition of success is to pursue policies which are consistent with the chosen model of economic development.

Before Europe's governments can successfully implement the Lisbon strategy, they have to understand it. Too often, away from the Summit spotlights, Ministers and Commissioners seem to be reading from a different script, in which competitiveness is really just about more open markets, lower taxes and less regulation of businesses, while all the rest is window-dressing - necessary political cover, but a distraction from the real business of making Europe competitive. That is certainly a strategy, but it is not the Lisbon strategy.

Defending a Europe of excellence, defending high social and environmental standards and good public services, does not mean defending the status quo. These things can be, and must be, part of a winning economic formula - not, by a long way, that existing social and environmental policies, or existing regulatory regimes, always fit this bill. Changes are needed in several key policy areas, if Europe is to make a success of its Lisbon ambitions:

No economy can fulfil its productive potential without a supportive macroeconomic framework. In the last decade, the EU economy has grown well below its potential with the result that millions of potential jobs have failed to be created. Both public and private investment has been inadequate to generate growth. Macroeconomic reform is an essential component of any effort to reinvigorate the Lisbon Strategy. Lisbon will not produce the goods if it does not take account of the impact of macroeconomic policy on growth and jobs.

Recent Commission proposals to reform the Stability and Growth Pact represent a big step towards a more effective and growth-oriented macroeconomic policy but more needs to be done. One of the great weaknesses of the pact is its failure to recognise the essential economic distinction between current and capital spending. The result is that the investment we need to meet the Lisbon goals all too often falls victim to budgetary discipline. Yes we need budgetary stringency but not at the price of investment in education, social provision, research and development, renewable energy and transport infrastructure.

Unfair tax competition is another threat to EU cohesion and for the implementation of the Lisbon goals. In the 'race to the bottom' version of competitiveness, tax competition is seen as a good thing. But in our model, in the Lisbon model, healthy public finances are essential and the erosion of the tax base a threat that must be faced head on. The single market needs a coordinated approach to corporate taxation - not a single rate, but progressive coordination of corporate tax bases. The stance adopted by member states on budgetary and tax questions is a litmus test of their real commitment to Lisbon. There is no such thing as a free lunch. Education, lifelong learning, active labour market policies - all the ingredients that make up Lisbon, have to be paid for. The recurring message of the right in Europe at present is that only lower taxes can generate growth and employment. We argue that this is not true and the evidence of the Nordic model serves to underline that our approach is best for Europe.

Europe's persistent problem is stagnation, not inflation. It is perhaps time that the European Central Bank took a long look at its very tight and asymmetrical inflation target. What we need is a monetary policy that promotes not only stability but also growth and jobs.

Investment - both public and private - is key to the success of Lisbon. Special emphasis should be put on those forms of investment most crucial to Lisbon. Carefully targeted

cohesion programmes also have an important role to play. The Trans-European Networks are essential to both economic flexibility and territorial cohesion. Fully implemented, they could contribute to growth and jobs across the Union.

European leaders repeat time and again their commitment to raising investment in research and development and yet time and again fail to translate their words into hard cash. This is an area where we believe there must be urgent action.

The on-going battle over the financial perspectives and the Union's budget for 2007 -2013 is also all about the Lisbon Strategy. Rhetorical commitments to Lisbon are worthless if they are not reflected in the size and structure of the EU budget. Europe's leaders must commit to financial perspectives that serve the Lisbon goals. Public money should be spent in accordance with political priorities. If the goal of making the European Union 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion' is indeed our priority, then we need to put our money where our mouths are.

Lisbon's success also requires member states and national governments to get immersed in the process too. Lisbon should be a part of the democratic process and the subject of greater political debate and scrutiny locally, regionally, national and at the European level.

For all its problems, Europe has an economy and a social model which stand comparison with any in the world. But as we have insisted in this contribution, we are convinced that Europe needs to do better. Europe still lags in employment levels and some key indicators of economic dynamism, such as rates of innovation and presence in cutting-edge sectors such as IT, biotechnology and nanotechnology. And new challenges, such as the ageing of the population, and the growing competitive strength of China, India and others, mean that Europe faces a more intense pressure than ever to raise its game.

The Lisbon Strategy is the EU's roadmap to raising its game. Much has changed since the European Council launched the strategy in 2000. We have learned a lot about the difficulties of making a reality of that ambitious target. What has not changed, and should not change, is the Lisbon objective. The strategy is complex and challenging, but the vision it sets for Europe, for a dynamic economy and a good society, is the right one, which builds on Europe's unique strengths and answers to the aspirations of Europe's citizens.

Europe must pursue policies of excellence - excellence in the knowledge economy, in social policy and in environmental sustainability. Economic progress is essential but must be the servant of social progress. Lisbon must deliver not simply a better economy but also a better society and a better environmental legacy. Citizens across Europe have shown that they reject the idea that a rich Europe can no longer afford the social achievements of which they are rightly proud. We have to offer them a convincing and effective alternative. Reform must not be a euphemism for lowering standards. In the Lisbon Strategy, excellence is a source of European competitiveness, not an obstacle.

The best of Europe's capacity to modernise lies not in the mid-term review, but in its implementation. Some recent signs are less than encouraging - there is a risk that better regulation is misused for deregulation.

In the next few weeks, member states will present their national plans for implementation of Lisbon. The PES Group will be taking a very close look, and will be ready to carry on the battle for a Europe of Excellence, in the run-up to the next Spring Summit.

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