

**"Full employment, equity and public welfare –
cornerstones of an alternative economic policy in the EU"**

Speech for the conference

“L’economia della precarietà. Ristrutturazione del capitale e attacco al lavoro”

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I am very happy to be here and to see that Italian economists, trade unions and political movements jointly speak up against the increasingly aggressive attacks upon the achievements of decades of social and economic struggles and social movements. I feel encouraged when I see that you stand up against the attempts to replace solidarity, fairness and equity as a basis of social life by the rule of markets, profits and competition. Coming here strengthens my feeling that not only the theoretical critique is growing but that also practical efforts to stop neo-liberalism and develop alternative conceptions of economic and social developments are gaining ground. This is particularly important for me as an economist because as you know our discipline has been and continues to be particularly instrumental for the justification of current policies, as the only possible and inevitable response to the iron laws of globalisation and the requirements of financial markets as the CEOs of these laws. To refute such assertions and to demonstrate alternative ways of sustainable and more equitable development from the perspective of professional economists is essential to break the ideological monopoly of neo-liberalism and support the practical protest and movements for a different society.

The group for which I am speaking here is the “working group for an alternative economic policy in Europe”, or *EuroMemorandum Group*. We exist since 1995 and organise several small and one large conference every year and after this conference we formulate a *Memorandum* with critique of European economic and social policies and proposals for an alternative course. We then collect signatures from professional economists all over the EU for this memorandum – usually we get between 300 and 400 supporting signatures - and publish it together with the signatures every December shortly before the official summit of the Economic and Finance ministers. In the last two years EuroMemo, trade unions and organisations of civil society have – at the place and at the date of the official spring ECOFIN meeting in April organised an *alternative Ecofin* in Vienna (2006) and Berlin (2007) with several hundred participants which was fairly well publicised in the media.

What are the main lines of our critique and of the proposals for alternatives? To summarize in a nutshell, we criticize the neo-liberal view that in order for an economy to function properly three things are necessary: ***First all assets must be private, second all markets must be liberalised and thirdly all prices must be stable***. According to this view, economic policy has to pursue these objectives and nothing else. On the agenda are therefore comprehensive liberalisation, privatisation and deregulation on the one hand, competition policy and very restrictive monetary and fiscal policies, culminating in a uniquely narrow monetary union and a very strange Stability and Growth Pact. The rest will be done by the markets. This view developed during the last thirty years as a kind of counter-reform or roll-back against a policy of Keynesian interventionism in the mixed economies of the 1950s and 1960s. It has been confirmed and condensed in the so-called ***Lisbon strategy***, which was adopted at the summit in Lisbon in spring 2000 and declared that the EU should become not only a knowledge based society but also the “most competitive economic region of the world” within the current decade. There are three strategic pillars in this conception.

The first strategic pillar is what is called the “***structural reforms***”, meaning nothing else than the complete opening up and liberalisation of markets throughout the EU. The origins of this pillar date back to the first revision of the European Treaty in 1987, which brought a complete turnaround in the conception of competition in the European Union (then European Economic Community). While in previous conceptions competition in the European market should take place within a framework of common rules which for this purpose had to be ***harmonized*** between the member countries, the new concept adopted the principle of ***mutual recognition*** and thus made the rules themselves an object of competition. This triggered an enormous deregulatory shock, a race of rules to the bottom to accommodate and attract capital in the member states. The main targets for liberalisation and competitive pressure were

- ***services*** in general, for this purpose the services directive was proposed in 2004 and finally – after considerable opposition and in several member states with some minor modifications adopted in 2006, giving in spite of the modifications- ample room for social dumping in the EU;
- the ***financial markets*** which should be completely opened to give financial investors unlimited access to all markets including those for social services and pensions and
- ***labour markets*** where the undermining, relaxation or “loosening” of “encrusted” structures (in social and work protection, wage levels and structures, working time regulations etc.) was the main thrust.

The *second pillar* is macroeconomic restriction and dates back to the Treaties of Maastricht (1992) and Amsterdam (1997). In monetary policy – which is after all perceived the main instrument for the provision of money and credit to the economy - every responsibility for growth and employment was rejected and functions of the ECB were reduced to the maintenance of price stability. In addition the functions of fiscal policy are not regarded as the provision of public goods or fighting recessions or Inequalities. Instead fiscal policies are regarded as “sound” if public budgets are in balance or in surplus, and to achieve this was imposed on the member states through the Stability and Growth Pact of 1997.

The *third pillar* of the Lisbon strategy is fairly new, it is the “*modernisation*” of *social security systems*. What is meant by this is the stepwise demolition of the rather comprehensive public PAYG pension systems which exist in most EU-members, and the shift of these systems towards private and capital funded structures. Such a privatisation does not contribute anything to the resolution to the problem of an elder growing society, problems which are anyway greatly exaggerated. Instead it makes pension systems less reliable, less comprehensive and much more expensive; the only real and big beneficiaries are the leading financial institutions, and to provide these with more business opportunities was the final purpose behind the reforms.

The impact of the Lisbon strategy based on these three pillars can be seen on four levels

Firstly, on the macroeconomic level, contrary to official promises market opening and liberalisation did not lead to a leap forward in growth and economic strength. On the contrary, the European economy has become increasingly trapped in a vicious circle of weak growth, high unemployment and strong redistribution of income from the bottom to the top, elements which are reinforcing each other and will not be overcome through the forces of the markets.

Secondly, market opening, deregulation and European competition policies have exposed the public sector to increased competitive pressure. When the provision of public network services is to be organised like private services, in a competition framework, there seems no reason why they should not be privatised,. Consequently liberalisation has led to a stampede of privatisations which has reduced the public sector to a fraction of its former size in the EU15. After industry, financial services and network services, new areas are now becoming targets for deregulation and privatisation, like social services, health care and education.

Thirdly, under this cover of liberalisation and macroeconomic constraints a deep restructuring of capital and its control is taking place. On the one hand the role of financial markets, or better the main actors on financial markets as central steering centres of global capitalism is further enhanced and strengthened. The main implication of this is not the recurrence of financial turbulence and crisis like the one we experience in these days. The main implication is the formation of large European and global players which correspond to the position of “global Europe” which the Commission has recently published.

Fourthly we are seeing a corresponding restructuring of the labour force, which is after all still necessary to generate value and the profits. The restructuring consists in the comprehensive precarisation of work conditions, the reduction or removal of work and social protection, lower level of job security and payment, stronger fragmentation, the permanent and flexible availability of labour, intimidation etc. Under such increasingly precarious umbrella the number of jobs can and should increase and this is then sold as success in the fight against unemployment.

To make it quite clear: What I describe here is not the final crisis of capitalism. It is a restructuring which is as all previous restructurings have been accompanied by crises but it can lead to a new level of viability for capital, with all its limits and inherent contradictions, a new level with higher profits for capital and lower living standards and perspectives for the majority of people.

These are all ongoing processes, which are, however, by no means terminated and completed. Considerable impact is already visible, but there is more to come. But we also see mounting critique and resistance and there, too, more is bound to come. And it is our challenge and task not only to be part of the resisting movements but to support them through our specific competence and expertise as progressive economists. Corresponding to the three strategic pillars of the Lisbon strategy the main lines of an alternative strategy should be

- *Firstly* we need a ***new macroeconomic policy framework***, in which ***a.*** the objectives of full employment and sustainable growth feature on the first places, and in which ***b.*** the quality of public budgets is assessed according to their contribution to macroeconomic stability, social cohesion and the provision of public goods. This macroeconomic policy framework should also ***c.*** promote a higher level and more egalitarian structure of wages which is a much more

stable basis for economic development than current account surpluses. And it should *d.* also include energetic working time reductions – in different forms in different countries – as a necessary instrument to regain full employment as a state in which every individual who can and wants to work gets a job which corresponds to his or her capacities and provides him or her an income sufficient to lead an independent life.

Secondly, we need a *public sector in the true sense of the word*, not as a rare and always contested and questioned exception from the overarching general rule of competition, but as . a sector in its own right, with non-profit objectives and own principles of organisation. Such a public sector should be the second pillar in a new mixed economy. There should be a broad public debate about what should go into the public sector and how a democratic management beyond profit maximisation can be organised – which is not a simple challenge.

- *Thirdly* we need a system of social welfare and security – particularly in health care, pensions and labour protection - which is completely under social responsibility and control and not made a function of financial investors and profit maximisation. Financial investors should have to play no role in the organisation of pensions or health care.

- *Fourthly*, in order to prevent die-embedded financial markets to dominate the development of labour and social welfare and to impose a culture of shareholder orientation upon firms we need a tight control of financial markets with the aim to re-embed them into their useful functions of financing productive investments and store long-term private savings.

- *Fifthly*, in international economic relations the EU should not go for global economic superiority, which can in the course of time only be defended through increasingly aggressive strategies including in the last instance military aggression. The perspective for the EU should not be to become an ever more powerful and ever more similar competitor to the USA, but an ever more convincing and attractive alternative to the US model. Balanced international economic relations – trade, investment and monetary relations - and support for development of poor countries should therefore be the main objectives for our strategy.

These are of course very general cornerstones for a progressive European policies. The implementation is very complex, starting with the fact that EU members have different traditions, structures and starting points which must be respected.. On the other hand we do not

have to invent the wheel anew for most of these questions. There are already answers on the table for instance to the question of unemployment – public investment, public services, working time reduction etc. They should be improved and modified – for instance to include ecological sustainability and gender justice – but we do not have to start from scratch. Yes, there are conceptual and intellectual difficulties in concretising and breaking down the general objectives into viable steps, and these difficulties must be addressed – which is, after all, our job as progressive economists. But the much greater difficulties lie in the political environment and power relations, in the universities and in the society at large. ***The basic question is how we can bring democracy to the economy?*** Better arguments are necessary if we want to change economic policy course in the EU. But real change will only take place if the better arguments are taken up by social movements and transformed into political pressure and democratic political decisions. If an increasing number of people realises that the current state of their economy and the dominant economic policies are not the result of unchangeable laws of globalisation but the results of policies in the interests of a small but rich and powerful minority at the cost of the large majority, and if they understand that alternative policies are not only reasonable but also feasible, then they will possibly become willing to join the critique and resistance, and this would then bring us closer to real change. We as progressive economists can not organise political change but we can contribute to the enhancement of the chances that it really happens.