



Neoliberalism in the European Union

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INTRODUCTION

A popular belief held by many Europeans is that Europe is an exception. The exceptional character is often said to be most clearly evident in the stronger European commitment to social rights and equality. “Europeans have greater expectations of the state than their equivalents in America and Asia” writes the European Commission in a recent publication on *European Values in a Globalised World*.¹ These expectations can result in reoccurring mass protests and strikes, especially in France and Southern Europe. Even corporatist Germany and Austria have in recent years been the site of mass demonstrations against welfare cuts. European officials and national policy makers have responded to these challenges by arguing for the preservation of an allegedly distinctive European Social Model.² Certainly, European Union (EU) member states have their own distinctive (welfare) state traditions and in most cases capital has accepted a variant on the post-war compromise with organised labour. European citizens, moreover, may still have greater expectations of the state and the social system than people who do not share similar histories of struggle and institutional change in other parts of the world. But is Europe really different when it comes to the proposed and actual policies that shape European expectations and the economic, political and social aspects of European society? In the following pages we argue that any difference is overstated. Instead we will demonstrate that the European integration process was used to adopt mainstream neoliberal policies and thereby to circumvent and erode those state traditions and national compromises, which in the past gave Europe its distinctiveness compared to other countries, notably the US.

The article begins with a discussion of the nature of neoliberalism and a sketch of some of the most important neoliberal policies. Drawing on international examples we identify key planks of the neoliberal agenda as “free” trade and “free” capital mobility, monetary restraint and budgetary austerity, the flexibilisation of labour markets and the repression of wage demands, the privatisation of public companies and services, as well as the “workfarist” restructuring of welfare states. In the second section we examine the European Union and analyse main European policies, including the Single Market project, competition policy, Economic and Monetary Union as well as European employment strategy. We assess whether European policies actually diverge from the neoliberal mainstream. In the third section we discuss the institutional arrangements that underpin these policies and their broader implications.

¹ European Commission, *European Values in a Globalised World*, Communication, Brussels 20. 10. 2005.

² Ines Hofbauer, “Discourses on the European Social Model”, Paper presented at the Concepts of the European Social Model Workshop, Vienna, 9. June 2006.

1. NEOLIBERAL POLICIES IN GLOBAL PERSPECTIVE

While neoliberalism is first and foremost an ideological and theoretical agenda for a restructured capitalist economy and social system, the project depends on material forces and institutions to shape expectations and norms so that they are more responsive to market incentives. It is important to note that neoliberalism from the outset was a transnational project in contrast to the nationally-oriented Keynesian projects of the postwar period or Delors' vision of a social democratic Europe. On a global level, the main driving force was the promotion of "*free trade*" and unrestricted capital mobility codified in a series of international conventions and treaties, after the United States and the United Kingdom abolished capital controls in 1974 and 1979, respectively. Combined with dramatically reduced costs for transport and the information revolution, this created a set of specific pressures and constraints for formally independent countries and for demand-oriented Keynesian macroeconomic policies. The reduction of trade barriers and enhanced *capital mobility* together with the application of new information-based technologies, facilitated the emergence of less constrained multinational corporations able to negotiate the very favourable terms of investment with national governments. The process of corporate internationalisation was accompanied by the adaptation of dominant Anglo-American corporate governance structures and an increasing dependence on capital markets as the predominant mode of financing corporate debt. The shift from borrowing through bank credits to selling stock options was facilitated by a sustained period of high interest rates. The result was a shift in the focus of managers from the "stakeholder" to "shareholder value".

At the national level, in contrast, the neoliberal counter-revolution initially took the form of *monetary restraint* in order to tackle runaway inflation that developed in most countries in the 1970s. In South America neoliberal prescriptions for economic restructuring were first tested in Uruguay, Chile and Argentina, and inflation rates were temporarily controlled by the introduction of a fixed exchange rate to the US dollar – also called "dollarisation". In most advanced capitalist countries inflation was fought mainly through the instrument of higher interest rates. The best example of this policy is the so-called "Volcker shock" of 1979. The newly appointed president of the US Federal Reserve Bank dramatically increased interest rates from minus two per cent in 1979 to an average of 7.5 per cent between 1979 and 1982.³ Interest rates were also raised in Britain soon after Margaret Thatcher took office. While the main victims of the "Volcker coup" were debtor countries in the Third World, the stabilisation of prices also had a series of negative effects in developed countries. Many countries' manufacturing sectors were devastated as companies could no longer meet increasing payments on

³ Gérard Duménil and Dominique Lévy, *Capital Resurgent. The Roots of the Neoliberal Revolution* (Cambridge: Harvard University Press, 2004), pp. 69-70. Robert Brenner (2002), *The Boom and the Bubble. The US in the World Economy* (London: Verso, 2002), p. 49.

corporate debts. The havoc wrought in the manufacturing sector meant a loss of hundred of thousands of jobs, many of them unionized and well-paid.

The abolition of barriers to capital mobility combined with the rise in interest rates led to a dramatic reversal of financial flows on a global scale. The devaluation of the US dollar in the late 1960s and the collapse of the Breton Woods system of fixed exchange-rates in 1973 encouraged the flow of “cheap” money from the US to Europe and third-world countries. In the 1980s and 90s with rising interest rates and a reinvigorated dollar, money poured back into the US to finance a ballooning current-account deficit. While the bulk of this deficit is financed by Asian countries, some European countries including France and Germany are also net-exporters of capital. The attractiveness of the US economy for foreign capital gives that country a decisive advantage compared to other countries and in part explains the employment gap between the US and Europe. Of course, the option of running such a massive current-account deficit is the sole privilege of the country that prints the dominant world currency.

Neoliberalism, as a result, has been central to the reinstatement of US world dominance after this position was contested by Europe and Japan following the American defeat in Vietnam and the temporary devaluation of the Dollar after the 1973 currency crisis. Further, the unprecedented international expansion of the US-dominated financial sector both in terms of the volume of money transactions and as proportion of economic activity has been a key contributor to the restoration of American supremacy in the last three decades.⁴ Monetarism was accompanied by a simultaneous abolition and erosion of regulations that restricted entrepreneurial freedom and therefore were purported to hamper overall market efficiency. One of the main targets of neoliberal *deregulation* were labour markets. The supposed rigidity of labour markets was blamed for inflationary pressures, and later, for the massive increase in unemployment. More likely culprits were low levels of investment and the rise in interest rates. Hence the developing neoliberal project included a more or less open assault on organised labour, which was seen as the main cause of labour-market rigidity.⁵ In the UK, the political and economic war on labour led to successive erosion of trade union rights and a sharp decline in overall trade union membership. In the US the decline was more gradual over a longer period. In the Third World the attack on organised labour was even more dramatic, and often overlooked.

The pressure to weaken labour market regulations is often more intense in the Third World. Less developed countries, including peripheral countries within the European Union, traditionally used the devaluation of their national currencies to compete with advanced capitalist countries. If price stability becomes the top priority, this strategy is no longer feasible. The only alternative open to these countries was to maintain some degree of competitiveness on international markets is to reduce wages and extend

⁴ Leo Panitch and Sam Gindin, “Finance and American Empire”, *Socialist Register 2005* (London: Merlin Press, 2004).

⁵ In the US this fight culminated in the 1981 Professional Air Traffic Controllers Union’s (PATCO) strike, in the UK in the extremely bitter miner’s strike of 1984-85 to mention only two of many examples.

working hours. The South American *maquiladores*, with their long working hours and inhuman working conditions, are a telling example of how Third World countries attempt to compete in the world market under conditions of monetary austerity. As the effectiveness of flexibilised labour markets critically depended on the general incentive to accept deregulated forms of employment, including part-time jobs, fixed-term contracts or self-employed work, the social security systems also needed to be adapted to support this purpose. The result was a shift from a general provision of benefits to a means-tested access to public allowances. Benefits are therefore no longer to be perceived as social rights, but as temporary support for unemployed individuals to find employment.⁶

The individualisation of the unemployment problem can therefore also be described as a shift *from welfare- to workfare-oriented social policies*.⁷ In this regard, measures such as further training or life-long-learning must be understood as part of the general drive to shift the responsibility for employment from the macro to the micro level. At the same time the “workfarist” twist is amplified by budgetary and fiscal austerity. Together labour market flexibilisation and the “workfarist” restructuring of welfare support resulted in increasing insecurity for those without access to alternative sources of income.⁸ General *budgetary austerity* is another characteristic feature of neoliberal restructuring. There are four arguments that are made in support of austerity: First, deficit-spending is seen as an additional element that drives up inflation rates. Second, deficit expenditures depend on high tax revenues and hence on elevated tax rates funded by middle and upper-class citizens. Yet with growing capital mobility, capital-owners have a greater choice of where to deposit or invest their financial assets. Increasing capital mobility, as a result, substantially limits the capacity of nation-states to tax wealthy citizens. Exacerbating the problem, Reagan and Thatcher quickly introduced tax cuts after being sworn into office. Third, higher interest rates render deficit spending increasingly expensive, and, fourth, growing unemployment multiplies the cost of an encompassing and effective unemployment benefit system. The consequences of budgetary restraint and the resulting escalation of human insecurity once again are especially cruel in the Third World. It is there that economies have stagnated or shrunk in more than two decades of neoliberal austerity and a large proportion of the population lives in extreme poverty.

In connection with the expansion of markets and budgetary restrictions, the neoliberal project has embraced the *privatisation of public companies, services and pension systems*. While privatisation in the US was secondary, due to the modest starting point of the state sector, services and other public provisions, it became a main focus of

⁶ Ann Gray, *Unsocial Europe. Social Protection or Flexploitation?* (London: Pluto Press, 2004). Travis Fast and Gregory Albo, “Varieties of Neoliberalism: Trajectories of Workfare in the Advanced Capitalist Countries”, Paper presented at the Wake Forest University Conference on ‘The Convergence of Capitalist Economies: Competing Perspectives on the Organization of Advanced Capitalism in the New Century’, 27.-29. September 2002.

⁷ Jamie Peck, *Workfare States* (New York: Guilford Press, 2001).

⁸ Elmar Altvater and Birgit Mahnkopf, *Globalisierung der Unsicherheit. Arbeit im Schatten, schmutziges Geld und informelle Politik* (Münster: Westfälisches Dampfboot, 2002).

neoliberal restructuring during the second Thatcher mandate in the UK. Whereas in 1975 20 per cent of British GDP was produced by the public sector, the state had sold off virtually all its infrastructure and service operations by 2000.⁹ Combined with budgetary restraint and chronic underfunding of services, the incidence and price of user-fees increased, narrowing access to service provision. The privatisation of state-owned companies, which had had an important role in the domestically-oriented growth strategies of the 1950s and 60s, is a shared feature of neoliberal restructuring in the Third World. However, in a context where extended families may rely on the income of one member in the state-sector, the effects of laying off thousands of employees is multiplied manifold. The World Bank and the IMF move this process along with their policies of making the granting of credits conditional on budgetary restrictions and far-reaching privatisation efforts. In addition to the privatisation of public companies and services, the reduced inflow of tax revenues increased the pressure on regional and local administrations to cut expenses. As a result, communities have started to hire private companies which are purportedly cheaper to fulfill an increasing range of public tasks. Yet not only are private companies often more expensive, “public-private partnerships” are also producing a new range of pressures and constraints as public concerns take a backseat to profit-making interests.

For several reasons, the deregulation and privatisation of public pensions systems plays an important role in moving the neoliberal project forward. Again, countries in South America were early adopters of policy change in this direction, including Chile after the military coup of 1973 (with the curious exception of military and police personnel, who remained in the public system). The establishment and extension of private pension funds generated substantial amounts of money required for the sale of newly privatised companies and for financing corporate and public debt. The growing reliance on stock and bond markets also had the additional impact of drawing workers closer to the profit-making perspective of capital owners, and partially dissipated reaction to downward pressure on wages and lay-offs.

Another major effect of neoliberal restructuring is the *stagnation of wages* and the rise in personal household-debt. While sustained real wage increases played a key role in Keynesian demand-oriented growth strategies¹⁰, in the neoliberal account of the postwar crisis rising wages were seen as a major cause of runaway inflation. To reduce pressure from organised labour, neoliberal restructuring often included an attack on militant trade union organizations. Wage-bargaining institutions (corporatist structures) were similarly targeted if they could not be put to a ‘useful’ purpose establishing wage-discipline. However, by far the most effective method of limiting wage demands was the rise in unemployment.¹¹ As a result, real wages increased between 0.8 and 1 percent

⁹ Colin Leys, *Market-Driven Politics. Neoliberal Democracy and the Public Interest* (London: Verso, 2001), p. 39.

¹⁰ Thorsten Schulten, *Solidarische Lohnpolitik in Europa. Zur Politischen Ökonomie der Gewerkschaften* (Hamburg: VSA Verlag, 2004), pp. 109-111.

¹¹ Duménil/Lévy, *Capital Resurgent*, pp. 44-50.

in Europe on average in the 1980s and 90s.¹² Real wages increases also remained flat in the US, with a significant acceleration of growth in the second half of the 1990s.¹³ The near-stagnation in real wages was accompanied by an increase in personal household debt. Yet, while household debt in Europe declined in the 1990s, it continued to increase in the US. Rising household debt in the US is another expression of the ballooning US current-account deficit, and as such it is financed by the continuous inflow of foreign capital.

With this short overview of neoliberal policies we do not want to leave the impression that neoliberalism is a well-developed and coherent political strategy. Many of the policies are in fact contradictory and pragmatic responses to the shortcomings and antinomies of neoliberal assumptions as formulated in the Washington Consensus. The US Federal Reserve did not hesitate to slash interest rates and the Bush administration ran a record-high deficit in the face of an impending economic crisis in 2001.¹⁴ While neoliberalism is an international agenda, the implementation of neoliberal policies is, nevertheless, dependent on local struggles and compromises. As Colin Leys notes, “There is an obvious conflict between the logic of capital accumulation, which drives the global economy, and the logic of legitimation, which drives politics in all states with free elections.”¹⁵ The ongoing tension between the requirements of international capital and the demands of local electorates or local struggles opens the way for state-to-state variation. “Neoliberal policies have been resisted and contested at every step and at every level,” Gregory Albo points out, “from collective agreements to welfare policies to trade agreements, thus existing social forces and institutions have mediated their implementation in many unexpected ways.”¹⁶

The importance of national peculiarities and the “varieties of neoliberalism”¹⁷ within Europe is often underestimated by neo-Gramscian accounts and their emphasis on transnational class alliances. Representatives of the varieties of capitalism approach, on the other hand, while taking note of the rather unique ways in which capitalist societies respond to the neoliberal challenges, falsely assume that the forces of change are external to the national models. Yet the struggle for neoliberalism takes places simultaneously within national societies and without. The former Deutsche Bank, for example, an important and integral part of the German postwar model was equally one of the main motor forces pushing neoliberalism forward in the European Union.

Despite all the internal contradictions and variation that are apparent in this brief overview of neoliberal policies, outcomes are always the result of deliberate political

¹² Schulten, *Solidarische Lohnpolitik*, p. 183.

¹³ Brenner Robert, “New Boom or New Bubble? The Trajectory of the US Economy”, *New Left Review* 25 Jan-Feb 2004.

¹⁴ Ibid. p. 64.

¹⁵ Leys, *Market-Driven Politics*, p. 26.

¹⁶ Gregory Albo, “Contesting the ‘New Capitalism’” in David Coates, (ed.), *Varieties of Capitalism, Varieties of Approaches* (Houndmills, Basingstoke, Hampshire und NY: Palgrave Macmillan, 2005), p. 70.

¹⁷ Ibid. p. 77.

choices rather than the workings of abstract forces such as globalisation and market-competition. The hike in interest rates, to take only one example, is not the only solution for controlling runaway inflation. Mandatory price controls could have been an alternative measure achieving the same end.¹⁸ As Leo Panitch and Sam Gindin have emphasised, the Federal Reserve's decision to increase interest rates was not a technical but political choice and based on the ideological conviction that the crisis could only be resolved by more, rather than less, market activity and competition.¹⁹ Neoliberal preferences for "free trade" and "free" capital mobility, monetary restraint and budgetary austerity, flexibilisation of labour markets, downward pressure on wages, privatisation of public companies and services and the "workfarist" restructuring of welfare states were not random policy proscriptions. Together they produced the intended outcome: all countries subjected to neoliberal restructuring experienced a redistribution of wealth from work-dependent wage earners to owners of financial assets. Countries also experienced a substantial increase in inequality among salaried employees. Hence, there may be no one neoliberal strategy, but there certainly is an international neoliberal project.²⁰

Although protest and resistance play a crucial role in shaping the European form of neoliberalism – the French populace's rejection of the European Draft Constitution is an illustrative example in this regard – in the balance of this article we will focus on European integration and on those policies and processes through which neoliberalism was introduced in Europe.²¹

¹⁸ Duménil/Lévy, *Capital Resurgent*, p.69.

¹⁹ Leo Panitch and Sam Gindin, "Euro-Capitalism and American Empire", in Coates (ed.), *Varieties of Capitalism*, p.150. For alternative economic policies see the work of Economists for an Alternative Economic Policy in Europe Group (<http://www.memo-europe.uni-bremen.de>) and Jörg Huffschnid (ed.), *Economic Policy for a Social Europe. A Critique of Neo-liberalism and Proposals for Alternatives* (Houndsmills, Basingstoke, Hampshire: Palgrave Macmillan, 2005). See also: Riccardo Bellofiore, "Contemporary Capitalism, European Policies, and Working Class Conditions", *International Journal of Political Economy*, Vol. 34, No. 2 (2004), pp. 97-102.

²⁰ Henk Overbeek, "Globalisation, Neo-Liberalism and the Employment Question", in Henk Overbeek (ed.), *The Political Economy of European Employment* (London: Routledge, 2003).

²¹ For an account of struggles see Andreas Bieler, "What Future to the Union? The Struggle for a Social Europe", Paper presented at the *Concepts of the European Social Model Workshop*, Vienna, 9. June 2006.

2. NEOLIBERALISM AND THE EUROPEAN UNION

2.1. The Single Market Strategy

The idea of a single European market predates the foundation of the European Union or its predecessor, the European Economic Community (ECC). During the Second World War and after, the single market was already a prominent idea discussed in liberal circles in what may in hindsight be regarded as a neoliberal think-tank, the Mont Pèlerin Society. Yet after the war a neoliberal vision of unbridled capitalism was largely discredited by the still vivid memories of the devastating consequences of the Great Depression. Instead, the immediate postwar years were a period of economic planning and coordination inspired, not least, by the success of the American New Deal and the experience of the war-time economies. The United States went to great effort to administer European economic reconstruction through the auspices of the European Recovery Program (ERP) or Marshall Plan as it is better known. ERP funds were used to direct investment flows to the newly created Fordist industries, some owned by US capital. At the same time, the gold standard was abandoned and currency exchange rates fixed in the Bretton Woods system, while Keynesianism provided the theoretical foundation and practical instruments for national macro-economic coordination.

In a similar way, the Schuman Plan and the foundation of the European Coal and Steel Community (ECSC) was initially inspired by the notion of coordination and cooperation rather than market-mediated competition. In fact it was only by the end of the 1950s that the idea of a European free trade zone became dominant among the political leaders in the member states. This first impulse was consummated in the signing of the Treaties of Rome in 1957 and the establishment of the ECC. The Treaty of Rome created an institutional framework and laid the foundation for the establishment of the Single European Market. In Article 3 of the treaty, member states committed themselves to the creation of a “common market free from distortions to competition.”²² Distortions were mainly understood as tariffs and quotas, while the free movement of capital, individuals and services was still subject to numerous restrictions. Hence while the European customs union was completed by the late 1960s, “Nothing like a common market, in which complete factor mobility exists, came into being during the early years of the Community. An economic union, with unified monetary and fiscal policies, was not even on the radar screen.”²³

²² Michelle Cini and Lee McGowan, *Competition Policy in the European Union* (London: Macmillan, 1998), p. 17.

²³ John Gillingham, *European Integration 1950-2003* (Cambridge: Cambridge University Press, 2003), p. 53.

In 1965, the ECSC, ECC and Euratom were merged into the European Communities (EC), but progress in the direction of deepening the common market was limited. Instead, the integration process was hampered by the reluctance of member states to cede more competencies to the increasingly powerful Commission. In fact it was not until 1986 and the adoption of the Single European Act (SEA) that the single market project was again seriously placed on the agenda. The single European market was a response to the economic crisis after national therapies had largely failed – including France's temporary recourse to Keynesianism after François Mitterrand's election victory in 1981.²⁴ The Commission-sponsored Cecchini Report argued that the establishment of the single market would induce growth rates of between 4.3 and 6.4 per cent.²⁵ The "costs of non-Europe" became a serious issue in European public discourse. Stephen Gill has pointed to the re-launch of the single market project as the decisive moment turning the European integration process towards neoliberalism: "The re-launch started with the turnaround from 'Eurosclerosis' to 'Europhoria' at the 1984 Fontainebleau Summit."²⁶ The ideological dimension was crucial as, "scientists, journalists and politicians succeeded in presenting the Single Market as the breaking-up of incrustated and rigid structures of European labour and social regulations".²⁷

The re-launch coincided with the birth of the European Round Table of Industrialists (ERT) – an organisation that assembles and represents Europe's most powerful corporations. The ERT lobbied strenuously for the completion of the common market both in Brussels and the national capitals. "This pressure from industrial leaders for the unification of European markets was precisely the momentum towards further integration that the Commission had been seeking."²⁸ ERT propositions as formulated in their *Europe 1990: An Agenda for Action* proposal were adopted almost word for word in the Commission's *White Paper on Completing the Internal Market*. Bastiaan van Apeldoorn has argued that the ERT's strategy for a common market was not necessarily neoliberal from the outset.²⁹ Instead free trade proponents were opposed by supporters of a neo-mercantilist approach favouring the creation of a common but closed market in order to facilitate the creation of 'European champions' able to compete in the world market.

While these struggles certainly were important, the writing of the constitution ensured that the European economy remained open to non-European competitors. The key to

²⁴ Hufschmid, *Economic Policy*, pp. 14-15.

²⁵ Gillingham, *European Integration*, p. 256

²⁶ Stephen Gill, "A Neo-Gramscian Approach to European Integration", in Alan Carfuny and Magnus Ryner (eds.), *Neoliberal Hegemony and Transformation in Europe* (Lanham: Rowman & Littlefield, 2003), p. 63.

²⁷ Ibid. p. 49.

²⁸ Belén Balanyá, Ann Doherty, Olivier Hoedeman, Adam Ma'anit and Erik Wesselius, *Europe Inc. Regional & Global Restructuring & the Rise of Corporate Power* (London: Pluto Press, 2003), p.21.

²⁹ Bastiaan van Apeldoorn, "The Struggle over European Order: Transnational Class Agency in the Making of 'Embedded Neo-Liberalism'", in Andreas Bieler and Adam Morton (eds.), *Social Forces in the Making of New Europe* (Houndsmills, Basingstoke, Hampshire: Palgrave, 2001), pp. 78-86.

this process was the principle of mutual recognition.³⁰ The principle stated that those areas and products for which the European Union had not introduced specific European-wide regulations, member states were obliged to accept products and services which are legally produced and marketed in one of the other member states. “The tactical brilliance of the market completion programme,” Paul Teague and John Grahl write, “is to bypass wherever possible the need for common supervisory procedures and harmonised standards to replace the inconsistent systems of the nation states. Complex negotiations towards a European system can thus be dispensed”.³¹ Mutual recognition has a liberalising tendency beyond the creation of a common level of playing field as the bar is dropped to the lowest standard found in one of the now 25 member states.³² With mutual recognition instead of EU-wide harmonisation as the dominant policy-making process, ten years after the completion of the Single Market, half of the product standards for goods traded within the EU are still based on the principle of mutual recognition. The common market thus became a neoliberal market characterised by weak regulations or even deregulation.

With the weakening of national regulations, barriers to entry for non-European corporations were also minimised. The principle of mutual recognition hence not only eroded higher national product standards, it also amounted to a “de facto liberalisation of the *external* trade policies of EU states” (italics in original).³³ In addition to mutual recognition, the need for qualified-majority voting introduced with the Single Act gave “free trade” advocates like Germany and the UK a strong bargaining position in trade negotiations. They could easily veto any proposals by protectionists (already in the 1950s the German government position was that the customs union be compatible with the General Agreement on Tariffs and Trade).³⁴ Brian Hanson concludes that under these conditions “EU trade policy is likely to be *more* liberal than a simple summing up of all the national trade policies in effect before the implementation of the SEA”.³⁵ The result was not only that external trade barriers did not increase during the 1990s despite severe Europe-wide economic distress:

To the contrary, an overview of trade policy development during this period reveals a remarkable pattern of trade policy liberalisation . . . Since 1990, individual EU member states have unilaterally abolished over sixty-three hundred quantitative restrictions against imports from third countries.³⁶

³⁰ Brian T. Hanson, “What Happened to Fortress Europe? External Trade Policy Liberalisation in the European Union”, *International Organisation* 52/1 (1998), pp. 69-71.

³¹ John Grahl and Paul Teague Paul, “The Cost of Neo-Liberal Europe”, *New Left Review* 174 March-April (1989), p. 40.

³² Ibid.

³³ Hanson, “What Happened”, p. 69.

³⁴ Ibid. Alasdair Young, “The Incidental Fortress: The Single European Market and World Trade”, *Journal of Common Market Studies*, Vol 42, Nr. 2 (2004), p. 395.

³⁵ Hanson, “What Happened”, p.69, (italics in original).

³⁶ Ibid. p. 59.

As a result, extra-EU imports of goods as a percentage of GDP increased by 55 per cent in the EU-15 area between 1992 and 2000, while intra-EU imports grew by 30 per cent over the same period.³⁷ This policy is apparently well intended:

Before 1992, there were many who believed that the Internal Market would become a 'Fortress Europe' throwing up protectionist barriers and trading only with itself. In fact, the opposite has happened. Over the past ten years, extra-EU imports into the EU have grown steadily. This is a clear sign that the EU market is increasingly open and that the existence of a single system makes market access easier for firms from third countries.³⁸

The EU is not only proud of the openness of its own markets (except for certain politically sensitive goods such as agricultural products); it also pushes for "free trade" in bi- and multilateral trade agreements negotiated with non-European countries. As Birgit Mahnkopf has demonstrated, trade agreements enforced by the EU on third world countries are by no means less harmful than those imposed by the US.³⁹

Because of the lack of policy harmonisation the European integration process is widely perceived by those on the left of the political spectrum as a predominately negative form of integration.⁴⁰ This is not to say that there have been no successful initiatives to improve positive integration within the EU. But the same dynamic that makes harmonisation of internal product standards difficult, is even more obstructive to the introduction of European-wide standards in the field of labour and social policies (more on these issues below). As Colin Hay et al. note, "given the effective veto powers of EU member states . . . the *positive integration* or *upward harmonisation* envisaged by the likes of Delors himself was always likely to yield to *negative integration* or *downward harmonisation* to something approximating a lowest-common-denominator level. . . . In this sense, economic integration itself implies a certain neoliberalisation and a residualisation of social models".⁴¹

2.2. European Competition Policy

There are strong links between the Single Market Strategy and the development of a European competition policy. In fact the creation of the Single Market essentially

³⁷ European Commission, Statistical Annex of European Economy, Autumn 2004, pp. 113 and 115. Extra EU imports of goods in the EU-15 area increased from 7.1 per cent in 1992 to 11 per cent in 2000. Intra European imports of goods grew from 14 per cent in 1992 to 18.4 per cent in 2000.

³⁸ European Commission, "The Internal Market – Ten Years without Frontiers", Brussels 2003.

³⁹ Birgit Mahnkopf, "The Impact of Regional and Bilateral Agreements on Trade and Investment on Sustainable Development", Paper presented at the *Ecology, Imperialism and the Contradiction of Capitalism Conference (Capitalism, Nature, Socialism Anniversary Conference)*, Toronto 22.-24. July 2005.

⁴⁰ Fritz Scharpf, "Negative and Positive Integration in the Political Economy of European Welfare States", in Garry Marks, Fritz Scharpf, Philippe Schmitter and Wolfgang Streeck (eds.), *Governance in the European Union* (London: Sage, 1996).

⁴¹ Colin Hay, Matthew Watson and Daniel Wincott: "Globalisation, European Integration and the Persistence of European Social Models", POLSIS University of Birmingham Working Paper 3/1999, (italics in original).

served the objective of advancing intra-European competition, which according to liberalisation advocates will strengthen European businesses and benefit consumers, as monopolistic firms or oligopolistic cartels can no longer use their economic dominance to distort market pricing. As Michelle Cini and Lee McGowan note, “the most original feature of European competition policy is its explicit role within the European integration process . . . Competition policy is an essential feature of any common market if that market is to provide a ‘level playing-field’ for industrial activity.”⁴² The first decisive move towards a common European market and the birth of a European competition policy took place simultaneously with the adoption of the Treaty of Rome in 1957. As mentioned above, the treaty called for the creation of a common market free from distortion to competition. With the establishment of the Commission and the Directorate General for Competition (DG IV), the treaty also created an institutional framework for the development of a European competition policy. Competition policy also played an important role in the next fundamental step of European integration. “The effect of the single market project on the development of competition policy was unequivocal. Although supplementary to the 1992 programme, competition policy was always going to be a necessary condition for its success.”⁴³

Historically, European competition policy has focused on three major issues: the conclusion of anti-competitive agreements (trusts, cartels) and the abuse of market power, mergers that provide companies with an exclusive position in catering to certain markets, and the granting of state subsidies conferring advantage on particular companies. According to Carchedi, the Commission’s competition policy may create a common level playing-field, but the size of this playing-field and the exemption policies nevertheless tend to disadvantage smaller companies versus large corporations, as only the latter can afford the cost of entry to the European market.⁴⁴ Even if not officially part of competition policy, transport costs are of crucial importance if companies are to compete in the European market. Not surprisingly then the transport sector was among the first areas subjected to liberalisation. The result was a dramatic cut in transport prices, especially road transport, enabling companies to concentrate production and expand distribution. The cut in prices did not mean a reduction of costs, however. What it meant was a redistribution of costs away from transport customers to the wider public (which bears the larger part of road maintenance costs) and people living near the major transport routes who are confronted with increasing noise and pollution. Among the losers of transport liberalisation are also lorry drivers, many of them undeclared or self-employed drivers from outside the EU, who are compelled to work for extremely-low wages. Rail transport has lost market share as cargo customers switched to cheaper road transport. Following the neoliberal credo that problems can only be solved with the injection of more market, even if problems were created by ‘marketisation’ in the first

⁴² Cini/McGowan, *Competition Policy*, pp. 10-13.

⁴³ Ibid. p. 32.

⁴⁴ Carchedi Guglielmo *For Another Europe. A Class Analysis of European Economic Integration* (London: Verso, 2001), p. 125.

place, the Commission proposed the liberalisation of the railway sector as adequate response to the falling share of rail transport in total transport.

Liberalisation was not limited to transport. Instead the liberalisation of public services has become the fourth major concern of European competition policy. In contrast to the US most European nations including the UK created large public sectors in the postwar years to achieve a broader influence in the economy beyond monetary and tax policies. The public sector included nationalised industries as well as public services. State-ownership gave member states control over access rules and the possibility to improve social and geographical cohesion through universal and equal access to these services. Public services, moreover, played a special role in the postwar expansion of European welfare states and they remain in part responsible for the relative economic success of the Nordic countries.⁴⁵ The expansion of public services created not only employment opportunities for women but also aided individuals with dependent relatives, again often women, to combine paid work with care obligations. It is not an accident that the Nordic countries are among the few that meet the Lisbon targets. Finally, public-sector employment relations were an essential part of national employment models, as it was there that employment security and working conditions were first improved and later extended to the private sector in the postwar decades.⁴⁶

The attitude towards state ownership started to shift in the 1980s. As with trade liberalisation, it was the UK under Margaret Thatcher that paved the way. The UK privatised numerous public utilities, including British Telecom and British Gas, in the 1980s. Yet according to Cini and McGowan, it was not before the late 1980s that liberalisation of public services became a major issue in the Commission.⁴⁷ By that time, however, the UK had become “the ‘leader’ and role model for EU action” despite the many and severe problems that characterised the British privatisation adventure.⁴⁸ Whereas the Treaty of Rome provided for a clear commitment to the creation of a common European market, at first primarily in form of a customs union, an ambivalent view of state-ownership of public services prevailed. “The treaty provisions are rather vague and as a consequence policy has not always been consistent”.⁴⁹ The contradictory understanding of the nature and role of public services can also be found the Commission’s White Paper on Services of General Interest. However, in the early 1990s the liberalisation process gained momentum. The outcome was the adoption of a series of directives that demanded the liberalisation of public services. Apart from railways (1991) the sectors concerned were telecommunications (1990), electricity (1996), postal services (1997) and gas (1998). David Hall comments: “There is a fundamental belief running through all these provisions that the liberalisation of these

⁴⁵ David Parker, “Privatisation in the European Union: A Critical Assessment of its Development, Rationale and Consequences”, *Economic and Industrial Democracy* Vol 20:9-38 (1999).

⁴⁶ Roland Atzmüller and Christoph Hermann, „Beschäftigung, Arbeitsbedingungen und industrielle Beziehungen in liberalisierten und privatisierten Dienstleistungsmärkten“, *Kurswechsel* 3/2004.

⁴⁷ Cini /McGowan, *Competition Policy*, p.162.

⁴⁸ Ibid. p. 163.

⁴⁹ Ibid. p. 164.

sectors will create competition, and there is a further assumption that . . . competition will benefit consumers.”⁵⁰

What was passed off by the Commission as consumer-oriented action, of course, also presented a lucrative business opportunity for private capital. For this reason private companies strongly lobbied Brussels in favour of liberalisation. A particularly important role in this regard was played by the Competitiveness Advisory Group (CAG) of the Commission established in 1995. According to Belén Balanyá et al., there are strong links between the CAG and the European Round Table of Industrialists. Of the 13 members of the first group, four were also ERT members.⁵¹ “The rest were CEOs of other large corporations and banks, the former president of Treuhand, three trade unionists and a number of politicians.”⁵² The group’s initial mandate was to produce a biennial report on the state of the EU’s competitiveness issued at the biennial EU summits. The second CAG report published in 1995 called for “the deregulation and privatisation of the public sector, particularly in the areas of energy, transport and telecommunications”.⁵³

In contrast to the rhetoric of “free competition” in public services, liberalisation has witnessed the emergence of large transnational service suppliers which increasingly dominate the telecommunications, energy, and water markets. In electricity, for example, three companies have emerged – two German and the state-owned Electricité de France -- to dominate the European market.⁵⁴ As a result David Hall concludes that whereas we previously had publicly-owned monopolies we now have “politically created multinational private oligopolies”.⁵⁵ The activities of these oligopolies are no longer limited to the European markets. They have extended business overseas participating in privatisation projects in Africa and South America.

2.3. *Economic and Monetary Integration*

The year of the completion of the Single Market was at the same time the starting point of a new phase in the integration process – the establishment of the Economic and Monetary Union (EMU). The first proposal to adjust monetary policies was made in 1970, but although the European Monetary System (EMS) was established in 1979, a common monetary area was still far from reality in 1980. In comparison to the postwar decades, the 1970s evolved as rather turbulent years in monetary terms.⁵⁶ Many European currencies struggled with the volatility of the currency markets and increasing inflationary pressures. In response to these problems, member states reverted to national

⁵⁰ David Hall, “EU Competition Policies and Public Services”, Paper presented at the EPSU conference Dec 12 2001, London.

⁵¹ Balanyá et al., *Europe Inc.*, pp. 33ff.

⁵² van Apeldoorn, “The Struggle over European Order”, p. 86.

⁵³ Ibid.

⁵⁴ David Hall, “The Political Creation of European Utility Multinationals”, in *Kurswechsel* 3/2004.

⁵⁵ Ibid. p. 39.

⁵⁶ Hufschmidt, *Economic Policy*, p.14.

strategies to tackle the economic crisis. When national solutions had little effect or created further tensions in the international monetary system, as did the undervalued Deutsche Mark, the Commission made a fresh attempt to approach the monetary union with the Delors report of 1989. The new initiative was followed by a phase of intense negotiations. With the European Treaty adopted at the Council of Maastricht in 1992 member states committed themselves to the establishment of monetary union and the introduction of a common European currency by 2002. As Carchedi, among others has pointed out, the EMU is also an expression of increasing economic rivalry between the US and Europe.⁵⁷

Further details regarding the structure and functioning of the EMU and the Euro were negotiated at the Council of Madrid in 1995 and adopted in the Growth and Stability Pact (GSP) at the Council of Amsterdam in 1997. Due to ongoing German worries about the stability of a common European currency, the GSP defined “convergence criteria”, i.e. the conditions under which member states were allowed to join the new economic and monetary area.⁵⁸ These criteria included the three per cent limit for government deficits per year and the 60 per cent cap on accumulated debt (both as proportion of national GDP). The European Treaty also clarified the role of the European Central Bank, following blueprints largely modelled on the German *Bundesbank*.⁵⁹ According to its statute “neither the ECB nor a national central bank, nor any member of their decision making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body.”⁶⁰ Moreover, the primary objective of the ECB shall be “to maintain price stability”.⁶¹ Price stability is understood as an inflation rate of less than two per cent. As a result, the ECB is probably the most independent central bank in the world and certainly more independent than the Federal Reserve in New York.⁶² Yet, while the ECB may be independent from political parties and national governments, “it is not independent in the sense that it adheres to a particular ideology concerning the operation of economic policy”.⁶³

The ECB’s reluctance to lower interest rates even in the trough of the recent economic recession is the outcome of these policies. While the Fed cut interest rates by 4.5 basis

⁵⁷ Guglielmo Carchedi, “Imperialism, Dollarisation and the Euro”, *Socialist Register* 2002 (London: Merlin Press 2001).

⁵⁸ Martin Heipertz and Amy Verdun, “The Dog That Never Bite? What can we learn from the origins of the Stability and Growth Pact”, *Journal of European Public Policy* 11:5, October 2004, pp.769-770.

⁵⁹ Hubert Zimmermann, “The Fall of Bretton Woods and the Emergence of the Werner Plan”, in Lars Magnusson and Bo Strath (eds.), *From the Werner Plan to the EMU. In Search of a Political Economy for Europe* (Brussels: Peter Lang, 2001) p. 70.

⁶⁰ Protocol of the Statue of the European System of Central Banks and of the European Central Bank, p. 2.

⁶¹ Ibid p. 1.

⁶² Andrew Martin and George Ross, “Introduction: EMU and the European Social Model”, in Andrew Martin and George Ross (eds.), *Euros and Europeans. Monetary Integration and the European Social Model* (Cambridge: Cambridge University Press, 2004). Jörg Bibow, “Europe’s Quest for Monetary Stability”, *International Journal of Political Economy* Vol. 35, No. 1 (2006), p. 29.

⁶³ Philip Arestis and Malcolm Sawyer, “On the Main Ingredients of the European Economic and Monetary Union”, *International Journal of Political Economy*, Vol. 34, No. 2 (2004), p. 10.

points to tackle the 2001 recession, the ECB could bring itself to reduce the rates by only 1.5 basis points. Hence, as Gill notes, the EMU “can be comprehended as part of a set of policies that has shifted the European Union towards a neoliberal and financial, as opposed to a social market or social democratic, model of capitalism. This viewpoint favours tight monetary and financial discipline in a rules-based economic constitution as a means to deliver low inflation rates and protect savings.”⁶⁴ The draft European constitution, rejected by French and Dutch voters in spring 2005, confirms this view. Economic policy, according to the constitution, “shall entail compliance with the following principles: stable prices, sound public finances and monetary conditions and a stable balance of payments”.⁶⁵

In short, the EMU is the most obvious manifestation of neoliberal restructuring at the European level. While the SEA guarantees “free” trade and capital mobility within Europe, the EMU fortifies the principles of monetary restraint and budgetary austerity by forcing EMU member states into a fiscal straightjacket. As we will discuss in what follows, the budgetary constraints imposed by the convergence criteria also compel member states to introduce far-reaching reforms in labour and social policies as their ability to confront unemployment and social exclusion is severely constrained by budgetary limitations. Whereas the Commission continues to advocate price stability and fiscal austerity as the most effective measures to promote growth, the outcomes of these policies are slow growth rates (if not outright stagnation), very moderate real income increases, and an unemployment rate that amounts to more than eight per cent across the Union. For many progressive economists, the ECB’s obsession with price stability has prevented the European economy from achieving higher growth rates, as lower interest rates and higher budget deficits could have stimulated investment and aggregate demand.⁶⁶

The absence of a more growth-friendly macroeconomic framework has had a lasting impact on the European job market and bears a large share of the blame for the inability of the European economy to generate sufficient employment.⁶⁷ It is not coincidental that those member states which remained outside the EMU, notably Sweden and the UK, do far better economically and have lower unemployment rates. For Andrew Martin and George Ross it is clear that the “EMU’s dedication to price stability, and the ways in which the ECB is likely to pursue this dedication will keep EU employment lower than those needed to nourish the European model.”⁶⁸ As Guglielmo Carchedi notes, the ECB does not need independence to

⁶⁴ Stephen Gill, “European Governance and New Constitutionalism: Economic and Monetary Union and Alternatives to Disciplinary Neoliberalism in Europe”, *New Political Economy* Vol 3 No 1, p. 9.

⁶⁵ Ibid.

⁶⁶ Hufschmidt, *Economic Policy*, pp. 39-40.

⁶⁷ Johannes Schweighofer, Ist die ‘europäische Beschäftigungsstrategie’ nach fünf Jahren zu Ende? Zur Bewertung des Luxemburg-Prozesses 1998-2002 (Wien: Materialien zu Wirtschaft und Gesellschaft Nr. 84/2003), p. 25.

⁶⁸ Martin/Ross, “EMU”, p. 3.

be able to retain ‘sound’ (i.e. non-inflationary) monetary policy in the face of the politicians’ pressure for more expansionary . . . policies. Restrictive policies are not neutral. In the present phase of development of European capital, they serve the purposes of leading capitals which not only do not need inflation as an export-supporting measure but also fear it because of its potential to provoke industrial strife and a price-wages spiral possibly resulting in higher real wages.⁶⁹

Yet while Carchedi sees leading industrial concerns as the main profiteers of monetary integration, it was not necessarily those corporations that pushed for monetary union – although they certainly were in favour of the EMU. The main pressure group that lobbied for the EMU is the Association for the Monetary Union of Europe (AMUE). Although the AMUE was founded in 1987 by five of the largest European companies, the majority of its 300 current members now come from the financial and banking sector.⁷⁰ During the turbulent history of European monetary integration, the AMUE consistently urged the Commission and national governments to hold to their commitment to establish a European zone with a common currency and economic policy. The Association produced numerous documents that praised the advantages of the monetary union and the Euro. Even more important, “when politicians couldn’t agree about whether they should set precise dates for EMU implementation in the Maastricht Treaty, the AMUE, the ERT and the other corporate lobby groups successfully pressed for the inclusion of a well-defined time schedule”.⁷¹

The crucial next step European financial capital is pushing for is financial integration. The Commission has issued a Financial Service Action plan to enhance the adjustment of financial regulations in the member states. The goal is a common European capital market that improves financial-sector efficiency and facilitates the allocation of large funds for mergers or new investments thus creating strong European global players. From this perspective a common European financial market, like the introduction of the euro, is another aspect of the European challenge to American monetary dominance. Yet as John Grahl notes, the attempt to establish an integrated European financial market turns on the same principle of mutual recognition that ensures the dominance of neoliberal deregulation across Europe. So far, member states have accepted the regulations of other member states, but have not supported the harmonisation of regulations to a European-wide standard.⁷² Yet if a unified European financial market ever comes into existence, it will most likely resemble financial markets in the UK and US which facilitate international financial integration and ensure that international financial flows continue to cover the ballooning US current account deficit.

⁶⁹ Carchedi, *For Another Europe*, p. 143.

⁷⁰ Belanyá, *Europe Inc*, pp. 49-50.

⁷¹ Ibid. pp. 51-2.

⁷² John Grahl, „Finanzintegration und europäische Gesellschaft“, in Martin Beckmann, Hans Jürgen Bieling and Frank Deppe (eds.), *Euro-Kapitalismus und globale politische Ökonomie* (Hamburg: VSA Verlag, 2003), p. 32.

2.4. The European Employment Strategy

Notwithstanding the progress in market and monetary integration, the EU has faced challenges related to its continuing democratic, social, and employment deficits aggravated by neoliberal restructuring. As a concession to these forces and to rally sufficient support for the common market project, the European Treaty was complemented by a social chapter in 1992. The social chapter opened the possibility for social-partner agreements at the European level, which would then be transferred into binding EU law by directives passed by the Council of Ministers without further discussion. In 1993 the Commission published the *White Paper on Growth, Competitiveness and Employment*, largely crafted by the departing Commission president Jacques Delors. The Delors initiative, according to Janine Goetschy, was an attempt to combine two contradictory goals: “The ambition was to meet the convergence criteria for EMU, the implications of which were deflationary, and yet to achieve higher levels of employment”.⁷³ Although the White Paper did not lead to any concrete action by the Council, it was “a springboard for the subsequent European Employment Strategy”.⁷⁴

As neoliberal macro-economic policies failed to support employment, European unemployment grew rapidly between 1990 and 1994. Concerns about rising unemployment received increasing attention in European political debates and became a major issue at the Council of Essen in 1994. The Council identified five employment priorities, which were to be transformed by member states into a multi-year employment programme. The Council also introduced some first steps for a multilateral monitoring procedure as member states had to report back to the Commission. The Commission, the Employment and Social Affairs Council, and the ECOFIN Council were then to examine national employment policies and draft a joint report for the European Council. As Diamond Ashiagbor notes, “The Essen Council endorsed the employment policy agenda of the Delors White Paper; what it did not do, however, was to consent to a major allocation of competence over employment policy to the Commission. Instead, it could be argued, that having ‘discovered’ employment policy as matter of concern for the EU as a whole, the Essen Council marked the beginning of a process whereby political initiatives was shifted from the Community institutions to the member states”.⁷⁵

Although unemployment gradually decreased in the following years, unemployment remained a major issue in certain member states, including France, where the left-wing coalition won the 1997 general elections. They won, in part, because the flexibility-prone policies of the Conservatives did not put a halt to rising unemployment (resulting

⁷³ Janine Goetschy, “The European Employment Strategy: Genesis and Development”, *European Journal of Industrial Relations* Vol 5 No 2 (1999), p. 120.

⁷⁴ Sabrina Régent, “The Open Method of Co-ordination: A Supranational Form of Governance?”, International Institute for Labour Studies Discussion Paper DP/137/2002, Geneva, p. 3.

⁷⁵ Diamond Ashiagbor, “The Shift from Social Policy to Employment Policy”, in Magnusson/Strath, *From the Werner Plan*, p. 320.

in mass demonstrations in December 1995). Even if unemployment was not originally on the agenda, the failure of the previous integration process to tackle the unemployment problem came to dominate the Council of Amsterdam in 1997. According to Goetschy measures had to be taken “if the EMU project, or at least the planned timetable, was not to be at risk.”⁷⁶

With the Treaty of Amsterdam, employment officially became a major European policy area. Following recommendations by the Commission, the Council each year adopts a new set of employment guidelines. Member states are then expected to account for these objectives in their national employment strategies. Member states, moreover, are obliged to report back to the Commission on implementation processes and on the effects of the respective measures. The Commission reviews the National Action Plans (NAPs) and produces a joint employment report with the Council. Based on the joint report, the Council (with a qualified majority) can issue recommendations to specific member states but they have no binding legal force. The process is called the Open Method of Coordination (OMC) and was advertised as a flexible alternative to the usual approach of finding a compromise among member states. Yet according to some authors the Council simply made “a virtue of necessity” as a compromise of even the most modest proportions was not within reach. In any case, the result is that employment issues ultimately remain the responsibility of member states.⁷⁷

The first set of employment policies adopted at the Extraordinary Council on Employment in Luxembourg in 1997 specified employability, entrepreneurship, adaptability and equal opportunity as the four main pillars of European employment strategy. While the last point stands out as an issue of social justice, the first three objectives show a strong bias towards the overall goal of employment flexibility. In quantitative terms employability is the central pillar of the employment strategy. Nine-tenths of the employment policy measures of member states fall under this pillar.⁷⁸ This should not come as a surprise as

Many of the policy prescriptions advanced in the employment guidelines and in the recommendations to individual member states are distorted by this doctrinal commitment to the ‘flexibility’ agenda. The language used is often deliberately ambiguous, but governments have been encouraged to tighten constraints on the unemployed, to reduce levels of social protection and to lower regulatory standards in employment.⁷⁹

The Council has, for example, recommended that the Swedish government (one of the few member states that meets the employment and female labour-force participation targets) cut payroll taxes in order to improve incentives to work. As the Economists for an Alternative Economic Policy note, “This impertinent suggestion shows a complete

⁷⁶ Goetschy, “The European Employment Strategy”, p. 124.

⁷⁷ Schweighofer, *Ist die europäische Beschäftigungsstrategie*, pp. 11-12.

⁷⁸ Régent, *The Open Method*, p. 13.

⁷⁹ European Economists for an Alternative Economic Policy for Europe: “Full Employment, Welfare and a Strong Public Sector – Democratic Challenges for a Wider Europe”, Extended version of the 2003 Memorandum (chapter 4, pp. 1-2).

misunderstanding of the Swedish social model, within which it is precisely high tax revenues and high levels of government spending which permit high levels of employment in general and female employment in particular”.⁸⁰ Hence Catherine Barnard and Simon Deakin cogently point out the true goal of the policy: “What the areas of intervention . . . had in common was an emphasis on supply-side measures or ‘structural reforms’ aimed at making the allocative function of the market work more effectively”.⁸¹ The emphasis on supply-side measures ensures that the employment strategy is subordinated to the general economic policy of Maastricht imprinting.

While the European Employment Strategy is of great importance to maintain sufficient support for market and monetary integration, the job outcomes have so far been at best moderate. Employment guidelines and recommendations have been used at times to ratchet down employment protection and standards, and to push member states to flexibilise their labour markets. ECB, ECOFIN and the Commission have not ceased to call for further labour market flexibilisation in their official policy statements again based on the neoliberal conviction that problems can only be solved with more market. Given the strong commitment to labour market flexibilisation, Stefan Tidow is correct to argue that “the restrictive framework of the Single-Market-cum-monetary union has been written into the formulation and institutionalisation of the new policy. European employment policy was made to fit the existing integration project and thus became one of the pillars of supply-side-oriented neoliberal restructuring”.⁸² Yet in contrast to the monetary and budgetary policies, “In the case of labour market flexibility . . . the EU level can encourage but only national politicians can deliver”.⁸³

2.5. Neoliberal Constitutionalism?

Stephen Gill has coined the term *new constitutionalism* to account for the institutionalisation of neoliberal policies such as the promotion of free trade, monetary restraint, budgetary austerity, privatisation and flexibilisation of labour markets.⁸⁴ “New constitutionalism”, in his words, “is an international governance framework. It seeks to separate economic policies from broad political accountability in order to make governments more responsive to the discipline of market forces and correspondingly less responsive to popular-democratic forces and processes”.⁸⁵ The complete independence of the ECB, granted by the European treaty and re-confirmed in the draft constitution, is a case in point. While the restriction of rights and influence of social

⁸⁰ Ibid p. 4.

⁸¹ Catherine Barnard and Simon Deakin, “A Year of Living Dangerously? EC Social Rights, Employment Policy, and EMU”, *Industrial Relations Journal* 30:4, 1999, p. 358.

⁸² Stefan Tidow, “The Emergence of European Employment Policy as a Transnational Political Arena”, in Overbeek, *The Political Economy*, p. 78

⁸³ Alberta Sbragia, “Shaping a Polity in an Economic and Monetary Union: The EU in Comparative Perspective”, in Andrew/Ross, *Euros and Europeans*, p. 65.

⁸⁴ Gill, “European Governance”, p. 5.

⁸⁵ Ibid.

groups other than (big) business certainly is a precondition for the establishment of neoliberalism in Europe, for the success of neoliberal policies “fundamental asymmetry”⁸⁶ or “structural imbalance”⁸⁷ of the European institutional network and decision-making processes is more important. This imbalance, which gives priority to economic over social and other issues, has a long tradition and goes back to the foundation of the Union. As early as the 1950s, the French prime minister was rebuffed when he attempted to make the harmonisation of social regulations a precondition of market integration.⁸⁸ Although some concessions had to be made to maintain sufficient support for the integration process including the social chapter and the employment strategy, because of the structural imbalance they never posed a counterweight to the main objective of the integration project – the maximization of private profits.

The structural imbalance can best be seen in the different modes of enforcement of European policies. The GSP, for example, specifies a set of penalties that can be imposed on member states that fail to comply with the convergence criteria.⁸⁹ The imposition of trade barriers, illegitimate subsidies or other discriminatory practices, moreover, can be challenged in European courts. The European Employment Strategy, in stark contrast, does not contain sanctions against member states that fail to reach the employment targets. Employment measures are instead based on “exchanges of information and best practices, providing comparative analysis and advice as well as promoting innovative approaches and evaluating experiences, in particular by recourse to pilot projects.”⁹⁰ While the Council has praised the flexibility and supplementary character of the OMC, critics have objected the ‘soft law’ approach to employment and social issues.⁹¹ It is not difficult to predict the reaction of the governor of the ECB if monetary policies would be based on exchange of information, best practices and pilot projects.

Given the vast differences in enforcement procedures, Martin and Ross clearly state the result of this policy conflict: “The Stability and Growth Pact . . . limited member states’ discretion over fiscal policy . . . There is no other policy domain where centralisation of powers in EU institutions has gone so far. In contrast, the EU’s treaty/constitution leaves authority over welfare state and employment relations institutions in member state hands . . . These two different institutional arrangements create an EU polity that sharply separates authority over macroeconomic policy from that governing social models.”⁹² Hans-Jürgen Bieling comes to a similar conclusion: “On the one hand, the

⁸⁶ Fritz Scharpf, “The European Social Model: Coping with the Challenges of Diversity”, *Journal of Common Market Studies* Vol 40, No 4 (2002), p. 665.

⁸⁷ Hans-Jürgen Bieling, „Europäische Integration: Determinanten und Handlungsmöglichkeiten“ in Joachim Beerhorst et al. (eds.), *Kritische Theorie im gesellschaftlichen Strukturwandel* (Frankfurt a. M.: Edition Suhrkamp, 2004).

⁸⁸ Fritz Scharpf, “The European Social Model”, p. 646.

⁸⁹ The penalties can vary between 0.2 and 0.5 per cent of the member state’s GDP.

⁹⁰ European Convention, “Draft Treaty Establishing a Constitution for Europe” (2003), p. 104.

⁹¹ Diamond Ashiagbor, “The Shift from Social Policy to Employment Policy”, in Magnusson/Strath, *From the Werner Plan*.

⁹² Martin/Ross, “EMU and European Social Model”, p. 1.

new constitutionalism has perpetuated a liberal-market and narrow austerity-policy functioning of the new European economy. On the other hand, all the attempts to regulate the intensified market- and currency-integration in a socially acceptable manner have remained very limited.”⁹³

⁹³ Bieling, “Europäische Integration”, p. 131. Author’s translation.

CONCLUSION

While Europeans may think Europe is exceptional, the policies delivered by the European Union in no way departs from the neoliberal mainstream. As we have shown in this paper, major policy issues such as the Single Market Strategy, European competition policy, Economic and Monetary Integration and even the European Employment Strategy have enhanced “free” trade and “free” capital mobility, monetary restraint and budgetary austerity, the flexibilisation of labour markets and the erosion of employment security. In some areas, including monetary and fiscal policies, Euro-zone member states have gone further in following the neoliberal agenda than even the neoliberal front-runners, the US and UK. Contrary to the rhetoric of the European Social Model it was precisely the integration process that allowed policy makers, backed by the leading sections of European capital, to circumvent and erode the social rights that were achieved in the postwar decades and that represented the essence of the various European social models. This process was facilitated as much by the substantial democratic deficits of the EU, including the marginal status of the European Parliament, as the extraordinary structural imbalance embodied by the institutional arrangements that govern European decision-making processes and the implementation of common European policies. This arrangement gives priority to competition and monetary issues at the expense of social demands. While member states that fail to meet the convergence criteria are threatened with financial penalties, there are no sanctions in the case of a member state falling short of employment targets. This state of affairs follows from the monetary straightjacket imposed by the GSP which is largely responsible for the lack of employment growth in Europe.⁹⁴ As a result of the systematic and deepening structural imbalance in the Draft European Constitution, French and Dutch voters were correct to reject the treaty despite the improvements it contained with respect to the role and the influence of the European Parliament.⁹⁵ In contrast to the widespread perception of European distinctiveness, Europe shares the same outcome with other regions of the world where neoliberal restructuring has been put into effect: There has been a major redistribution of wealth from work-contingent income to ownership-contingent income.

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⁹⁴ Mario Seccareccia and Mathieu Lequain, “What Can We Learn from the EMU Model? Lessons for Canada and Britain”, *Current Politics and Economics of Europe*, Vol. 17, No 2 (2006), p. 4.

Philip Arestis, Kevin McCauley and Malcolm Sayer, “An Alternative Stability Pact for the European Union”, *Cambridge Journal of Economics*, 25 (2001).

⁹⁵ The increased influence of the European Parliament led some politicians from social democratic and green parties to wrongly describe the treaty as progressive.