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Social Europe: the post-Maastricht challenge

Alain Lipietz

EDITORIAL INTRODUCTION

On the eve of the 1996 EU Inter-governmental Conference, we publish a polemic by Alain Lipietz which outlines a very different discussion from that which is likely to occur. The issue most likely to dominate the conference is whether member states will be able to meet the stringent macroeconomic conditions laid down by Maastricht, and whether monetary union is desirable or feasible. The pressing problem of mass unemployment in Europe and the broader case made by Delors in the EU White Paper in 1993 ('Growth, competitiveness and employment') defending social cohesion and social solidarity as the basis for economic prosperity in the EU will be sidelined. Discussion of a Social Europe will be postponed as an issue to be tackled after the economy has been put into order.

Lipietz's paper, in contrast, returns to the argument voiced by the Left that growth and competitiveness in Europe could draw upon social cohesion. Lipietz chillingly forecasts that in a global context of intensified and unregulated competition, the only winners will be countries either at the bottom of the European economic hierarchy (e.g. Portugal) locked in a price war, or those at the top (e.g. Germany and northern Italy) which derive their competitive advantage from skills and product quality. The countries in between, that is the majority of the EU, will be squeezed, thus worsening the unemployment crisis in Europe. A reversal of this state of affairs, for Lipietz, requires the strengthening of a common European social policy designed explicitly to tackle unemployment. He proposes this in the belief that jobs are a source of raised demand, and that social upgrading can become a source of quality-seeking competitive advantage within a Europe pummelled by cost-based competition from every corner of the world.

The novel and most controversial aspect of Lipietz's argument, however, concerns the nature of the alternative social policy that should replace the pitifully weak EU social policies of today (Social Chapter, Social Charter, and beyond). First, he cites estimates forecasting a reduction of European unemployment from 12 to 10 per cent if a Euro-Keynesian demand recovery strategy were pursued, based on currency devaluation, employer contributions and taxes on households. Second, he argues that the remaining gap will be closed only through the pursuit of more imaginative policies, Europe-wide, to redistribute jobs by *reducing working hours, to redirect capital revenues towards productive investment rather than* rentier *profiteering, and to stimulate activity in the third sector of ecological and social utility. Thus the implication is that jobs will have to be redistributed, as well as stimulated around socially useful activities.*

These are controversial suggestions which need to be debated, not only in terms of the logic of the argument, but also in terms of their political feasibility. The next IGC will not champion a defence of Social Europe, certainly not with the language of social empowerment and social solidarity. And yet, events such as the widely supported protests in the streets of France in December 1995 against economic liberalism serve as a reminder of the growing popular demand for society-centred policies; a demand that Europe's political leaders may be forced to heed. In publishing this piece, our hope is that RIPE *can stimulate a debate on alternatives in Europe and we welcome responses to this article as well as other contributions.*

Ash Amin

ABSTRACT

In Europe as in the world, national economies are following divergent trajectories in their way out of the crisis of Fordism. Some rely on 'negotiated involvement of workers', others on the flexibility of the wage contract. This creates a centre–periphery type hierarchy between countries. Unfortunately the Maastricht treaty implies rules of the game which induce countries to shift towards the 'flexibility' solution. The text advocates some reforms that could induce a socially preferable general evolution, notably towards shorter labour-time.

KEYWORDS

Europe; Maastricht Treaty; industrial relations; labour time; coordinated recovery; post-Fordism.

As the hour of the calamitous Maastricht Treaty's renegotiation approaches, its social consequences are proving to be increasingly negative. Although not all the problems stem from Maastricht, a good number of them proceed mechanically from the Single European Act which was applied during the five previous years. The balance sheet of 'SEA + first phase of Maastricht' reads so disastrously that the part of the treaty concerning Economic and Monetary Union is sometimes considered to be already abandoned (incorrectly, as its negative effects are still being felt). Furthermore, given the exasperating build-up of internal problems it is likely that a reaction of selfishness will impose itself on the other major policy areas negotiated at Maastricht (solidarity with the Third World, action to promote peace and fight the global ecological crisis). We can thus suppose that the crisis of Social Europe is the basic ground

on which the politicians and governments who will discuss the treaty's renegotiation during 1996 will face each other.

EUROPE: A ZONE OF MASS UNEMPLOYMENT

With the unemployment figures standing at 18 million, or 12 per cent, the European Union is an unemployment blackspot. Although the situation is not much better in the US and the Third World (including the east), unemployment there is absorbed to some degree by the increasing casualization of labour. Happily we have not resigned ourselves to this in Europe. While there has also been little acceptance of such a development in Japan and those West European countries which have remained reserved regarding the EU (Switzerland, Austria and Scandinavia), these countries have kept more control over their national economies – at least while they remained outside the EU. The social crisis of the EU stems from the dichotomy of social norms which are still 'social democratic' on the one hand, and ultra-liberal institutions which condemn these norms on the other.

The EU is, in effect, a cockpit in which countries are condemned to a perpetual commercial fight without the right to any protection of their internal markets and, if Maastricht and its 'convergence criteria' are to be respected, not even the freedom to determine their own interest rates, exchange rates or budgetary policy. This results in incomes austerity being the sole remaining variable. Each country seeks to export its unemployment by being 'more competitive' than its neighbour, the end result being a contraction of the internal market and an explosion of unemployment.

We must at this stage open a parenthesis on the macroeconomy of the EU in the situation of an egress from the crisis of *Fordism.*[1] In effect the European common market had not known any serious unemployment problems while the countries that composed it could follow what was *grosso modo* the same model of economic development. This Fordist model was primarily characterized by the combination of *Taylorist* principles of the organization of labour (a strict separation between 'thinkers' and 'doers') and rigid forms of incomes contracting which guaranteed a regularly increasing purchasing power to wage earners (social legislation, collective bargaining, the welfare state, etc.). This compromise between labour and capital was thrown into crisis on two fronts at the beginning of the 1970s. On the one hand, Taylorist organization of labour had exhausted its reserves of rationalization and now posed the question of the financing of investment in more conflictual terms. On the other hand the excessive internationalization of markets and circuits of production led, since it was not accompanied by an international harmonization of wage settlements, to the constraint of competitiveness becoming predominant, to the detriment of growth in internal markets. In both cases (profitability and competitiveness), the rigidity of incomes contracts is under pressure.

One 'way out' of the crisis of Fordism is thus the destruction of these rigid compromises: the famous *flexibilization*. This has been the method followed by the Anglo-Saxon countries, southern Europe and France: a 'Brazilianization' which becomes a sort of 'neo-Taylorism'. Happily, however, this is not the only way. Other national capitalisms have searched for a new compromise based on the 'mobilization of human resources', the mobilization of workers in the battle for productivity and quality. This new compromise can be negotiated at the level of the firm (as in Japan), or of the sector (as in Germany, northern Italy and the Alpine region in general), or of society as a whole (as in Scandinavia). It still involves (at each of these three levels) the maintenance of a certain rigidity of social *acquis* which are negotiated in exchange for the involvement of the workforce.

The lesson of the 1980s from the capitalist point of view (that is to say, the point of view of competitiveness) is the victory of the second model over the first. However, the first model can survive in highly flexible 'neo-Taylorist' regions through specialization in the most banal sectors. We are thus witnessing a 'new international division of labour' between a highly qualified core, with more rigid wages contracts and higher wages, and a periphery which is becoming more and more flexible. This new international division is becoming established in Europe according to a north-east/south-west axis, from Scandinavia to Ireland and Portugal.[2]

The coexistence of the two models in a single zone of free exchange is, however, menaced by competition which the more flexible countries are exerting on those which are more 'rigid'. Thus the Scandinavian model (which is sometimes called 'Kalmarism' in honour of the Volvo factory – which has since been shut down) no longer succeeds in negotiating its national compromises and is slipping towards a model where compromises are only negotiated in the most competitive sectors. Slipping down a notch, the German model is itself sliding towards negotiation at the level of the firm as in Japan (Figure 1).

Only those regions at the two extremes of the new international division of labour will remain competitive. Either those which have cynically chosen flexibilization to a degree reminiscent of the Third World (Portugal), or those which have founded their competitiveness on a highly skilled workforce whose involvement is ensured through negotiation (west Germany, northern Italy). 'Mixed' countries (such as Italy with its pronounced north–south divide) are condemned to experience ruptures in their national social pacts. Those regions which are 'between two stools' such as Spain, east Germany and France are experiencing higher levels of unemployment and will continue to do

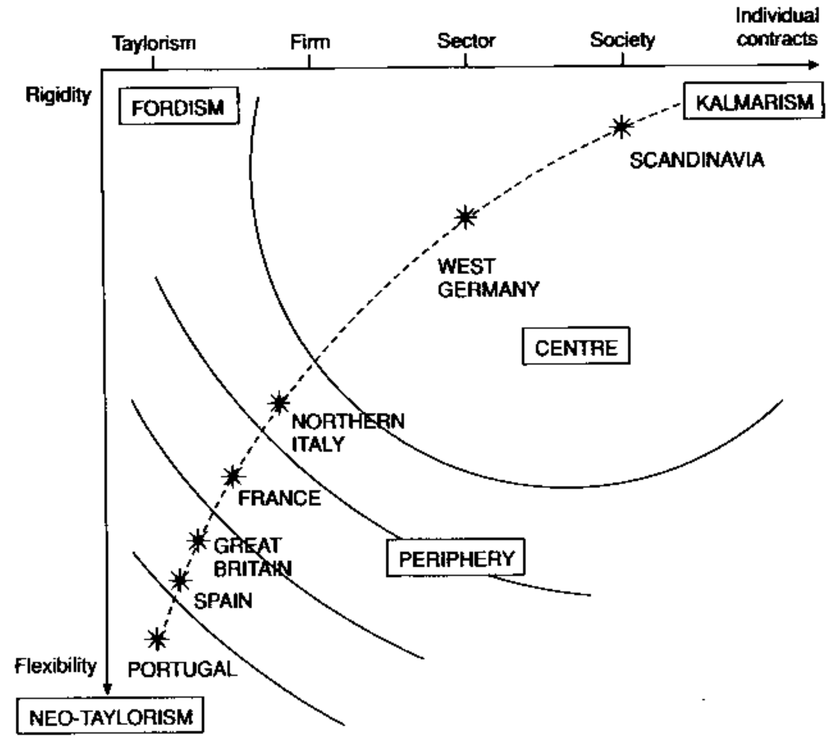

Figure 1 The core–periphery structure of Europe

Note On the horizontal axis, the individual contracts are negotiated at the level of the firm, the sector and the society in general.

so. According to a report published by OFCE and CEPII, two of the most prestigious research centres in the international economics field in France, unemployment will have reached the following levels (after the increase which will cyclically follow the current stagnation) by the year 2000: 8 per cent in Portugal and west Germany, 14 per cent in France, 15 per cent in Spain and 16.5 per cent in east Germany.[3] However, for all countries, even the best placed, the situation is much more severe than it would be if they adopted a common position of raising hourly wages. The OFCE/CEPII report suggests a coordinated increase in the purchasing power of wage earners. But this simple Keynesian effect could be increased by a job-sharing policy (a coordinated reduction in labour time combined with an increase in hourly wage).

Faced by this tragedy, political forces have reacted more slowly than financial markets. Judging that no government would try resolutely to

'Brazilianize', in France, Great Britain, Italy and Spain, the markets speculated on the impossibility of sticking to the convergence criteria and, in July 1993, put paid to monetary union, the cornerstone of the Maastricht Treaty. Britain seized the opportunity to regain its monetary independence and is experiencing a more vigorous recovery (although still inevitably limited).

As a consequence, the political forces which wholeheartedly endorsed Maastricht in France were obliged to defend a policy of out and out flexibilization. This was clearly the case with the Balladur government (1993–5) which, with the Contrat d'Insertion Professionnelle, claimed to offer to employers technicians of the level 'Bac + two years' for the price of a Brazilian technician (or a Korean skilled labourer): $4 per hour. This is no longer the case for the ex-Socialist leader Michel Rocard who today recognizes that independence for the central banks would bring 'twenty years of woe to Europe'; however, when the Parti Socialiste (PS) was in power he defended these twenty years of woe with tooth and nail, as well as the social policy which goes with them (flexibilization of wage relationships and bringing forward the age of retirement).

On the other hand, the anti-Maastricht campaigners in 1992 did not represent a unified and coherent alternative. Even if we ignore the 'Non de droite', themselves divided between liberals (De Villiers) and populists (Le Pen), those who opposed Maastricht in the name of human progress are still torn between two strategies.

On the one hand the Communist Party (PCF) and the Mouvement des Citoyens (which split from the PS) reject the very idea of the EU and extol a return to national economic and social policy. On the other hand, the Greens, a part of the extreme Left and some dissidents from the PCF, all of whose representatives signed a call for an 'Alternative European Union' at the beginning of 1994, extol the virtues of a deepening of Europe in the direction of an ecological and Social Europe, showing solidarity with the south and opening up to the east.

I will not describe in detail here the reasons why the first strategy appears to me to be a rearguard battle which would probably be lost in the short term (for economic integration is too far advanced) and indeed would be disadvantageous in the long term if it won the day. A strong Europe, acting in solidarity with its periphery, would allow more rapid advances in terms of social justice, ecology and peace than a divided Europe. However, we must once again describe in concrete terms this idea of a 'Social Europe'.

THE SOCIAL EUROPE OF TODAY

The term 'Social Europe' (or 'European Social Space') implies the institution of common ground rules, coordinated national policies or even

policies directly designed at the level of the Union to improve Europeans' social conditions. The first category of measures (the institution of common ground rules) is probably the most effective as we are already beginning to see the most perverse effects ('social dumping') of savage competition, which goes a long way towards explaining mass unemployment in Europe. It is also on this point that those within the 'Left' who propose a return to the nation and the partisans of 'Alternative European Union' are opposed: should a struggle be waged for the reinforcement of common social legislation?

Let us first review the *acquis* – for they do exist. Important legislation has been enacted regarding the free movement of workers, the coordination of social systems for migrant workers, and health and safety in the workplace; this has been of especial benefit to southern European workers. More debatable is the legislation regarding equality of treatment for men and women. Although this legislation is frequently useful it is sometimes counter-productive for women who are already protected (for example, women who are exempted from working at night, or who receive compensation in their retirement pension for the time they have had to stop work to look after children). This legislative corpus culminated in the Social Charter (1989) which, although it is far from derisory for the poorest countries (Portugal), was judged to impose such minimal constraints by the Green group at the European Parliament that they tabled a motion of censure. In fact European social legislation merely guarantees what the great majority of Europeans would consider to be the bare minimum.

The second important aspect is the European Social Fund which has spent some 150 billion francs (or *c.* £19 billion) on 17 million people during the European legislature 1989–94, essentially for the training of young people and the long-term unemployed. If one adds to this the spending of the Regional Fund in favour of the regions hardest hit by the crisis, we have the beginnings of a genuine Union-wide policy of social solidarity which can only develop into a 'Social Europe'. The use of Union funds by national and regional administrations is frequently criticized and the Brussels Commission has had to protest against some scandalous misuses.

Unfortunately this development of EU solidarity has been clearly broken by the Maastricht Treaty. Anxious to demonstrate Europe's financial restraint, the Council of Europe has rejected the 'Delors II Package' which included an estimate of the cost of its proposals. Most importantly, the Maastricht Treaty has rigorously excised the struggle against 'social dumping' from the European agenda. Incomes and labour movement law are explicitly excluded from all EU regulation and, what is more, any decisions on social and financial initiatives aimed at creating employment must be taken unanimously (with Britain keeping the right to do what it wants).

Thus, each country keeps the right to compete through a decrease in labour costs and social welfare. *Mutatis mutandis*, this gap in the rules of the game brings us back to the situation of nineteenth-century competitive capitalism, before the development of national collective bargaining. In brief, social dumping will remain the rule, and common ground rules the exception.

WHAT A EUROPEAN POLICY COULD BE

In the report cited above, the specialists of the OFCE and the CEPII offer us a glimpse of what it could be possible to achieve.

First, they rule out policies to reduce the cost of labour; by definition, if such measures were taken on a European scale, they would not improve the relative competitiveness of any of the countries concerned and would in fact deepen the depression. On the other hand, a 10 per cent devaluation of all EU currencies *vis-à-vis* the Newly Industrialized Countries would have minimal effects overall (a 0.2 point reduction in unemployment), albeit that it would have more major ones in certain sectors (textiles). Reform of the financing of social protection would be more interesting; the appropriation of just the anti-greenhouse effect 'eco-tax' to reduce employers' contributions would reduce unemployment by 0.7 of a point.[4]

They then explore a Keynesian recovery initiative: reducing the real short-term interest rate to zero (as in the 1960s and 1970s), devaluing by 10 per cent, reducing employers' contributions and reducing taxes on households. The results are impressive: this 'cooperative recovery programme' would increase Gross European Product by 5.7 per cent within three years without worsening public deficits. Thus a return to growth is possible – on condition that the Maastricht convergence criteria are violated and that the central banks are forced to conform to the social policy pursued. When we know that the Bundesbank did not hesitate to sabotage the transition of East Germany in the name of its sacrosanct independence and monetarist dogmas, when we know that the newly 'independent' Banque de France is now in line with the Bundesbank model, it becomes clear that such a policy is inapplicable without the Maastricht Treaty being radically re-examined.

The 'White Paper' which was discussed at the Corfu Summit assiduously avoided doing this. Thus an extremely modest recovery programme was proposed, comprising a handful of major projects (some of which, such as the Trans-Pyrenean motorway, are ecologically dubious) whose financing was cobbled together in ways which circumvented the monetarist rules of the treaty. The consequent effect on unemployment will be derisory.

However, even the massive boost studied by the OFCE and the CEPII would increase employment by only 2.5 points. This is considerable but far from sufficient when unemployment stands at 12 per cent. Thus the report turns inevitably to the solution of the ecologists – job-sharing.[5]

Paradoxically, this policy does not need to be coordinated on a European basis, so long as it is applied without increasing labour costs and without requiring too much extra investment. The report studies the effects of a generalized reduction of 10 per cent in working hours, with wage earners being refunded only the national insurance contributions saved (this translates to a rise in hourly wages of 2.5 per cent and thus a drop in monthly salary of 7.5 per cent) and existing installations being used more intensively (thirty hours in four days for humans and six days for machines). If such a policy was applied across Europe (within five years) it would reduce unemployment by 5.4 points by the fifth year in Europe as a whole and by 6 points in France. However, if France alone applied this policy, which gives outrageous advantages in competitiveness, unemployment would fall by 6.6 points.

The problem is that such minimal compensation in terms of income would be intolerable to wage earners, even if it did halve unemployment. *The advantage offered by Europe is the possibility of considerable incomes compensation*. If this compensation (that is an increase in the hourly wage while labour time is reduced) is coordinated at a European level, there will be no worry about competition from other European countries. However, the stranglehold of Maastricht must be broken here too as the treaty rules out the coordination of incomes.

Another method of increasing incomes compensation (that is hourly wages) without compromising competitiveness or the self-financing ability of firms to take workers on, consists of altering the distribution of capital revenues to the benefit of reinvested company profits and to the detriment of rental and financial revenues (that is a redistribution of profit between productive and non-productive capital). The Single European Act has led to a genuine 'resurrection of *rentiers*' by allowing free movement of capital without harmonizing taxation on the revenues of financial placements. This 'fiscal dumping' has led to increasingly minimal taxation of *rentiers*' revenues which are themselves growing through the increase of real interest rates (with the goal of attracting floating capital, an artificial way of consolidating national currency). Here again a possible benefit of Europe (fiscal harmonization) would allow the employment situation to be improved through a reform relieving some of the fiscal burden on labour costs (including social charges).

One way of doing this would be to impose uniform taxation of capital at source. It is a last resort (this uniform tax would not take account of the total level of individual revenue) but it is better than nothing.

Germany accepted this proposal (at the level of 15 per cent) when the SEA was passed, but then went back on its commitment when faced by Luxemburg's 'fiscal dumping'. It has gone back to its original position, constrained as it is by the need to finance its reunification.

Another way would consist of transferring as much of the total of social contributions as possible to VAT. This measure is in itself progressive (of uniform penetration, it puts an equal fiscal burden on all parts of value added through a change of basis and thus also favours labour-intensive industries).[6] It has the further advantage of 'decoupling' the level of social protection in Europe and competitiveness *vis-à-vis* third countries, as VAT is deductible for exports and charged in full on imports. Here again Germany, initially hostile to a rise in VAT, has turned to it to finance its reunification.

Let us remember finally that there is a consensus, derived from the recommendations of orthodox economists such as Jacques Dreze and Edmond Malinvaud,[7] that the prospective eco-tax on energy and carbon gases (anti-nuclear and anti-greenhouse effect) should be substituted for a part of social contributions.

Half the problem still remains to be resolved. A 'recovery programme', as we have seen, would increase employment by 2.5 points. It would still be necessary to orient it in an ecologically sustainable direction. What can be done about the remainder? The Green group in the European Parliament has proposed a major innovation here (initiated by Aline Archimbaud, French chairwoman of the Réseau pour une Economie Alternative et Solidaire), getting a resolution voted in the EP on 6 May 1994 which extols the development of a third sector of ecological and social utility, whose financing would be drawn from numerous sources, including EU subsidies and local investors.

An alternative Social Europe expressing solidarity is therefore possible, and it could vanquish unemployment. It demands a political will which would be made concrete by profound reform of the treaty in 1996. Such were the stakes of the European Parliament elections of 12 June 1995, stakes to which the mainstream media were totally oblivious. The media in France concentrated on the Europe of soundbites and political point scoring and scorned debates about social policy. Today the concept of a 'Social Europe' is only brought before the Strasbourg Parliament by a Green group from which the British and the French are absent.[8] However, great social advances are rarely made on the basis of parliamentary pressure alone. Can social movements impose themselves in 1996 to enforce the inclusion of what was excluded in 1994? The pessimism of reason (as Gramsci put it) would probably reply 'no'. Most European elites support the liberal-monetarist construction of Europe. But at the beginning of the twentieth century, few socialists would have bet a penny on their own ability to transform competitive capitalism

into social-democratic welfare capitalism. Yet they tried. The optimism of will has some support in the experience of the past.

NOTES

1 See Alain Lipietz, *Towards a New Economic Order* (London and New York: Polity-Oxford University Press, 1992).

2 See Alain Lipietz, 'The new core–periphery relations: the contrasting examples of Europe and America', in Naastepad and Storm (eds) *Rethinking the State. Scope and Limits of National Policies in a World Economy* (London: Edward Elgar.)

3 'Lutter contre le chômage de masse en Europe', *Observations et Diagnostics Economiques* 48 (January 1994).

4 A 'point' is a percentage relative to the total number of jobs, not to the total number of unemployed.

5 By 'job-sharing', what is meant is a reduction in the duration of work greater than the difference between gains of growth and gains of productivity, that is to say: sharing between a greater number of people an amount of working hours which is economically given.

6 The fact that low-income households spend a higher percentage of their income on current consumption is irrelevant here. In the price of consumption, a consumer pays the VAT, the social contributions, the wages, the profits and even the tax on profit of the producers.

7 Dreze *et al.*, *Report to the Commission of EU*, 1994, mimeo.

8 The Green group nonetheless hopes to benefit in the renegotiation of 1996 from the support of part of the social-democratic current (which 'signed Maastricht' in the name of Europe but wishes to see its social side develop) and various small parties which are against the Europe of Maastricht but would struggle to see it develop in a social direction. On 13 July 1995, the European Parliament adopted a Resolution for a Coherent Employment Strategy, which follows, in a moderated form, the propositions made in this text.