Neoliberalism in the European Union

Thematic Paper

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1. INTRODUCTION

The task of this paper was to asses the impact of political change on national employment models. Our point of departure is the observation that the world today in many regards looks quite different from what we retrospectively call the golden years of postwar capitalism. Hence our main concern is to understand what has driven the far-reaching transformation in the last 20 to 30 years. Is it the global market? Yet markets are not actors, and as Karl Polanyi (1975) has shown in his influential study on the transformation from the unregulated capitalism of the 19th to the increasingly organised capitalism of the 20th century, the constitution of markets depends on the impact of social forces and the balance of power in any given society. Yet if it is social forces rather than abstract markets that shape our societies, the question is why changes look the same everywhere in the developed and less developed world despite the variety and differences of national actors? We believe this is due to the rise of an international political project that emerged as response to the crisis of postwar capitalism. Neoliberalism has replaced Keynesianism and the belief in a socially regulated form of capitalism as dominant international ideology. This ideology has inspired various political actors in different parts of the world, including the European Union and its member states. As such, the neoliberal ideology became a material force that has changed the postwar societies, regardless of the individual parties in power. For an analysis of the dynamics of employment models it is therefore indispensable to understand the nature of neoliberalism and its impact on the European Union and the main European policies.

To do so, we will first ask what constitutes neoliberal policies. From international experience we have identified "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 as main neoliberal policy prescriptions. In the second part we will then turn to the European Union and analyse main European policies, including the Single Market project, the European competition policy, the Economic and Monetary Union as well as the European employment strategy. We will study whether and how far these policies support the broader neoliberal agenda. We will then consider the implications of our findings and the further consequences for the European employment models.

2. NEOLIBERAL POLICIES IN A GLOBAL PERSPECTIVE

While neoliberalism is foremost an ideological and theoretical account of the future of the capitalist economy and social system, it depends on material forces and institutions to shape established norms and habits and make them increasingly responsive to market incentives. It is important to note that neoliberalism right from the beginning was an international project – in contrast, for example, to the nationally oriented Keynesian projects of the postwar period or the centre-left perceptions of a distinct 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 had abolished capital controls in 1974 and the United Kingdom shortly after the conservative victory in the 1979 election (Leys 2001; Grahl 2003). Together with dramatically reduced costs for transport and the information revolution, this created a set of specific pressures and constraints for formally independent nation states and for traditional demand-oriented Keynesian macroeconomic policies.

The reduction of trade barriers and the enhancement of *capital mobility* together with the application of new information-based technologies, facilitated the emergence of big multinational corporations able to negotiate the terms of investment with smaller national governments (Leys ibid.; Altvater/Mahnkopf 1998; Crotty et al. 1998). The process of corporate internationalisation was accompanied by the adaptation of the dominant Anglo-American corporate governance structures and the increasing dependence on external capital markets rather than integrated instruments of financing corporate debt (Coates 2000; Hall/Soskice 2001; Streeck 2001). The shift from borrowing money via bank credits to issuing stock options or bonds was facilitated by continuously high interest rates. The result was a change in dominant management-orientation often described as shift from stakeholder to shareholder value-orientation (Hirsch-Kreinsen 1998; Lazonick/O'Sullivan 2001; Sablowski/Rupp 2001). What is remarkable about the transformation of the dominant forms of financing corporate debt, however, is that the majority of companies have turned to internal forms of financing rather than relying on external capital markets (Grahl 2001:26; Duménil/Lévy 2004:119ff). As a result, investment rates have remained rather flat compared to the postwar figures despite important technological innovations.

At the national level, in contrast, the neoliberal counter-revolution initially took the form of *monetary restraint* in order to tackle runaway inflation rates that rapidly increased in the wake of the postwar crisis. While in South America, where neoliberal prescriptions for economic restructuring were tested first in countries such as Uruguay, Chile and Argentina, inflation rates were temporarily controlled by the introduction of a fixed exchange rate to the US dollar – also called "dollarisation" – in the most developed countries inflationary pressures were primarily fought by a rising interest rate (Brunhoff 2002). The best-known example 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 (Duménil/Lévy 2001 and 2004; Brenner 2002:50 ff). Interest rates were also raised soon after Margaret Thatcher took office in the UK. While the main victims of the "Volcker coup" (Duménil/Lévy 2004) were the debtor

countries in the Third World – the debt of developing countries increased from 16 per cent of total output after the first interest-rate move in 1979 to 39 per cent of output in 1987 – the stabilisation of prices also had a series of negative effects in the developed countries – including the devastation of substantial parts of the manufacturing base as companies could no longer pay increasing interest rates on their corporate debts (in the US manufacturing output fell by ten percent between 1979 and 1982 and manufacturing employment shrank by 13 per cent over the same period; in the UK the contribution of manufacturing to the British GDP decreased from 25 per cent in 1980 to 21 per cent in 1997). Moreover, when interest rates increased particularly fast, the inflow of international money led to a revaluation of the national currency. The revaluation contributed to a further stabilisation of prices in the respective countries, yet at the same time hurt the export-oriented parts of the economy – again mostly manufacturing.

The abolition of barriers to capital mobility together with the rise in interest rates led to a dramatic reversal of financial flows on a global scale. While during the 1960s and 70s "cheap" money flowed from the US to the third-world countries and to Europe – in particular following the devaluation of the US dollar after the collapse of the Breton Woods system of fixed exchange-rates in 1973 – in the 1980s and 90s with growing interest rates and a recuperated dollar, money poured back to the US to finance a rapidly increasing current-account deficit. While the bulk of this deficit is financed by the Asian countries, some European countries including France and Germany are also net-exporters of capital (Duménil/Lévy 2004:98ff; Albo 2003:102ff). The continuous attraction of foreign capital gives the US economy a decisive advantage compared to other economies and to some degree explains the employment gap between the US and Europe. The option of running such a massive current-account deficit, however, is the sole privilege of the country that prints the world's dominant currency. Neoliberalism, as a result, has critically contributed 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 (Brenner 2002). And the unprecedented expansion of the US dominated financial sector both in terms of the volume of money transactions and as proportion of economic activities crucially contributed to the reinstatement of American supremacy in the last three decades (Panitch/Gindin 2004a und 2004b).

Monetary restraint was accompanied by a simultaneous abolition and erosion of regulations that in one sense or another restricted entrepreneurial freedom and therefore allegedly hampered overall market efficiency – including health and safety as well as environmental protection standards. One of the main focuses of the neoliberal *deregulation* effort were labour markets. The supposed rigidity of labour markets was accused of being responsible for inflationary pressures and, later on, for the massive increase in unemployment (which, more likely, was the result of low investments and the rise in interest rates). Hence the unfolding of the neoliberal project included a more or less open assault against organised labour, which was seen as the main reason for the supposed labour-market rigidity. 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. In the UK, the successive erosion of trade union rights led to a sharp decline in overall trade union membership (Jefferys 2000). In the US the decline took a more uniform

curve. However, in the third-world countries the struggles were even more dramatic, although often unrecognised in the North. In short, the deregulation or as it was later called flexibilisation of labour markets and the individualisation of employment relations are a genuine feature of neoliberal restructuring.

The pressure to weaken labour market regulations often intensifies in dependent countries. Less developed countries (including peripheral countries within the European Union) traditionally used the devaluation of their national currencies to compete with technologically advanced nations (Carchedi 2001). If price stability becomes the top priority, this strategy is no longer feasible. The only alternative to maintain some degree of competitiveness on international markets is to reduce wages and extend working hours. The South American *maquiladores*, with their long working hours and terrible working conditions, are a telling examples of how third-world countries attempt to compete on the world market under monetary austerity.

As the effectiveness of flexibilised labour markets critically depended on the general incentive to accept deregulated forms of employment (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 an increasingly means-tested access to public allowances. Benefits are no longer perceived as compensatory measures for citizens who, for whatever reason, cannot participate in the regular (paid) labour markets, but as temporary support for unemployed individuals to find employment (Gray 2004; Fast/Albo 2002; Stelzer-Orthofer 2001). The individualisation of the unemployment problem can therefore also be described as shift *from welfare- to workfare-oriented social policie*s (Jessop 2003, Peck 2001). 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 a rise of insecurity of those without an alternative source of income.

The general *budgetary austerity* is another characteristic feature of neoliberal restructuring. This has four main reasons: First, deficit-spending was seen as an additional element that drove up inflation rates. Second, deficit expenditures depended on high tax revenues and hence on elevated tax rates paid by middle and upper-class citizens. Yet with growing capital mobility, capital-owners had an increasing choice of where to deposit or invest their financial assets. Increasing capital mobility, as a result, substantially limited the capacity of nation states to tax their wealthy citizens. Both Reagan and Thatcher quickly introduced substantial tax cuts after being sworn into office. Third, growing interest rates rendered deficit spending increasingly expensive, and, fourth, increasing unemployment multiplied the costs for an encompassing and effective unemployment benefit system. The consequences of budgetary restraint and the resulting escalation of human insecurity again are particularly dramatic in the Third World, where economies have stagnated or even shrunk after more than two decades of neoliberal austerity and large parts of the populations live in extreme poverty (Altvater/Mahnkopf 2002).

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 played only a secondary role, due to the limited scope of public companies, services and other public provisions (including health care), it became a main focus of neoliberal restructuring in the second Thatcher government in the UK. While in 1975 20 per cent of British GDP was produced by the public sector, "By 2000 the state had sold off virtually all its infrastructure and service operations, from the telephones to the railways. Those that remained, from the Post Office and the BBC to social services, had been internally reorganised as 'quasi-markets'" (Leys 2001:39). In combination with the budgetary restraint and notorious underfunding, the extent and level of user-fees was increased, narrowing the access to service provision. The privatisation of education and training plays a particularly important role in this regard, as this will have a critical impact on social equality in the Knowledge Society. Moreover, the privatisation of state-owned companies, which played a particularly important role in nationally-oriented growth strategies of the 1950s and 60s, is also a typical feature of neoliberal restructuring in third-world countries, adding additional insecurity to continuing deprivation. The World Bank and the IMF have a long history 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 supposedly cheaper private companies to fulfil an increasing range of public tasks. Yet not only are private companies often more expensive than public providers, "public-private partnerships" are also producing a new range of pressures and constraints as public responsibilities are subordinated to profit-making interests.

For several reasons, the transformation of public pensions systems plays a key role in the neoliberal project. Again, changes in this direction were first tried in South America, including in Chile after the military coup of 1973 (with the exception of military and police personnel, which remained in the public system). The establishment and extension of private pension funds not only generated substantial amounts of money needed for the sale of newly privatised companies and for the financing of corporate and public debt (Grahl 2003; Duménil/Lévy 2004:110ff), the growing reliance on stock and bond markets also made sure that more and more regular workers adopted the perspective of capital owners, which at least partially changed the perception of downward pressure on wages and of lay-offs. Although in the majority of European countries the distribution of capital assets is still limited, the extension of private pension funds – often heavily subsidised by the state despite budgetary constraints – nevertheless amplifies existing trends to individualisation and makes solidarity between working people increasingly difficult (Andre/Concialdi 2003; Bellofiore 2003; Beckmann 2003; Redak 2003).

Another major effect of neoliberal restructuring is the *stagnation of wages* and the rise in personal household-debt. While concerted real wage increases played a key role in Keynesian demand-oriented growth strategies (Schulten 2004:105ff), in the neoliberal account of the postwar crisis rising wages were seen as a major cause of runaway inflation rates. To reduce pressure from organised labour, neoliberal restructuring often included an attack on militant trade union organisations, and, if they could not be used for establishing wage-discipline, the erosion of wage-bargaining institutions. The most effective method of limiting wage demands was the rise in unemployment, however (Duménil/Lévy 2004:44ff). As a result, real wages increased on average only between 0.8 and 1 percent in Europe in the 1980s and

90s (Schulten 2004:183ff). Real wages increases also remained flat in the US, with a significant acceleration of growth in the second half of the 1990s (Brenner 2004; Hennwood 2003, Pollin 2003). The near-stagnation in real wages was accompanied by an increase in personal household debt. Yet, while household debt in Europe fell again 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 (Panitch/Gindin 2004a).

With this short overview of neoliberal policies we do not want to give the impression that neoliberalism is an elaborated and coherent political strategy (critical: Grahl 2003). Many of the policies, on the contrary, are contradictory and pragmatic responses to shortcomings and contradictions of basic neoliberal assumptions as formulated in the Washington Consensus. The US Federal Reserve did not hesitate to slash interest rates and the Bush administration had no problems in running a record-high deficit in the face of an impending economic crisis in 2001 (Brenner 2004:64). Moreover, while neoliberalism is an international agenda, the implementation of neoliberal policies is, nevertheless, dependent on local struggles and compromises. As Greg Albo (2005) notes, "neoliberal policies have been resisted and contested at every step and at every level, from collective agreements to welfare policies to trade agreements, thus existing social forces and institutions have mediated their implementation in many unexpected ways." This opens substantial leeway for national deviations – as has already been the case in the postwar period with the various national interpretations of Keynesian doctrines.

As Colin Leys (2001:26) explains, "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. The former gives priority to the needs of capital at the expense of labour, and at the expense of public sector funding on which most public goods and almost all social services depend; the latter depends on catering to these other needs as well as ensuring economic growth – or at least economic stability." As Leys also notes, of course existing institutions and social processes critically shape the national responses to the neoliberal challenge (ibid. p. 29ff). Yet what institutionalists often ignore is that national strategies are not just a reaction to external constraints. With few exceptions, within each national formation there are also powerful social forces pushing for change (transnational capital, the financial sector etc.). The former German central bank, for example, was an integral part of the German model, yet at same time one of the driving forces behind the imposition of neoliberal price stability policies across Europe. As Stephen Gill (1998:5) notes, "what is significant about the present restructuring and globalisation of capital is that it involves the redefinition of principles of political action and accountability, or patterns of power and authority, *within and across* state and civil society" (italics added).

Hence, despite all the differences and variations contributing to the "varieties of neoliberalism" (Albo 2005), a brief overview of neoliberal policies shows that the outcomes are the result of deliberate political choices rather than of abstract forces such as globalisation and market-competition – although these forces, once unleashed by political decisions, "shape and reshape the social basis of politics and ideology" (Leys 2001:45). The rise in interest rates, to take only one example, is not the only solution for controlling runaway inflation.

Mandatory price controls and quantitative rationing of credit would have been an alternative measure for the same end (Duménil/Lévy 2004:69). The Fed's decision to increase interest rates was not technical but political and based on the political conviction that the crisis could only be resolved by more rather than less market and competition (Panitch and Gindin 2004a).[i] Moreover, the neoliberal choices including the preference for "free trade" and "free" capital mobility, monetary restraint and budgetary austerity, the flexibilisation of labour markets, the downward pressure on wages, the privatisation of public companies and services and the "workfarist" restructuring of welfare states were not made by chance. Together they produced a well-intended outcome: all the countries that were subjected to neoliberal restructuring experienced a redistribution of wealth from work-dependent income to income related to the ownership in financial assets. The redistribution can be seen by the falling share of wages as percentage of total GDP (see Figure 1 in the annex). Apart from intra-class redistribution, neoliberalism also led to an increase in inequality among salaried incomes. Hence, there may be no coherent neoliberal strategy, but there certainly is an international neoliberal project (Overbeek 2003).

In the rest of this paper we will shift the focus of our analysis from the international to the European level and attempt to asses whether and how far neoliberal policies are established in the European Union. We will do so by looking at three main European policy areas: the internal market strategy, the European competition policy, the Economic and Monetary Union as well the European employment strategy.

3. NEOLIBERALISM AND THE EUROPEAN UNION

3.1. The Single Market Strategy

The idea of a single European market predates the foundation of the European Union and its predecessor. In liberal circles it was already discussed during the war and after the war it became a prominent issue in what retrospectively may be called a neoliberal think-tank – the famous Mont Pèlerin Society (Gillingham 2003:6ff; Wegmann 2002). Yet after the war the neoliberal vision of unbridled capitalism was largely discredited by the still vivid memories of the devastating consequences of the Great Depression (Polanyi 1957). Instead, the immediate postwar years was 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 efforts to administer the European economic reconstruction, with the European Recovery Program or Marshall Plan as it is widely known. ERP funds were used to direct investment flows in the newly created Fordist industries, some of them owned by US capital. To some degree, the power of economic planning even contested traditional management techniques as the granting of loans was linked to the adaptation of Fordist mass-production methods (Carpenter/Jeffreys 2001). 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 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 (Gillingham 2003:16ff). In fact it was only by the end of the 1950s that the idea of a European free trade became dominant. This development found a preliminary end in the signing of the Treaties of Rome in 1957 and the establishment of the European Economic Community (ECC). The Treaty of Rome created an institutional framework and thereby laid the foundation for the subsequent establishment of the Single European Market. In Article 3 (f) of the original treaty, member states committed themselves to the creation of a "common market free from distortions to competition" (Cini/McGowan 1998:17). Distortions, however, were mainly understood as tariffs and quotas, while the free movement of capital, individuals and services was still subject to numerous restrictions. "European free trade was successfully combined with the national right to intervene in the economy in order maintain order and social peace" (Bieler 2003:5). With regard to the lifting of tariffs, the integration process was actually more successful than initially anticipated. Yet while tariffs were eliminated before the 1969 deadline, "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" (Gillingham 2003:53).

In 1965, the ECC, ECSC and Euratom were merged into the European Communities (EC) and in the early 1970s several new members joined the Community, but the deepening of the common market made only little progress. Instead, the integration process was hampered by the reluctance of member states to cede more competencies to the increasingly powerful Commission – not least because they relied on national strategies to cope with the emerging economic crisis – and a temporary institutional crisis (the so-called "empty-chair" crisis of 1965). Hence it was not until 1986 and the adoption of the Single European Act (SEA) that the single market project was seriously put on the agenda again. The single European market was also a response to the continuing economic crisis after national therapies had largely failed – including France's recourse to Keynesianism after François Mitterrand had won the elections in the early 1980s (Charchedi 2001:12f). The famous Cecchini Report, issued by the Commission, listed the "costs of non-Europe" and estimated that the establishment of the single market would induce growth rates of between 4.3 and 6.4 per cent of European GDP (Gillingham 2003:256). Several commentators see the re-launch of the single market project as the decisive moment that gave the European integration process a neoliberal twist. As Stephen Gill (2003:63) argues, "The re-launch started with the turnaround from 'Eurosclerosis' to 'Europhoria' at the 1984 Fontainebleau Summit. The principle of international market discipline associated with neoliberalism was then institutionalised when the SEA was ratified in 1987. The SEA entrenched the principle of mutual recognition in trade and capital mobility, and it instituted qualified majority voting *on issues pertaining the realisation of a single market* by 1992" (italics in original). As Jürgen Bieling (2003:49) notes, "the ideological dimension was of crucial importance, as scientists, journalists and politicians succeeded in presenting the Single Market as the breaking-up of incrusted and rigid structures

of European labour and social regulations (a specific ideological account of the crisis that persists until today – especially when Europe is compared with the US)."

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. Like the Single Market Act, the foundation of the ERT was a response to the continuous problems – including runaway inflation rates – that accompanied Keynesian attempts to solve the economic crisis. The Single Market was an extension of the customs union aiming for an elimination of all barriers to trade, not only tariffs, and hence to fulfil the promise of the "free movement of goods, services, capital and labour". The ERT lobbied strenuously for the completion of the common market in Brussels and increased pressures on governments in the member states. "This pressure from industrial leaders for the unification of European markets was precisely the momentum towards further integration that the Commission had been seeking" (Balanyá et al 2003:21f). As Belén Balanyá et al. further note, ERT propositions as formulated in (the then CEO of Philips) president Wisse Dekker's initiative "Europe 1990: An Agenda for Action" were almost word by word absorbed in the Commission's White Paper on Completing the Internal Market (ibid.).

Yet as Bastiaan van Apeldoorn (2001:78ff) argues, the ERT's campaign for a single European market was not necessarily neoliberal in the sense that it promoted unrestricted free trade. Instead, the ERT itself compromised neoliberal strategies, pushed for mainly by transnational capital, and European firms, which were aiming for the establishment of a protected European market facilitating the creation of "European champions" able to compete successfully on the world market (see for example the 1985 document "Changing Scales: A Review Prepared for the Roundtable of European Industrialists"). Although industrialists lobbied hard in Brussels, the neo-mercantilist strategy failed because "as the internal barriers came down no external barriers were erected and the market provided as much opportunity for US and Japanese as for European firms" (ibid. 79). According to Apeldoorn, the protectionist strategy met insurmountable resistance from certain member states, including Thatcher's Britain, Germany and the Netherlands and from the transnational fraction of European capital, which was increasingly successful in building a transnational "historical bloc" (see also Overbeek/van der Pijl 1993). While there certainly was a process of class formation taking place in this process, the constitution of the Single Market also played a crucial role. The key to this process was the principle of mutual recognition of product standards and admission procedures (Hanson 1998:69ff). As John Grahl and Paul Teague (1989:40) note, "The tactical brilliance of the market completion programme . . . 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 … This 'mutual recognition' approach has therefore a liberalising tendency, even beyond the stimulus it gives to intra-Community competition, since it is difficult to see how the least controlled producers can fail to enjoy an advantage over those subject to closer supervision." This is a striking example of the political constitution of markets (Altvater 1997) – or, as Jean Gadrey (2001:121) has emphasised, "une société a les marchés qu'elle laisse se développer en son sein."

With mutual recognition instead of supranational harmonisation (Bieling/Steinhilber 2000a:13), the common market became a neoliberal market, which means a market that is characterised by weak regulations or even deregulation – although the SEA introduced a number of progressive measures such as the empowerment of the European Parliament, the introduction of new regulatory competences for the Commission in fields such as environmental protection, workers' health safety issues and European cohesion (Pollack 1998:13ff).[ii] However, the principle of 'mutual recognition' not only eroded higher national standards, in connection with a lack of external trade barriers it amounted to a "de facto liberalisation of the *external* trade policies of EU states" (Hanson 1998:69; italics in original). With the weakening of national regulations, entry-barriers for non-European corporations were also minimised. On the other hand, the need for a qualified majority approval gave "free trade" advocates among member states a strong bargaining position in trade negotiations. No wonder trade policy outcomes tend to reflect their preferences (ibid). "The bargaining of the states favouring more liberal policies is based on their ability to credibly threaten to veto any proposed trade measure . . . Thus liberal states [such as the UK and export-dependent Germany] have little incentive to agree to greater levels of protection than they favour, and states seeking protection [such as France – CH] have little leverage to obtain more than they are offered" (ibid.). 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" (ibid; italics in original). The result was not only that external trade barriers did not increase during the 1990s despite severe economic distress across Europe, "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" (ibid. 59). The neoliberal character of the common market was further fortified by the signing of international trade agreements such as the General Agreement on Trade and Tariffs (GATT), which ensured the openness of the European market for non-European competitors. Another round of trade liberalisation is currently being prepared in the negotiations on the General Agreement on Trade and Services (GATS).

From this perspective the European integration process can, indeed, be perceived as a predominately negative form of integration (Bieling/Steinhilber 2000b:113). This is not to say that there have been no successful initiatives to improve positive integration within the EU. But what makes the harmonisation of external trade policies and internal product standards difficult, is even more obstructive to the introduction of European-wide standards in the field of labour and social policies. As Colin Hay et al. (1999) 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. That level would seem to be closer to the British variant of Anglo-US neoliberalism than it is to the Delorsian conception of a 'European model of society' which animated the revitalisation of the integration process in the 1980s . . . In this sense, economic integration itself implies a certain neoliberalisation and a residualisation of social models" (italics in original). In other words, positive integration would call for a radical reform of existing decision-making processes – an

objective that was again missed in the proposition for a European constitution (Euromemorandum Group 2004).

Another controversial example of the negative and hence neoliberal course of European market integration is the Commission's proposal for a European Directive on the Internal Market for Services (Beer/Vorbach 2004). The free movement of services is the last of the four freedoms referred to in the Single Act that is still awaiting realisation. The Commission is therefore pushing strenuously for a regulatory framework to boost cross-border service provision. In the words of the Commission, "The proposed directive . . . foresees the free movement of services by ensuring that service providers only have to comply with the national law of their home country when they want to provide their services across border on a temporary base" (European Commission 2005:29). This is also proposed for labour and employment issues, which have by and large remained under the regulative authority of the individual member states – not least because of the continuous resistance of certain member states to the imposition of common European minimum standards. Foreign employers have had to comply with national standards regardless of their home standards. With the proposed directive, however, the labour standards of the country of origin are to apply to the company's workforce regardless where the services are delivered (Beer/Vorbach 2004). This not only makes it extremely difficult to verify the compliance with the various national regulations, it also gives service providers the possibility of relocating their businesses to the countries with the lowest standards. This, indeed, can open the door for a European "race to the bottom" for labour standards in service sector work.

3.2. 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 served the objective of advancing intra-European competition, which according to liberalisation advocates will not only strengthen European businesses but also benefit consumers, as monopolistic firms or oligopolistic cartels can no longer use their economic dominance to charge above market prices. As Michelle Cini and Lee McGowan (1998:10ff) 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." 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 already mentioned, 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. It is now almost a truism to state that if conventional non-tariff barriers to trade . . . are removed . . .

firms and governments [are] likely to be tempted to seek out alternative ways of restricting competition and protecting national industries" (ibid. 32).

Traditionally, European competition policy has focused on three major challenges: the conclusion of anti-competitive agreements (trusts, cartels) and the abuse of market power, mergers that provide companies with an exclusive position in catering for certain markets, and the granting of state subsidies that gives certain companies an advantage over their competitors. According to Carchedi (2001:124ff), 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 against large corporations, as it is only large corporations that can afford the entry-costs to a European-wide market.

The liberalisation of public services has become a fourth major area of European competition policy. State-owned public services have played a particularly important role in most European countries and their postwar growth strategies. Whereas certain goods and services have traditionally been supplied by public authorities (Altvater 2003), in some cases the state filled in for private companies, which lacked the funds for costly investments in infrastructures or simply did not expect sufficient returns on their investments in an acceptable period of time (especially in the critical reconstruction period after the Second World War). State-ownership in public services, however, gave member states the control over the access to these services and the possibility of improving social and geographical cohesion through universal and equal access (Euromemorandum Group 2003). They were also an expression of growing economic wealth in the European postwar societies and distinguished Europe from the US, where the state has always played a marginal role in providing its citizens with the essential means for existence. In many countries, public services had an additional function as a provider of employment, and especially in the Nordic member states, the public sector also helped to minimise the gender gap, as many women found their first paid job in the social and educational services. Public-sector employment relations more generally were an essential part of national employment models, as it was here that employment security and working conditions were improved first and then extended to the private sector in the postwar decades (Atzmüller/Hermann 2004).

The general 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 (1998:162ff) it was not before the late 1980s that liberalisation of public services became a major issue in the Commission. By this 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 venture (ibid. 163). Whereas the Treaty of Rome provided for a clear commitment to the creation of a common European market – although initially primarily in form of a customs union – the perception of state-ownership in public services was much more ambivalent. "The Commission's policy towards the utilities is far from clear-cut. The treaty provisions are rather vague and as a consequence policy has not always been consistent" (ibid. 164; see also Raza/Wedl 2003:424ff).

In the early 1990s the liberalisation process gained momentum. Measures mainly referred to Article 3 of the Treaty of Rome and to Articles 81, 82 and 86 of the original EEC

treaty. The outcome was the adoption of a series of directives that demanded the liberalisation of sectors such as telecommunications (1990), railways (1991), electricity (1996), postal services (1997) and gas (1998). As David Hall (1991:6ff) notes, "There is a fundamental belief running through all these provisions that the liberalisation of these sectors will create competition, and there is a further assumption that this liberalisation and competition will benefit consumers." What is presented by the Commission as consumer-oriented action, of course, also presents a vast business opportunity for private capital. It is not by chance that private companies strongly lobbied in Brussels for the liberalisation project. A particularly important role in this regard played the 1995 established Competitiveness Advisory Group (CAG) to the Commission. According to Balanyá et al. (2003:33ff), there are strong links between the CAG and the European Table of Industrialists. Of the 13 members of the first group, four were also ERT members. "The rest were CEOs of other large corporations and banks, the former president of Treuhand, three trade unionists and a number of politicians" (ibid.; see also van Apeldoorn 2001:86). The group's initial mandate was to produce a biennial report on the state of the EU's competitiveness issued to the biannual EU summits. The second CAG report published in 1995 called for "the deregulations and privatisation of the public sector, particularly in the areas of energy, transport and telecommunications" (ibid.). After more than a decade of liberalisation and privatisation in the EU, "free competition" in public services has led to the emergence of large transnational service suppliers, which increasingly dominate the telecommunications, energy, water and transport markets. Hence the newly liberalised public services lead the way in the emerging European service markets. Concentration processes will be further amplified with the completion of the GATS negotiations and will include such delicate areas as health care and security.

While the Commission takes it for granted that liberalisation creates more and better employment – in its "Green Paper on Services of Public Interest" the Commission (2003b:4) states that "job losses, particularly amongst former monopolies, have been more than compensated for by the creation of new jobs thanks to market growth" – research has shown that employment losses amount to up to 40 per cent in the first ten years after service liberalisation (Atzmüller/Hermann 2004). In addition to the reduction of employment levels, liberalisation and privatisation have also caused a significant deterioration of employment relations, wages and working conditions. While better public-sector conditions were gradually extended to the private sector during the postwar period, now it looks as if worse private sector conditions are increasingly spreading into the public sector (ibid).

3.3. 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 in the member states was made in 1970 with the Werner Plan. This proposed the completion of a common monetary area by 1980. Although the European Monetary System (EMS) was established in 1979, imposing statutory mechanisms for cooperation and coordination between member states' central banks, the Werner Plan failed. Compared to the postwar decades, the 1970s evolved as

rather turbulent years in monetary terms. In 1973 the Bretton Woods system of fixed currency exchange rates was cancelled, followed by a devaluation of the US dollar. 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 strategies to tackle the economic crisis, which made a common monetary policy impractical (Gillingham 2003:100ff). As national concepts did not offer a solution to the continuing problems, the Commission made a fresh attempt to approach the monetary union with the Delors report of 1989. The Delors report was followed by a phase of intense negotiations, which were resumed at the Council of Maastricht. The guide to the establishment of the EMU was finally adopted as part of the European Treaty in 1992. Under the European Treaty, member states committed themselves to the establishment of monetary union and the introduction of a common European currency by 2002.

Further details regarding the structure and functioning of the EMU and the euro, as the common European currency came to be called, were negotiated at the Council of Madrid in 1995 and adopted in form of the Growth and Stability Pact (GSP) at the Council of Amsterdam in 1997. After continuous German worries about the stability of a common European currency, the GSP defined the "convergence criteria", i.e. the conditions under which member states were allowed to join the new economic and monetary area. These criteria included the famous three per cent limit for new deficit per year and the 60 per cent cap on accumulated debt (both as proportion of national GDP). The Amsterdam Treaty also clarified the role of the European Central Bank, largely modelled on the blueprint of the German Central Bank in Frankfurt. Article 7 of protocol No. 18 states that "neither the ECB nor a national bank, nor any member of their decision making bodies shall seek to take instructions from Community institutions or bodies, from any government of a Member State or from any other body." Moreover, according to its constitution, the bank's primary objective is "to maintain price stability". Price stability is understood as an inflation rate of less than two per cent. This makes the ECB probably the most independent central bank in the world and certainly more independent than the Federal Reserve in New York (Martin/Ross 2004). Yet, while the ECB may be independent from political parties and national governments, the commitment to price stability makes it "totally subservient to the interests of (the most advanced sectors) of European capital" (Carchedi 2001:140). The ECB's reluctance to lower interest rates even at the apex of the recent economic recession is the outcome of these policies. While the Fed cut interest rates by 4.5 basis points to tackle the 2001 recession, the ECB brought itself to reduce the rates by only 1.5 basis points (see Figure 2 in the annex). Hence, as Gill (1998:9) 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."

The EMU, perhaps, 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 in to a tight fiscal corset. As we will discuss in the following pages, 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 limited by the lack of budgetary funds. Whereas the Commission (2003a:9ff) continues to advocate price stability and fiscal austerity as the most effective measures to promote growth, the outcomes of theses policies are slow growth rates if not stagnation, very moderate real income increases, and an unemployment rate that amounts to more than eight per cent across the union (Euromemorandun Group 2004). The lack of growth makes it increasingly difficult for member states to meet the three per cent deficit-limit despite, or perhaps because of, comprehensive labour markets and social reforms. For a number 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 investments and expenses for consumption. The lack of a more growth-friendly macroeconomic framework, as adopted by the US in response to the 2001 downturn, has had a lasting impact on the European job market and bears a great deal of responsibility for the inability of the European economy to generate sufficient employment (Schweighofer 2003:25ff). To some degree, the priority of price stability conflicts with the goal of full employment as, according to neoclassical theory, full control of inflation calls for a non-accelerating inflation rate of unemployment (NAIRU). For Andrew Martin and George Ross (2004:3) 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." And as Carchedi (2001:143) notes, the ECB does not need independency to "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."

Yet while Carchedi sees the leading capitals as the main profiteers of monetary integration, it was not so much the leading industrial corporations that pushed for the establishment of the 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 (Belanyá 2003:49ff). However, during the turbulent history of European monetary integration, the AMUE consistently urged the Commission and national governments to stick to their commitment to the establishment of common European zone with one economic policy and one currency. The organisation produced numerous reports and documents that praised the advantages of the monetary union and the euro. What is 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" (ibid. 51-2). Moreover, when the contours of the monetary union finally took shape in the mid 1990s, the AMUE concentrated its activities in the countries with the strongest reservations against the euro. "In 1997 and 1998, for example, the Association organised 90 meetings in Germany 'to garner the support for the euro from an often sceptical public'" (ibid. 51). Since the

completion of the Eurozone in 2002, the AMUE has focused its agenda on member states that have not yet joined the EMU.

The next big step from the perspective of European financial capital is financial integration. The Commission has issued a Financial Service Action plan to enhance the adjustment of financial regulations in the member states. The objective is to establish a common European capital market that improves financial-sector efficiency and facilitates the allocation of large funds for mergers or new investments to create strong European global players. From this perspective the creation of a coherent European financial market, like the introduction of the euro, is also part of a European attempt to challenge American monetary dominance. Yet as John Grahl (2003:29ff) notes, the attempt to establish an integrated European financial market suffers from the same mechanism that ensures the dominance of neoliberal deregulation across Europe – the principle of mutual recognition. So far, member states have only been prepared to accept the regulations of other member states but, not to give up the national peculiarities of their own systems (ibid.). A coherent European financial sector, however, would most likely take the form of the dominant Anglo-American model.

3.4. The European Employment Strategy

With the progress in market and monetary issues, the EU has increasingly been challenged because of its democratic and social deficits – especially as the social problems, including unemployment, have been on the rise for many years. 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 on the European level, which would then be transferred into binding EU law by directives passed by the Council of Ministers without further discussion (Bieler 2003:8ff; Pollack 1998:17ff). Examples include the directives on parental leave (1996), atypical work (1997) and fixed-term work (1999). In addition to the greater involvement of social partners, the social chapter also introduced the possibility of qualified majority voting on social-policy issues. The Council, for example, took the opportunity to pass the Directive on Worker Information and Consultation despite British reservations in 2001 (Bieler 2003:9). According to Gerda Falkner and Oliver Treib (2005), some of these directives do indeed present a challenge to existing national regulations and have the potential to improve the situation of a substantial part of the European workforce. The problem, however, is that implementation processes have been rather slow and some countries fail to provide the necessary information and/or lack the necessary means of enforcement (ibid).

In 1993 the Commission published a White Paper on "Growth, Competitiveness and Employment", largely crafted by the departing Commission president Jacques Delors. The Delors initiative, according to Janine Goetschy (1999:120), attempted to combine contradictory elements. "The ambition was to meet the convergence criteria for EMU, the implications of which were deflationary, and yet to achieve higher levels of employment." Although the White Paper did not lead to any concrete action by the Council, the employment issue, nevertheless, became increasingly important simply because neoliberal macro-economic policies were failing to provide sufficient employment. European unemployment grew rapidly

between 1990 and 1994 (see Figures 3 and 4 in the annex). Concerns about rising unemployment, hence, received increasing attention at the Council of Essen in 1994 and the Council proposed seven areas for employment initiatives. The Essen Council also presented a monitoring procedure under which the member states were required to report back on the steps they had taken (ibid. 122ff; Banard/Deakin 1999:356f; see also Tidow 2003 and Schweighofer 2003:4ff). Although unemployment gradually decreased in the following years, unemployment remained a major issue in certain member states, including France, where the left-wing coalition had won the 1997 general elections not least because the flexibility-prone policies of its conservative predecessor did not put a halt to rising unemployment (resulting in huge 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 1998. According to Goetschy (ibid. 124) measures had to be taken "if the EMU project, or at least the planned timetable, was not to be at risk." More specifically, "France's continued commitment to EMU would have been in question in the absence of progress on the employment issue at Amsterdam" (ibid.).

With Article 3 of the Treaty of Amsterdam, employment officially became a major European policy target (Schweighofer 2003:7ff). According to Articles 125-130 this objective is to be attained mainly by the coordination and monitoring of national employment policies. 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 these recommendations have no "binding legal force on the member state in question; it is advisory only" (Banard/Deakin 1999:357). Hence, as Josef Schweighofer (ibid. 11f) notes, "from it this follows . . . that questions of employment and labour-market policies essentially remain the responsibility of member sates. Member states only commit themselves to refrain from adopting measures that may contradict each other in their effects."[iii] Moreover, Article 125 stipulates a strong bias towards employability, while Articles 126 (1) and 128 (2) guarantee the subordination of the European employment strategy to "the general economic policy of Maastricht imprinting" (ibid. 12).

The Council adopted the first set of employment guidelines at the Extraordinary Council on Employment in Luxembourg in 1997. The European employment strategy is henceforth to be based on four main pillars: employability, entrepreneurship, adaptability and equal opportunity. While the last point stands out as social justice issue, the first three objectives show a strong bias towards the overall goal of employment flexibility. Moreover, "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" (Euromemorandum Group 2003). The Council has, for example, recommended the Swedish government, one of the few member states that already

meet the employment and female participation targets, to cut payroll taxes in order to improve incentives to work. "This impertinent suggestion shows a complete misunderstanding of the Swedish social model, within which its is precisely high tax revenues and high levels of government spending which permit high levels of employment in general and female employment in particular" (ibid). Hence, as Catherine Banard and Simon Deakin (1999:358f) note, "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 . . . What emerged, then, as the Employment Title must be seen against the background of the defeat of proposals for a centralised macroeconomic policy based on reflationary, demand-side interventions."

While the European Employment Strategy is of essential importance to maintain sufficient support for market and monetary integration, the measurable effects so far have been only moderate to say the least. This does not mean, however, that employment guidelines and recommendations have not been used to level down employment standards and protection, and to push member states to flexibilise their labour markets. ECB, ECOFIN and the Commission have not ceased calling for further labour market flexibilisation in their official policy statements based on the neoliberal conviction that problems can only be solved with more rather than less market. In its latest update to the 2003-2005 Broad Economic Policy Guidelines, the Commission (2005:22f), for example, states that "up to 2001 there were signs that some structural reforms of product and labour markets, together with wage moderation, were beginning to pay off. Thereafter progress in labour markets reforms seemed to have levelled off. Without a swift implementation of comprehensive labour market reforms the Union will fail to reach the Lisbon and Stockholm employment rates targets by 2010, except possibly for female employment rates." Given the strong commitment to labour market flexibilisation, Stefan Tidow (2003:78) is right 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" (ibid. 78). Yet as Alberta Sbragia (2004:65) notes 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."

As Max Koch (2004) shows in a comparison of labour market reforms in five member states, labour-market restructuring started long before the adoption of the European Employment Strategy in 1996. On the other hand, it seems that the pace of reform has increased markedly in the second half of 1990s. A short view in the European Industrial Relations Observatory (EIRO) database reveals that in recent years major labour market reforms have been discussed and/or adopted in Finland, Germany, Denmark, Italy, Norway, Spain, Poland and Portugal. Although these reforms have different contents and objectives, most of them in one or other way relate to the issue of labour flexibility. The objective of improving overall labour market flexibility was also key to the reforms of the 1980s and early 1990s (Koch 2003). Yet as Koch (2004:36) notes, "In most European countries, the 'recommendations' of diverse 'deregulation commissions', which tried to convince national government to follow capital-oriented strategies virtually everywhere, were not put into practice without substantial concessions." From this perspective it should not be surprising that

despite similar constraints "the great discrepancy between the reforms in labour market and welfare system is remarkable" (ibid). Yet although these differences are important, they should not conceal the broader course of labour market reform in Europe.

Apart from the flexibilisation of labour markets, the Commission, ECOFIN and ECB also routinely call for an increase in wage differentiation – a measure that stands in stark contrast to the concept of a solidaristic wage policy, which used to be a characteristic feature of Sweden and other Scandinavian and social democratic countries during the postwar period (Schulten 2001). As Thorsten Schulten (ibid. 6) explains, "Whilst wage differentials in the case of different work requirements are accepted in principle, at the same time individual pay brackets should not drift too far apart . . . Consequently, besides the distribution conflict between capital and labour, the solidaristic wage policy also strives for redistribution within the workforce." Although a solidaristic wage policy may not be part of all European social models, a certain degree of income equality certainly is a characteristic feature – especially compared to the US. As already mentioned, increasing income inequality is a genuine feature of neoliberal restructuring, however. The Commission (2005:25) therefore urges member states, to "allow for greater wage differentiation to better reflect productivity differences across industries, regions and skills." From this perspective, wage differentiation is supplemental to labour market flexibilisation, which, on the other hand, amplifies the existing trend of growing income inequality. In this connection the Commission also warns member states against introducing minimum wages, as "National minimum wages, if high relative to average wages, tend to compress the wage distribution and could price workers out of the labour market" (ibid.). Perhaps the neoliberal demand for a wage diversification that better reflects differences in productivity has led to an overall reduction of the share of wages relative to GDP in Europe.

3.5. Neoliberal Constitutionalism?

Stephen Gill (1998:5) 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. "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." And as the author further notes, "New constitutionalism is the political-legal dimension of the wider discourse of disciplinary neoliberalism. Central objectives in this discourse are security and property rights and investor freedoms, market discipline on the state and on labour to secure 'credibility' in the eyes of private investors."

Yet while Gill centres his analysis on the establishment of the Single Market and the EMU, other authors stress the highly selective and unequal articulation of different policy fields such as monetary and social issues (Martin/Ross 2004). Perhaps this "structural imbalance" (Bieling 2004) embodied in European institutional arrangements and political processes can best be seen in the different modes of enforcement of general norms and objectives. The GSP, for example, specifies a set of penalties that can be imposed by the Council on member states that fail to comply with the convergence criteria. This penalties can vary between 0.2 and 0.5

per cent of the member state's GDP. The imposition of trade barriers, unjustified state allowances or other discriminatory practices by member states, moreover, can be challenged in the European courts by businesses or individuals who feel they are being discriminated against – as can the failure to comply with European law such as the directives on public sector liberalisation more generally. In stark contrast, the European Employment Strategy does not contain any form of sanction for member states that do not achieve the common employment targets – except, perhaps, for public exposure. As certain member states remained reluctant to concede responsibilities for employment issues to the European authorities, the "open method of coordination" (OMC) was invented at the Council of Lisbon in 2000 to prevent the negotiations from becoming a complete failure. According to several commentators, the invention of the OMC was an attempt to "make out a virtue from necessity" (Schweighofer 2003:41ff). The Council has praised the flexibility and subsidiary character of the new method and extended it to govern other integration processes – mainly issues of secondary importance or "soft" matters, however.

Given the vast differences in the enforcement procedures, Martin and Ross (2004:1) do not exaggerate when stating that "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." In his assessment of the current state of affairs in the European integration process, Hans-Jürgen Bieling (2004:131) comes to a similar conclusion: "On the one hand, the new constitutionalism has perpetuated a market-liberal 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."[xiv] Perhaps the European constitution might have provided the chance to correct this institutional imbalance. Yet the compromise that was agreed upon by the member states will perpetuate the existing situation rather than create the institutional framework necessary for the development of a coherent and effective European employment model.

4. CONCLUSION

What does this mean for the transformation of national employment models? As a conclusion we will present some ideas about the possible impact on some of the dimensions of the national employment models as outlined in the project proposal.

- *Corporate governance/varieties of capitalism*: Free trade and free capital mobility together with the expansion and transformation of the financial sector, have opened new possibilities for firms to finance corporate depth. At the same time, the increasing dependence on financial markets has also led to a shift from stakeholder to shareholder value orientations. Free capital mobility, moreover, has facilitated the

emergence of large multinational corporations that are able to negotiate the terms of investment with smaller countries. With respect to the "varieties of capitalism" approach, the adoption of neoliberal policies across the globe makes the "varieties of capitalism" increasingly look like the "varieties of neoliberalism".

- *Production regime/work organisation*: Free trade and internationalisation increase the pressure on local production sites to improve profitability. Where profitability can not be sustained by advanced technology, this increases the pressure on workforces to reduce costs. The imperative of cost-reduction often takes the form of outsourcing and relocation of work and production as well as the deterioration of employment and labour standards and an intensification of work. This "race to the bottom" is amplified by the weakening of product standards and the erosion of health, safety and environmental provisions.
- *Employment protection*: The flexibilisation of labour markets implies a reduction of employment protection, as labour market regulations are seen as obstacles to market efficiency and hence as barriers to economic growth.
- *Welfare regime*: Neoliberal budgetary austerity and the unwillingness or inability to tax wealthier citizens in the wake of free capital mobility undermine the traditional postwar welfare regimes. The resulting restructuring can be described as shift from welfare to workfarist social policies. The privatisation of pension systems plays a particularly important role. From the current point of view, it is rather unclear what the establishment of private pension funds means for income security and standards of living of future pensioners.
- *Industrial relations*: The rise of neoliberalism was often accompanied by a weakening if not elimination of militant trade union organisations and in many countries by an erosion of bargaining institutions. In the view of neoliberals, trade unions and collective agreements are an obstacle to the free expansion of market forces and their influence must therefore be contained.
- *Training and education system/skill system*: As one result of continuous budgetary constraints, national training and education systems have been privatised in recent years. This has often been accompanied by a rise in fees, which makes it increasingly difficult for low-income earners to obtain a sufficient education that would critically improve their labour market positions and income situations.
- *Full employment/unemployment*: Although this is not listed as a separate dimension in the definition of employment models according to the DYNAMO proposal, the level of employment or the share of unemployment has an important effect on national employment models as the power and resources of workers and trade unions to negotiate the terms of employment critically depend on the balance of supply and demand of labour power. Neoliberal monetary policies give a clear priority to price stability at the possible expense of higher economic growth rates and lower unemployment figures. Several commentators agree that the establishment of full employment would need a radical reform of the EMU and GSP (Goetschy 2004).

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ANNEX

Figure 1: Development of wage ratios in the EU and the US

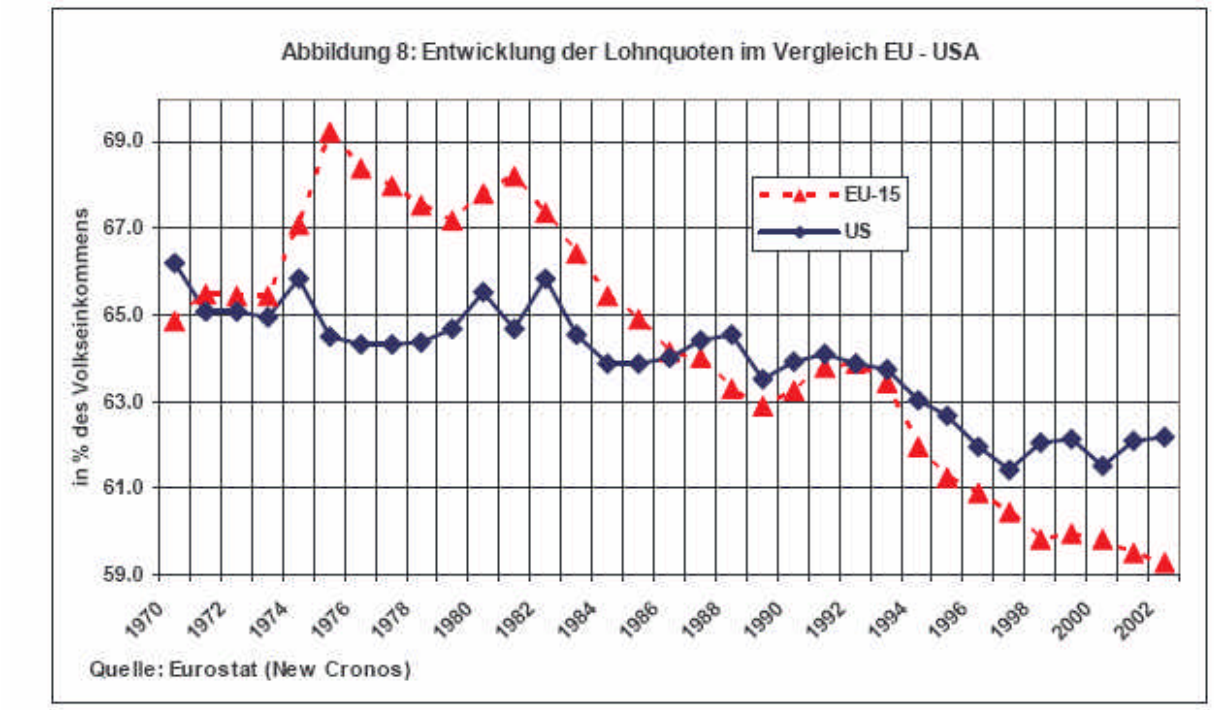


Figure 2: Comparative perspective of monetary policies of the ECB and the FED (1999-2002)

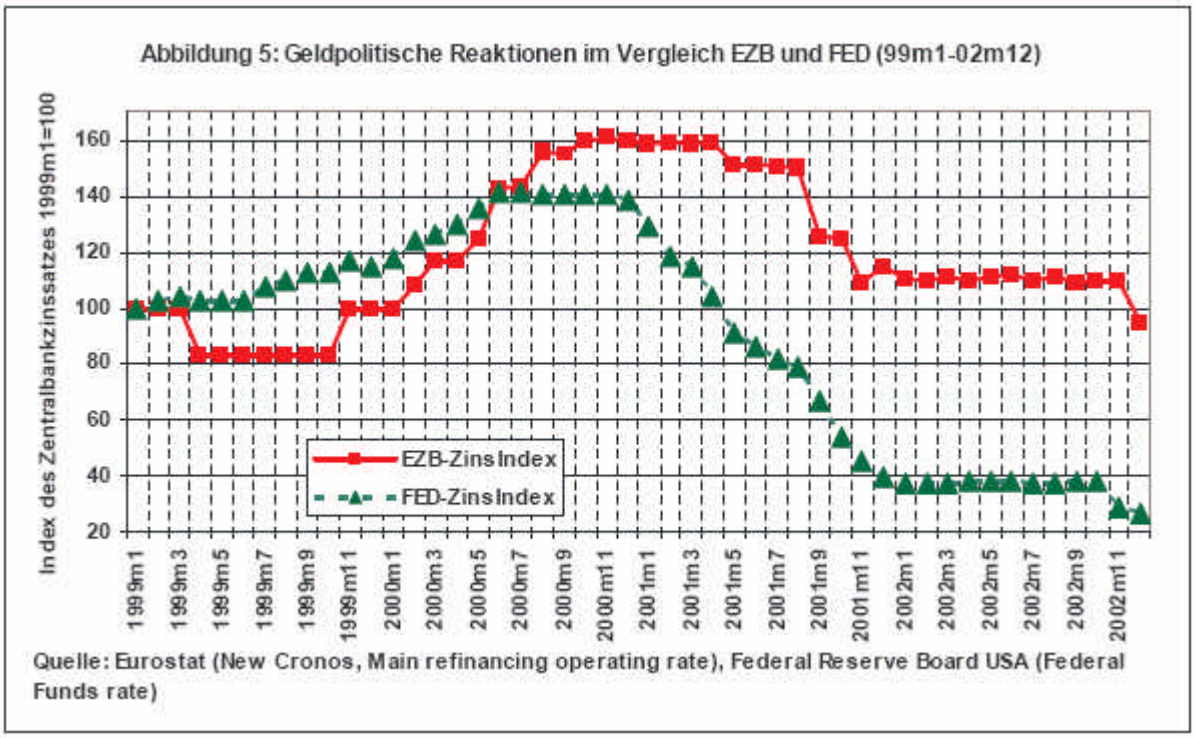


Figure 3: GDP-growth in the EU and the US

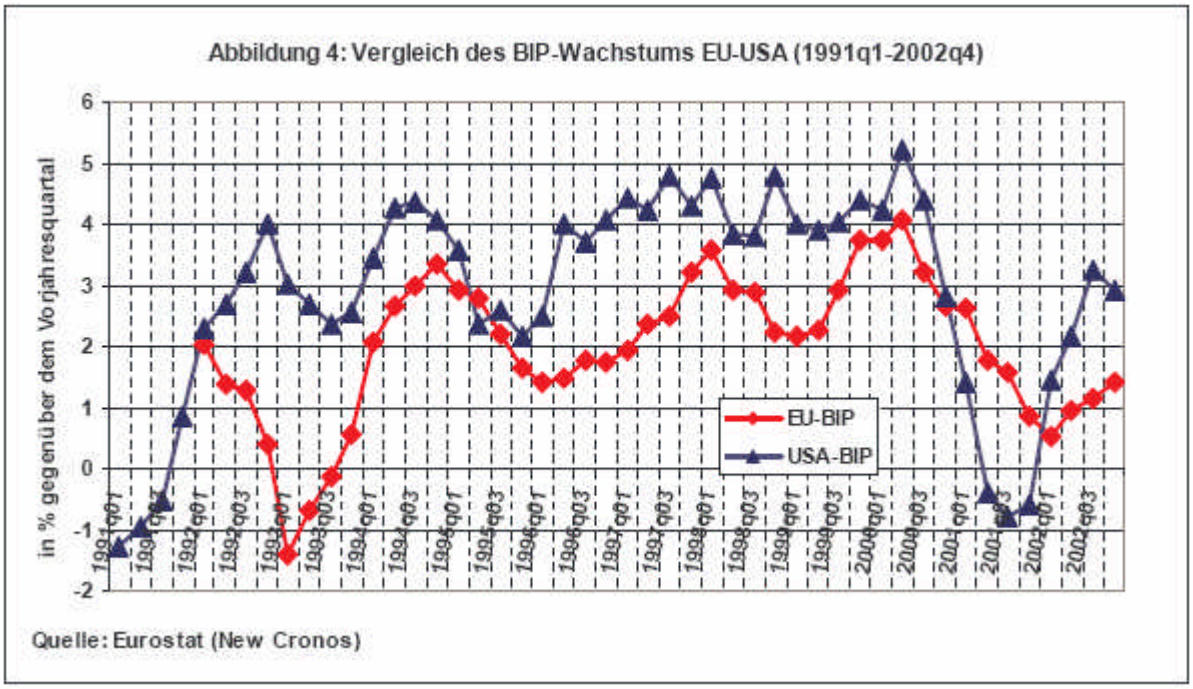
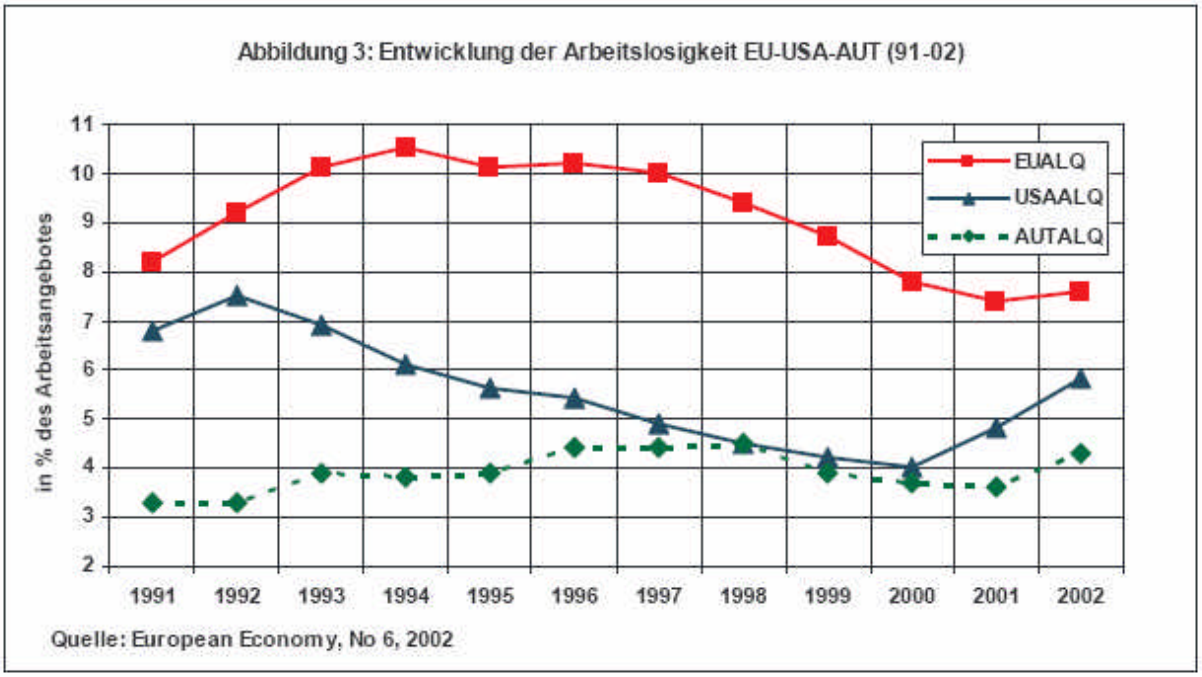


Figure 4: Development of unemployment in the EU, US and Austria



[i] For alternative economic policies in Europe see, for example, the work of Economists for an Alternative Economic Policy in Europe Group and Huffschmid 1999.

[ii] „Mit Vorsicht ist nach Ansicht der Bundesarbeiterkammer einer zunehmenden Durchsetzung des Prinzips der gegenseitigen Anerkennung zu begegnen – wie es derzeit in vielen Bereichen durch sekundäre Gemeinschaftsrechtsakte ins Auge gefasst wird. Wir erachten diesen Grundsatz – im Gegensatz zur Kommission – auch nicht als *die* tragende Säule des Binnenmarktes sondern als **Ersatzlösung**, soweit eine Harmonisierung der betreffenden Rechtsmaterie (noch) nicht gegeben ist oder wegen der Gleichwertigkeit der Rechtsordnungen nicht erforderlich ist. Herzstück des Binnenmarktes ist nach unserem Verständnis **die Angleichung der einzelstaatlichen Rechtsordnungen auf hohem Schutzniveau für ArbeitnehmerInnen, VerbraucherInnen und Umwelt**" (Bundesarbeiterkammer 2003: 8; emphasis in original).

[iii] Own translation.

[iv] Own translation.