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– EuroMemo Group –

European Economists for Alternative Economic Policy in Europe

## The European Union: The Threat of Disintegration

# EuroMemo 2017

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## **The European Union: The Threat of Disintegration**

# **EuroMemo 2017**

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## Summary

### Introduction

The crisis of the European Union (EU) is multifaceted and has visibly deepened during the last year. The British referendum on EU membership and the vote in favour of Brexit have only been the most explicit symptom of the disintegrative tendencies. The core-periphery rift in the euro area has continued. The arrival of a large number of refugees from the war-torn areas of the Middle East has resulted in acrimonious conflicts in the EU on the question who should take care of them. The way in which the pro-free trade forces pushed through the Comprehensive Economic and Trade Agreement (CETA) with Canada showed utter disregard for the objections of democratically elected bodies (e.g. the Belgian regions of Wallonia and Brussels).

In face of the multiple crisis of the EU, there is a relatively large consensus ranging from Social Democrats to right-wing nationalist forces to seek a flight forward towards an increasing militarisation of the EU. Otherwise, different strategies to deal with the crises can be discerned. The predominant response is muddling through. It is privileged by the majority of Christian Democrat, Social Democrat and liberal forces. This strategy continues the neoliberal mode of integration and seeks to preserve the present geographic shape of the euro area and the Schengen Zone. It will most probably not prevent the deepening of the disintegration tendencies. There are two sub-varieties of muddling through. One aims to combine it with more fiscal flexibility and more public investment. It is mainly advocated by Social Democrat forces in France and the Mediterranean. The other sub-variety abandons the integrity of the Schengen Zone and rather advocates a smaller Schengen Zone with tighter border controls. It is favoured by a relatively broad range of forces particularly in Germany, Austria and Central Eastern Europe. A 'core Europe' conception with a smaller and more compact euro area is advocated by right-wing nationalist forces like Lega Nord in Italy, Freiheitliche Partei Österreichs (FPÖ) in Austria and Alternative für Deutschland (AfD) in Germany as well as some Christian Democrat currents. On the right of the political spectrum, there are finally 'Europe of Nations' concepts. They tend to advocate focusing European integration on the Single Market and linked economic regulations. The nationalist right-wing demands more spaces of national competitive strategies. Right-wing nationalist parties, like Fidesz in Hungary and Prawo i Sprawiedliwość (PiS) in Poland, regard regional funds as an essential element of integration. Some forces of the nationalist right even tend towards leaving the EU.

On the political left, there are divergent strategies as well. Some forces advocate a form of democratic European federalism. The political presuppositions of such a project are extremely demanding. Other left-wing forces do not regard democratic European federalism as a realist solution and see the EU institutions as being particularly strongly shielded against popular pressures. They propose an explicitly pro-social agenda and defying EU regulations and abandoning the euro area if this is necessary to bring about progressive policy changes.

### 1. Macroeconomic & development policies to challenge austerity and uneven development

Since late 2014/early 2015 official EU policy has launched two initiatives in order to spark-off a recovery, the 'Juncker-Plan' and the clarification of the interpretation of the Stability and Growth Pact (SGP) with the aim of providing more fiscal leeway for member states. The overall results of these rather timid initiatives for non-monetary demand stimulus are quite discouraging: The euro area is still far from a sustained recovery and with the general weakening of the world economy and the uncertainties caused by the Brexit vote the fragility of the recovery has recently increased considerably.

Macroeconomic policy in the EU needs a different approach that will, in the short-term, deliver a strong and self-sustaining recovery which secures full employment and equitable growth and, in the long run, prevent the obvious macroeconomic imbalances. The present macroeconomic policy approach most unsuccessfully tries to achieve this by a combination of fiscal austerity and a competitive devaluation driven by 'structural reforms' on the labour market, i.e. basically by curtailing workers' rights, weakening trade unions and dismantling the welfare state.

A convincing alternative requires at least six important changes. (1) The balanced budget requirement should be replaced by a balanced economy requirement which includes the objective of high and sustainable levels of employment. (2) In the long-run a substantial EU level budget is required in order to finance EU-wide investment as well as public goods and services and establish a counter-cyclical European level fiscal policy which can support national fiscal policies. (3) Instead of focussing only on overall growth, a successful strategy should also give priority to overcoming disparities between different regions and sectors. (4) A long-run European investment strategy should be developed, addressing European, national and local development. (5) The current deflationary strategy of competitive devaluation should be replaced with a strategy of wage growth which ensures a fair participation of workers in national income growth and stable inflation. (6) Effective measures should be taken against tax competition.

### 2. EU monetary and financial policies: easy money reaching the limit?

In 2016, the European Central Bank (ECB) continued and even reinforced its policy of very easy credit. However, there are signs that this policy may be reaching its limits. In the course of the crisis, the ECB has acquired vast new powers and responsibilities, which make its independence from all political instances in the EU an even greater violation of democratic principles. Meanwhile the main EU initiative in the sphere of finance, the Capital Markets Union, seems unlikely to yield significant economic benefits and will arguably be seriously disrupted by Britain's impending departure from the Union.

### 3. Migration and EU solidarity

Migration within and from outside the EU has severely strained the unity and solidarity of the EU. It was one of the key factors in the Brexit debate and influenced the final result in June 2016. Migration has also become the main rallying point for the right-wing movements and parties across the EU from Poland in the East to France in the West with little attention to the facts of migration. There have been different flows of migration at work with different economic and political dynamics. For some countries like Britain it is the intra-EU migration from Eastern European countries that has been flagged up as a 'problem', despite being part of the EU mandated 'free movement of labour' whilst for others like Germany it is migration from outside the EU. Some countries like Poland have sent over a million migrants to other EU countries whilst being a strong voice against migrants from outside the EU, especially from Syria and other parts of the Middle East and North Africa region.

What are claimed to be the problems are the pressure on social resources and threat to national and cultural identities. Whilst the former is a result of long standing neglect of public provisioning under various neoliberal economic policies, the latter is more of an excuse to blame the 'others' for social and economic problems facing the poor – in part due to the very same neoliberal free trade and globalisation policies. There is also very little evidence for the assertion that migrants have misused welfare support in migration receiving countries.

There are alternatives to the current xenophobic and anti-immigration policies in the EU. In the medium-run there is a need for cultural and political work to change public perceptions on the value of migrants to host countries, whilst in the short-run economic and financial resources do exist and can be mobilised to alleviate the pressure on host regions as well as to support the people who have been forced to seek refuge in the EU.

#### 4. The right-wing and economic nationalism in the EU: origins, programmes and responses

The multiple crisis of the EU has facilitated the rise of right-wing nationalist forces. The nationalist right encompasses a wide range of positions, from nationalist liberal conservative forces to those that are openly fascist. Some of them advocate programmes that are rather neoliberal whereas others combine neoliberal with national-conservative elements, some of which include heterodox elements. Social policies are characterised by a mix of workfare elements and conservative measures. The latter ones aim at restoring 'traditional' gender roles. In several West European countries with a significant population of migrant origin, right-wing nationalist parties aggressively advocate an exclusionary 'national preference'. Counter strategies should not simply oppose 'European' to 'national' solutions. They should rather propose inclusive and egalitarian policies. Strategies must deal with the decline of peripheral regions and many rural areas. The strategies should be based on territorial levels where the chance of concrete successes seems to be largest. Often, this would be the national rather than the EU level.

#### 5. European external relations

Since the beginning of the temporary suspension of negotiations over the Transatlantic Trade and Investment Partnership (TTIP) and the initiation of the Comprehensive Economic and Trade Agreement (CETA) ratification, the latter has stolen the limelight. Strong currents among left-wing parties, trade unions and social movements, however, consider CETA to be as regressive as TTIP in regard to democracy and the state of law. One of the most controversial clauses pertains to the exclusive and unilateral right allowing transnational corporations to sue governments before private arbitration tribunals for losses incurred following a change in legislation. Although CETA declares that 'the right to regulate within their territories to achieve legitimate policy objectives' is guaranteed to the states, any possibility of standing in a tribunal with looming colossal indemnities is sufficient to paralyse any action from governments. Moreover, given the imposing presence of US companies in Canada, they could realise, via CETA, a substantial part of TTIP's objectives. Taking into consideration that the CETA has still to be ratified by national parliaments, the member states' level will be the key level for opposing CETA.

Nowadays the European Neighbourhood Policy (ENP) is in limbo. The Eastern partnership is failing after the Ukrainian crisis, for which it is partially responsible, while civil wars are raging in the south and – above all – in the south-east of the Mediterranean. The ENP is therefore becoming, on its two fronts, the collateral victim of the US confrontational policy towards Russia. The breach created by the

Ukrainian crisis is paving the way for outside interventions, which are reinforcing divisions and fragmentation within the EU. It also lays bare and exacerbates the EU's inability to act independently. The Ukrainian government, encouraged by the ambiguous attitude of the US and despite the catastrophic situation in the country, is blocking the implementation of the Minsk Agreement drawn up by the EU, whilst the Russians are tending to by-pass Paris and Berlin in order to have direct contact with Washington. The ENP approach has been based on making countries of the EU neighbourhood adopt parts of the EU *acquis communautaire*. Such integration deepens de-industrialisation tendencies in the periphery. And in a couple of cases, like Ukraine and Moldavia, it has deepened internal geo-political fault lines. Instead of promoting deep free trade and subordinate integration, EU neighbourhood policies should establish forms of mutually beneficial cooperation, for example at sectoral levels.

## Introduction

The crisis of the European Union (EU) is multifaceted and has visibly deepened during the last year. The most visible symptom of the EU integration crisis has been the British referendum on EU membership. This is, however, not the only indicator of disintegrative tendencies and increasing contestation of EU policies.

## Brexit

Disintegration was directly put on the political agenda by the British referendum on EU membership. The result of the British referendum can be seen firstly in the global context of a widespread revolt against political elites. Growing inequality, economic insecurity, the stagnation or decline of incomes for large sectors of the population and pressure on public services are factors behind this discontent, which finds political expression in very different ways. In Britain, as often elsewhere, immigrants became scapegoats, and were blamed for economic problems, although in reality the mobility of capital, not that of labour, has been a key factor in undermining popular standards of living, employment rights and social provision. (In Britain, welfare claimants were another scapegoated group as both Labour – prior to its recent change of leadership – and conservative parties demanded reductions in already very inadequate levels of poverty relief.)

During the Conservative-Liberal Democrat coalition of 2010-15, the demagogues of the UK Independence Party (UKIP), succeeded in focussing popular anger on the EU and in particular encouraged a xenophobic nationalism which targeted migrant workers from other EU member states. UKIP's growing strength alarmed the established parties. The actual outcome was to some extent a political accident. In an attempt to halt UKIP's advance Prime Minister David Cameron promised a referendum on British membership at a time when it appeared that the coalition would continue; since the Liberal Democrats would certainly not have agreed to hold such a referendum the Conservative promise would have been hollow. The unexpected return of a Conservative majority government, however, led to the fulfilment of Cameron's promise.

The triumph of the 'Leave' campaign involved two main political currents: on the one hand the xenophobic nationalism exploited by UKIP; on the other an ultra-liberal tendency within the Conservative party. Conservative members of parliament such as Michael Gove and John Redwood saw the EU as an obstacle to the deregulated global capitalism they wished to promote. Nigel Lawson, Chancellor of the Exchequer in the 1980s, spoke for this tendency when he wrote, 'Brexit will com-

plete Margaret Thatcher's economic revolution.'<sup>1</sup> These two forces are potentially in conflict since the radical deregulation favoured by the second would probably further destabilise the economic position of much of the population. So far, however, this conflict has remained latent. On the other hand, there is already open conflict within the government of post-referendum Prime Minister Theresa May. Some ministers, influenced by strong interest groups – particularly in finance – are alarmed at the possible consequences of Britain's departure from the Single Market and at the economic uncertainties which have led to a substantial depreciation of sterling. They are pushing for 'Brexit-lite', a minimalist interpretation of the decision to leave which would preserve as much as possible of the status quo. Others, however, are determined to appease the populist demand for immigration controls, even if doing so disrupts economic relations with the EU. It is not yet clear which direction will be taken.

The arguments and positions of the labour movement were only a minor factor in the referendum debate. The position almost unanimously accepted in the movement was that the working of the existing EU was in many respects deeply contrary to workers' interests but that British departure linked to an anti-immigrant, deregulatory agenda could in no way improve the situation. This was a very reasonable position but the weakness of the labour movement and the pro-Brexit stance of right-wing print media meant that it did not get an adequate hearing.

Brexit makes concrete the threat that centrifugal forces could erode, perhaps even destroy, the European project. More specifically, as the triumph of two radical right-wing tendencies – a thoroughgoing version of economic liberalism and a form of xenophobic nationalism – Brexit strengthens disintegrative forces throughout the EU. The failure of EU leaders to address the social distress which, in a distorted way, finds expression in these forces, increases the danger. Their passivity in the face of the nationalist reactions which are visibly growing in a majority of member states contrasts with the determination with which the rational, pro-European challenge to austerity in Greece has been crushed.

## The North-South divide in the euro area

It was not only the British Prime Minister, David Cameron, who put disintegration on the European agenda. In his own way, the German Minister of Finance, Wolfgang Schäuble, did the same when he confronted the Greek government with no alternative to accepting austerity and radicalised structural adjustment policies or leaving the euro area in July last year. Thus, Schäuble who had already ventilated a 'core

1 Daily Telegraph, 23 September 2016.

Europe' concept in 1994<sup>2</sup> made it clear that the euro area membership of (peripheral) countries is dispensable if they do not toe the line of structural adjustment, fiscal and wage austerity.

The Syriza government was not seriously prepared for the exit option and, under great pressure, agreed to the demands of the other euro area members led by Germany. With the continued containment of domestic demand, Greek GDP declined by a further 0.2% in 2015. The unemployment rate is still about 25%. Although contractionary policies brought the current account deficit down (without addressing its causes), they aggravated Greece's debt problems. In recent months, the controversy between the EU and the IMF on the sustainability of the Greek public debt and the issue of debt-reduction has intensified. Core EU countries such as Germany are extremely reluctant to contemplate any debt-reduction for Greece at this time although their governments are fully aware that such a reduction is unavoidable.

The structural adjustment programmes advocated by the European Commission and the core EU governments have not addressed key issues of the widening structural North-South divide and, in particular, weakened productive structures and de-industrialisation in the periphery. The depreciation of the euro and the diversion of mass tourism from countries like Turkey, Tunisia and Egypt to the Western Mediterranean, have alleviated the situation in Spain and Portugal. Likewise, less restrictive macroeconomic policies both by the provisional right-wing government in Spain and the new progressive Portuguese government, with its explicit anti-austerity agenda, have contributed to a (slight) economic recovery. Though the two governments did not meet European Commission budget targets, they were not subject to sanctions in autumn 2016. Even the German government supported this line which gave some room for manoeuvre for the Spanish Partido Popular, an important ally of the German CDU/CSU, in a very fluid domestic political situation. The present flexibility should not be interpreted as a general change of direction.

Although Northern European economies generally display a better employment performance than the Southern periphery, they are also exposed to serious dangers by the imbalances in the EU. The Nordic countries, for example, are by their openness and trade structures extremely vulnerable to a Brexit-induced recession in Britain and major EU countries. Export growth (in value terms to include Norway's oil) has been low in all Nordic countries (except Iceland) after a short-lived recovery in the aftermath of the Great Recession. The situation in Sweden and Norway, however, has been somewhat mitigated by their flexible exchange rates whereas Finland, as a country of the European Economic and Monetary Union (EMU), could

not meet idiosyncratic shocks – the problems of Nokia and sanctions on Russian trade – by currency depreciation, which was particularly needed by the steel and wood industries. In Denmark likewise the linkage of the currency to the euro has contributed to low export growth since 2010. Although the influx of refugees has led to higher government spending in Sweden, discretionary budgetary policy has not been used to promote employment: in Finland the economic crisis was deepened by fiscal consolidation policies aimed at satisfying EU fiscal rules. Elsewhere economic orthodoxy has ruled out active budgetary policies and only the very loose monetary policies of the European Central Bank (ECB) and the Swedish and Norwegian central banks, with their dangerous impact on house prices, have allowed domestic spending to compensate partially for low export demand.

### The refugees and cracks in the Schengen Zone

The arrival of a large number of refugees from Middle Eastern and African countries in 2015 and early 2016 laid bare cracks in the EU. While the informal procedures used to respond to the crisis shifted the burden to the periphery, the EU regulations on refugees – the so-called Dublin Regulation – put the burden of dealing with the refugees explicitly on the countries where the refugees enter first – and this is mostly relatively poor EU regions. In 2015, this put Greece in particular under pressure. In summer 2015, it became patently clear that the Greek government – already starved by EU austerity measures – was almost overwhelmed by the situation.

The decision of the German government to accept war refugees, particularly from Syria, provided relief for Greece, but confronted other governments from Hungary to Sweden with new challenges. The German decision, which was taken without prior consultation with other governments, acknowledged implicitly that the Dublin accords were not working. Temporary solutions outside the existing legal framework were adopted, such as a corridor from Croatia to Germany, where refugees could pass through to the core countries from September 2015 to March 2016. However, these measures were increasingly questioned by conservative-nationalist forces beginning with the Fidesz government in Hungary. These forces agitated aggressively for closing the borders to refugees and building walls. They found resonance in Christian Democrat and even some Social Democrat forces. High-ranking government representatives from countries like Hungary and Austria travelled to Macedonia (a candidate state of the EU) and lauded Macedonian efforts to defend 'European' borders. Implicitly, they demonstrated that there is possibly a redundant Schengen Zone member – once again Greece.

The EU countries proved incapable of finding a new formula for sharing the tasks of accommodating refugees. Instead, an externalisation of the refugee issue

2 CDU/CSU-Fraktion im Bundestag: Überlegungen zur europäischen Politik, 1 September 1994, [www.cducsu.de/Schaeublelamers94.pdf](http://www.cducsu.de/Schaeublelamers94.pdf) (retrieved: 21.10.2016).

replaced the exceptional humanitarian approach. A deal with Turkey was concluded on 18 March 2016. The deal included: Turkey accepting refugees back in exchange for money; the EU promise to permit the organised transfer of a limited number of Syrian refugees from Turkey to the EU; accelerated accession talks; and an end to visa requirements for Turkish citizens visiting the EU. In practice, the Turkish government has blocked refugees from moving on to the EU in exchange for EU acquiescence with increased repression in Turkey.

### Imposing CETA

At the end of October 2016, the Commission and more generally the pro-free trade forces used all their leverage to make all member states sign the Comprehensive Economic and Trade Agreement (CETA) with Canada. The President of the European Commission, Jean-Claude Juncker, praised this free trade agreement as 'the most progressive' one ever signed by the EU. Strong currents among left-wing parties, trade unions and social movements, however, see it as regressive in regard to democracy and the state of law. One of the most controversial clauses pertains to the creation of a tribunal which would allow 'investors', i.e. transnational corporation, to sue governments for compensation over domestic regulations which they perceive to be infringing their rights. This creates a legal privilege for transnational corporations. Other concerns regard public services, health standards etc. Trade agreements such as CETA write neoliberal rules in stone and thus reduce the space for democratic re-regulation. CETA negotiations were shrouded in secrecy and remained for a long time in the shadow of the negotiation on the Transatlantic Trade and Investment Pact (TTIP), which is inspired by the same philosophy.

When TTIP negotiations got bogged down due to massive resistance, the pro-free trade lobby made signing CETA its priority. Many US corporations have subsidiaries in Canada and can thus make use of the CETA provisions. In a way, CETA introduces some of the provisions of TTIP through the back door. In Germany and Austria, where protests against CETA and TTIP have been particularly strong, the Social Democrat parties caved in to pressures from their conservative coalition partners, business interests and Brussels. Austrian Social Democracy negotiated a token interpretative declaration on some contentious points that is to be attached to the treaty itself. In the end, this left the Belgian regions of Wallonia and Brussels as the only obstacle to the EU signing the document. Wallonia had sent its objections to the Commission already a year ago. The Commission obviously hoped to make Wallonia cave in by setting the date of the ceremonious signing of CETA. This proved to be, in part, a miscalculation. The Wallonia regional government let that date pass, and only signed shortly afterwards after having negotiated a special declaration as well.

The European Commissioner, Günther Oettinger, reacted to the CETA controversy by demanding that the national level should not interfere with EU trade policies. The motive for this is clearly to sideline opposition through centralisation. The ratification of CETA by national parliaments promises to be a far from smooth process. The way in which the EU has pushed through CETA deepens the crisis of EU legitimacy and adds fuel to the disintegrative tendencies.

### EU-US relations after Trump's election

The rise of the right-wing nationalist forces has not been confined to Europe. In the USA, the oligarch Donald Trump won narrowly the presidential elections with the support of a variety of far right-wing forces. Aggressive anti-migrant rhetoric, the promise of lower taxes and an end to the free trade agreement TPP (Trans-Pacific Partnership), re-negotiation of the North American Free Trade Agreement (NAFTA) and imposition of a border tax on some or all imports were key elements of his election campaign, and since then he has made remarks that appear to favour the break-up of the EU. This is likely to put an end to TTIP, and if realised, reduced US expenditures for NATO activities in Europe could also strongly affect US-EU relations. After Trump's election, the debate around building an EU 'defence union' gained new momentum. In the realm of 'permanent structured cooperation', military cooperation among EU member states is to be enhanced. In the European Parliament both Christian Democrat and Social Democrat deputies demanded an increase in military spending by member states. In the face of its multiple crisis, there is a quite broad consensus ranging from Social Democrat to right-wing nationalist forces who support a move towards greater militarisation and more aggressive external policies. This militarist consensus needs to be challenged by left-wing forces and the peace movement.

### Strategies and concepts in face of disintegration tendencies

The consensus of Christian Democrat, Social Democrat and right-wing nationalist forces does not go beyond the militarisation of the foreign policies. European elites have embarked on different strategies in the face of the present multiple crises and disintegrative tendencies. These strategies are linked to future scenarios and visions for the EU. As in the case of the Brexit debate in the UK, it is mainly forces of the political right that predominate in this debate.

**Muddling through:** This is the predominant way of dealing with the present multiple crises of the EU. It is a predominantly reactive approach to crisis management. It is privileged by the majority currents among Christian Democrats, Social Democrats and Liberals. This strategy continues the neoliberal mode of integration

and seeks to preserve the present geographical configuration of the euro area and the Schengen Zone. It enjoys the support of the vast majority of big corporate groups. It does not deal in any way with the widening divide between core and peripheries nor with the advanced loss of legitimacy among the popular classes. In spite of its pretention to preserve basic structures of the integration project and its geographical configuration, the lack of pro-cohesive elements is likely to lead to accelerated disintegration.

There are two sub-varieties of muddling through:

**Muddling through with more fiscal flexibility and more public investment:** It is mainly Social Democratic and partially left forces in France and the Mediterranean countries that advocate a combination of muddling through with more fiscal flexibility and public investment. In this way they want to gain rather more policy space by loosening the constraints of the fiscal rules. This sub-variety of muddling through pays somewhat more attention to the issue of cohesion than the muddling through mainstream.

**Muddling through while restricting and tightening the Schengen Zone:** This sub-variety advocates 'temporary' border controls in the Schengen Zone and is willing to exclude countries that are not able or willing to keep refugees and 'undesired' migrants out. It is particularly the more nationalist currents within Christian Democracy, especially in core countries, but also in the countries of Central Eastern Europe, that advocate this approach. It enjoys support in some Social Democratic parties as well. De facto, the muddling through already has taken some steps in that direction, such as the adoption of 'temporary' border controls and the erection of border fences within the Schengen space.

**'Core Europe':** The EU is already characterised by a differentiated integration. Traditionally, 'core Europe' concepts have aimed at intensifying neoliberal integration among core countries. For this, they usually regard a smaller and more homogeneous euro area as a point of departure. This notion has mainly been debated in Christian Democrat circles in the core. Parties of the nationalist right advancing 'core Europe' concepts, such as Freiheitliche Partei Österreichs (FPÖ) or Alternative für Deutschland (AfD), focus mainly on making the core smaller and more homogeneous. They want to get rid of the periphery which they denounce as a burden. The proposals of right-wing forces in the semi-core and periphery like Lega Nord or, in a less consequent way, Cinque Stelle in Italy advocate leaving the euro area and are thus complementary to the 'core Europe' concepts.

**'Europe of Nations':** Some parties of the nationalist right advocate the focusing of the European integration process on the Single Market and linked economic regulations. Nationalist right-wing parties in Central Eastern Europe like Fidesz in Hungary and Prawo i Sprawiedliwość (PiS) in Poland, also consider regional funds

essential. In other fields, they want more leeway for the national state, partly for competitive strategies, partly for pursuing a national-conservative agenda (e.g. gender relations, social policies). Some nationalist right-wing forces such as the Front National in France have formulated very vague concepts of 'another Europe' of a far right-wing variety. The borders between such concepts of 'another Europe' and a complete dissolution of the EU are blurred.

## Concepts and strategies of the Left

**'Another Europe' – left European federalism:** The term 'another Europe' has also been prominently used by some left-wing forces, though with a completely different meaning. They aim at a democratic re-foundation of the EU, which would lay the basis for a democratic European federalism and open spaces for a more equitable mode of integration. The political presuppositions of this concept are extremely demanding. Its adoption would necessitate a broad consensus – including among the member states. It is the opposite of present trends.

In view of the strong asymmetries of power in the EU and the Greek experience, an increasing number of left-wing forces advocate pursuing an explicitly pro-social agenda, defying EU regulations and abandoning the euro area if this is necessary to bring about progressive policy changes.

The two left-wing approaches differ primarily on what is politically feasible within the EU, and on what might be achieved by economic strategies confined within one or a few individual member states.

Both approaches will be very difficult to advance without greater political unity and stronger political influence than the constituencies of opposition possess today. Although revolts rooted in specific national contexts may now be the most likely initial form of challenge to present policies, the EuroMemo Group continues to insist on the necessity of an international perspective and on the need to develop coordinated European approaches to promote economic recovery and social justice.

## 1 Macroeconomic & development policies to challenge austerity and uneven development

### Official EU policies still failing to spark-off a strong and even recovery

In mid-2014, four years after extreme austerity policies had started to devastate large parts of the euro area economy, some small signs of political change began to occur. The vicious circle by which consolidation efforts led to a deepening of the crisis and therefore to higher deficits and debt levels and, in turn, to yet stronger consolidation efforts, had become difficult to ignore and calls for a more expansionary fiscal policy became louder. It was becoming clear that monetary policy alone would not be able to spark-off the recovery. In his by now famous Jackson Hole speech in August 2014 even Mario Draghi called for a more expansionary fiscal stance for the euro area as a whole and a public investment programme at European level, insisting, however, that the existing rules of the Stability and Growth Pact (SGP) had to be respected.

In fact, under the new EU Commission there was some progress with respect to fiscal policies. Two initiatives had been launched in late 2014 and early 2015. First, an Investment Plan for Europe, or 'Juncker Plan', had been presented, namely the European Fund for Strategic Investments (EFSI) to finance investment on a large scale. Second, the interpretation of the SGP had been clarified with the aim of providing more fiscal leeway for member states facing adverse economic conditions and/or implementing 'structural' reforms in the Commission terminology.

However, as had to be expected, both initiatives failed to spark-off the urgently needed strong and self-sustaining recovery. The Juncker Plan was implemented only slowly and is still far from having reached its target volume. What is worse, there are substantial hints that the positive investment effects have not been additional, but that instead the EFSI has largely financed investment projects that would have been undertaken anyway. The additional leeway created by the new interpretation of the SGP has also not been very effective. Although Spain and Portugal were not punished with fines for their deficit transgressions, they have nevertheless been put under severely increased consolidation pressure by Commission and Council.

The overall results of this timid attempt at non-monetary demand stimulus are quite discouraging: The euro area growth forecast has not improved since spring 2014 when the small shift in policy was initiated. And whereas some countries in the periphery, like Spain and Portugal, have seen a degree of recovery, mostly due to less restrictive fiscal policies, countries like France and Austria have been suffering from more restrictive fiscal policies. With the general weakening of the world economy

and the uncertainties caused by the Brexit vote, the fragility of the recovery has been increased.

### Alternative macroeconomic policies

Macroeconomic policy in the EU needs a different approach that, in the short-term, will deliver a strong and self-sustaining recovery which secures full employment and equitable growth and which, in the long-run, promotes an even development preventing the obvious macroeconomic imbalances. The present macroeconomic policy approach, which is completely unsuccessful, tries to achieve this by a combination of fiscal austerity and a competitive devaluation driven by 'structural reforms' on the labour market which amount, largely, to curtailing workers' rights, weakening trade unions and dismantling the welfare state.

A convincing alternative requires at least six important changes.

1. The balanced budget requirement should be replaced by a balanced economy requirement which includes the objective of high and sustainable levels of employment, and fiscal policy should be used as a key instrument to achieve that objective in the short and long-run. A clear distinction should be made between government current spending and government investment spending, with the latter eligible for debt-financing when desirable. In the short-run, there is substantial unused leeway within the existing policy framework and this should be used to promote a substantial positive fiscal stimulus for several years to strengthen the recovery. Co-ordinated reflation rather than general austerity must become the policy. The European Central Bank (ECB) (together with, for non-euro area countries, the national central banks) should give full support to fiscal policies for prosperity and abandon the continuous calls for fiscal consolidation.
2. While increasing the leeway for national fiscal policies is of key importance, in the medium to long-run, a stronger role for fiscal policy at the European level is also important. A substantial EU level budget should be used in order to finance EU-wide investment as well as public goods and services and to establish a counter-cyclical European level fiscal policy which will support national fiscal policies. A Federal level budget with substantial tax raising powers and an ability to run deficits and surpluses has long been recognised as a necessary complement to a single currency. Federal fiscal policy can be used to cushion economic downturns and would provide for fiscal transfers between the richer regions and the poorer regions. At present the EU budget is around one per cent of EU GDP and it has to be balanced. To have an impact for stabilisation purposes the budget would have to be substantially increased (to the order of at least five per

cent of EU GDP); to be capable of running deficits or surpluses as required by the economic conditions; and to be designed in a progressive manner. Federal level taxation and public expenditure would replace some parts of national taxation and expenditure. The construction of a Federal fiscal policy is a long-term project, and would bring further elements of de facto political union. It is, however, one which is necessary for the successful functioning of a single currency. However, current official proposals that involve an EU 'fiscal capacity' are dangerous, as they seek to strengthen the EU level without adequate democratic control and at the expense of a further weakening and constraining of national fiscal policies.

3. A stronger European fiscal policy should be part of a broader policy to address economic and social imbalances within the EU. To this end, policy should not be oriented simply towards an overall growth strategy, but also to ensuring that disparities at a national and regional level, together with those between different sectors are overcome. A European approach is essential to ensure that development is not dominated by competition, but rather seeks to ensure a sustainable approach based on recognising the differentiated points of departure and potentials.
4. A long-run European investment strategy should be established to promote public investment and to support private investment in key economic, social and environmental areas so as to strengthen productivity growth through strategic industrial policies in the countries of the EU periphery. These policies are required to rebuild productive capacity and to improve the competitiveness of the deficit countries. The regional and structural policies of the EU should be strengthened and expanded, and a new industrial policy based on a major programme of public and private investment is required. These structural and industrial policies should be particularly geared towards making manufacturing, transport and energy systems more ecologically sustainable. Programmes from the EU to support and fund private investment in the deficit countries (and more generally in EU states with comparatively lower levels of income) are also required. These policies would facilitate the reduction of current account deficits without resorting to deflation.
5. The current deflationary strategy of competitive devaluation should be ended and replaced by a policy of wage growth which ensures both a fair participation of workers in the growth of national income and stable inflation. As a rule of thumb national wages should on average grow at the rate of average productivity growth plus the ECB's target inflation rate. However, as there was a general widening of the disparity in current account positions prior to the financial crisis, with many members of the European monetary union registering increas-

ing deficits, some deviations from this general rule, above all in the surplus countries, will be necessary. Starting from the mutual recognition that surplus countries have as much responsibility as deficit countries to resolve the imbalances, surplus countries can contribute to reducing imbalances through intensified policies of internal reflation. This will help expand export demand for the deficit countries and, through faster wage increases in the surplus countries, reduce their excessive export competitiveness.

6. Effective measures should be implemented to combat tax competition. While national authorities still have leeway to pursue progressive and equitable taxation policies, in the longer run international tax competition is eroding the revenue side of the public budget. Tax competition creates a huge injustice whereby major sections of the population cannot avoid being taxed, while large corporations and the rich and wealthy enjoy ample opportunities for tax avoidance and evasion; furthermore, tax competition erodes the willingness to pay taxes and therefore to finance the welfare state and social solidarity. EU measures to limit tax evasion should therefore be considerably reinforced. At the same time there is a need for tax harmonisation, at least for taxes on corporate profits and capital income, the internationally most mobile parts of the tax base. A common tax base for corporation tax should be accompanied by minimum tax rates that could be differentiated for pre- and post-2004 member states. Alternatively, a uniform corporate profits tax could be introduced in order to provide tax revenue for the EU budget: in the context of a currency union with labour and capital mobility, this would help to address the bidding down of corporate tax rates between countries and limit the use of corporate tax rates to attract inward investment at the expense of other member countries. A further important instrument of tax policy which should be implemented in the EU is a financial transactions tax. This should be applied in all member states and could serve as an important means to diminish the scale of financial markets.

## 2 EU monetary and financial policies: easy money reaching the limit?

There are now signs that the European Central Bank's (ECB) policy of very easy credit may be reaching its limits while the vast new powers it has acquired in the crisis seriously aggravate the EU's lack of democratic control. Meanwhile the main EU initiative in the sphere of finance, the Capital Markets Union, offers no real prospect of economic recovery.

### Monetary policy

Prior to the outbreak of financial crisis in 2007-08, a minimalist conception of monetary policy prevailed. The central bank was required to pursue one main objective – price stability – through the deployment of one main instrument, a short-run interest rate in the interbank credit market. In response to the crisis the ECB, like other central banks, adopted a much more complex and active policy, although some member state governments, notably that of Germany, only accepted these changes reluctantly.

Short-run interest rates have been repeatedly reduced (after an aborted attempt to raise them in 2011) and have even been negative for deposits lodged at the ECB by commercial banks, leading to negative yields also on other low-risk claims, such as German government debt. In addition, extensive long-run loans (TLTROs – targeted long-term refinancing operations) have been made to the commercial banking sector at very favourable interest rates.

However, the main channel used to pump liquidity into the euro area economy has been a series of programmes to purchase financial assets – bonds issued by banks, by euro area governments, 'covered bonds' (guaranteed by the banks who hold collateral against the underlying debts), and, more recently, those issued by other corporations. The current bond purchase programme, due to continue until March 2017, involves purchases of €80 billion each month and this was subsequently extended at the slightly reduced rate of €60 billion a month until the end of 2017. (It should be noted, however, that the risks associated with the purchased government bonds are decentralised so that each central bank in the euro area system holds the debt of its own government.)

### The ECB

These measures – completely unorthodox until just a few years ago – have swollen the balance sheet of the ECB many times over, from some €500 billion before the financial crisis to some €3 trillion currently. In some respects, its policies extend to

decisions normally regarded as budgetary rather than monetary – for instance, the decision to purchase specific corporate bonds and not others, implies assistance to corporations in specific sectors and localities. At the same time the ECB has acquired major new responsibilities. In the context of the Banking Union it is now the regulator for most of the euro area commercial banking sector, including all the largest banks and those smaller ones which are still big relative to the economies of the member states where they are based. It also oversees the regulation of smaller banks by the national authorities and is empowered to intervene in, and even to supplant, that national regulation if problems arise for the banking system as a whole. However, the banking union has been established in such a way as to prevent effective central funding for many years. EU banks remain under-capitalised while austerity and recession, undermining the position of banks' corporate and retail customers in many countries, such as Italy, in turn weakens the position of the banks themselves. Wider responsibilities for financial stability arise with the location of the European Systemic Risk Board in Frankfurt with Mario Draghi as its president. The ECB has not fully become a lender of last resort in the same way as other central banks, because of strong resistance from German representatives who would see such a role as likely to encourage excessive borrowing by governments, banks and large non-financial corporations: however, macroprudential problems – the potential emergence of major threats to stability within the market economy – are now recognised, and the ECB has been charged with identifying and responding to such dangers.

Finally, of course, the ECB has acted as one member of the Troika, together with the IMF and the European Commission, and thus has accepted responsibility for the extremely detailed and intrusive policy measures imposed as conditions for emergency finance of crisis-struck member states. In this context there is virtually no socio-economic aspect of the countries concerned which is unaffected by ECB decisions.<sup>3</sup>

### Capital Markets Union

European banks, which had extremely leveraged balance sheets, were among the most exposed in the world to the financial crisis, which broke out in the US in 2007. In response the Commission called a temporary halt to its efforts to drive forward European financial integration by an essentially deregulatory strategy. In particular, plans to promote a European market in sub-prime mortgages were aborted. Responsibility for financial integration was taken away from the Directorate General for the internal market to become a separate responsibility within the Commission. The

<sup>3</sup> Hans-Jürgen Bieling and Mathis Heinrich, 'Central Banking in der Krise. Neue Rolle der Europäischen Zentralbank im Finanzmarktkapitalismus,' *Widerspruch* No. 66, 2015.

supervisory structures in insurance, banking and security trading were reinforced; the Systemic Risk Board was introduced and a wide-ranging programme of regulatory reform, involving some 40 pieces of legislation, was carried out.

However, the Juncker Commission, appointed in 2014, returned to a strategy of integration via market expansion. Its main proposal is for a Capital Markets Union, integrating the trading of bonds, equities and other securities across the EU. The initiative is strongly influenced by US practice – in the US security markets play a much more important role than in the EU where bank-based finance predominates. Behind the Commission's efforts to change the balance of European finance towards the US model, there is a concern with the general situation of EU banks – still highly leveraged, under-capitalised and handicapped by loans of dubious quality – and the hope that a shift towards security-based finance would accelerate EU growth rates and thus relieve the political and economic crises besetting European institutions. The policy may also have represented a shift of emphasis away from the euro area, towards the Single Market and especially Britain, with its enormous capital markets and, recently, somewhat less sluggish economic performance.

### Limits of monetary policy

If the restrictive budgetary policies implemented throughout the EU are taken as given, then there is no doubt that exceptionally accommodating monetary policies were and remain necessary. Similar policies have been found necessary even in the US where government spending and taxation policies have been much more supportive. In the wake of an unprecedented financial crash the alternative might well have been massive asset sales by distressed debt-ridden banks, companies and individuals leading to complete economic collapse. However, there are increasing signs that low interest rates and abundant liquidity, although still necessary, are insufficient to support the dynamic recovery needed to make real inroads into unemployment.

- The ECB is failing to reach its target of inflation just below 2%, and wage growth remains too low to bring about that rate of inflation; the ECB's own forecasts are for an inflation rate still well below target at the end of 2018; the consequence is increased pressure on indebted governments, households and companies.
- One way in which easy money affected aggregate demand was by depreciating the euro; the very large payment surplus of the euro area makes further depreciation unlikely; it would in any case be very dysfunctional in a global economic context.
- Easy credit conditions only stimulate aggregate demand to the extent that spending is otherwise held back by financial constraints; such constraints are not widespread in the euro area today – in particular, many of the largest corporations

have large money holdings; they are held back from investment not by financial constraints but by systemic uncertainties and lack of demand.

- Because ECB policies require continuing differentials ('risk premia') in the interest rates paid by different governments there are also significant differentials in the rates charged to businesses. ECB data indicate that median lending rates to firms in 'distressed' members of the euro area (that is in Cyprus, Greece, Ireland, Italy, Latvia, Lithuania, Portugal, Slovenia and Spain) are, although low at around 4%, nearly twice as high as elsewhere in the euro area.<sup>4</sup> However, it is precisely in these countries, and especially in Greece, that financial constraints on business are most serious.
- Reliance on cheap credit to sustain economic activity leads to unintended consequences; one of these is the possibility of asset price bubbles: low yields on many placements encourage some wealth-holders to look for higher yields on more risky assets; the very abundance of credit makes it easier to do this, and the initial price rises as a particular type of asset is purchased may seem to confirm the potential for high returns; at present some commentators see the very high number of mergers and takeovers as evidence of such a bubble – if stock market valuations fall, many of these deals, which may not lead to real productive investments and, indeed, may actually divert funds away from them, may turn out to be ill-judged. There are also signs of real estate bubbles in Germany and Slovakia.
- Another such unintended consequence is the increased inequality that results from high asset prices – house prices, for example, tend to rise as a result of low interest rates and central bank asset purchases.
- Insurance companies and Pension funds may find it difficult to meet their obligations to savers because of the absence of safe assets yielding a positive return. A Bundesbank study indicates that continued zero interest rates might lead to widespread failures of life insurance companies in Germany.

For all these reasons a 'normalisation' of monetary policy towards low but clearly positive interest rates might be desirable – but only in the context of more expansionary fiscal policy. Leading figures in the EU such as Bundesbank president Jens Weidmann and Commissioner Pierre Moscovici demand a monetary normalisation at the same time as more restrictive budgetary policies in France and Italy and elsewhere – this would be a formula for further recessions and falling employment.

<sup>4</sup> ECB, *Financial Integration in Europe*, April 2015, p. 29.

## Brexit and finance

Even before the referendum result for Brexit was known, it was implausible to suggest that the Capital Markets Union could contribute to economic recovery in the EU. The drive to expand financial markets rests on a simplistic interpretation of US economic performance, which depends more on supportive macroeconomic policies than on its specific financial structure. The measures envisaged to promote Capital Markets Union were minor and could hardly reverse the actual divergence of financial conditions across member states, which results from the differential treatment of their government bonds. Now Brexit must leave this project in disarray since it is clear that British financial markets were intended to become the centrepiece of the security-trading system. The departure of the City of London from the Single Market means that it cannot now play this central role.

A report from IMK<sup>5</sup> points out that austerity policies in general and in particular the German *Schuldenbremse* or 'debt brake', an attempt to eliminate government borrowing in Germany, in fact weaken EU financial systems by aggravating the lack of the safe assets which help to stabilise banks and other financial institutions.

## Inadequate instruments

It must be concluded that unorthodox monetary policies are not adequate instruments to sustain economic recovery in the euro area and that the financial restructuring envisaged by the Commission is, at best, irrelevant. Different models exist of the budgetary measures which might support a strong and sustained growth of employment, involving, in different degrees, centralised investment programmes and/or coordinated member state policies. However, if neither of these proves to be politically feasible the pressures towards a break-up of the monetary union may become impossible to resist.

In 2016, the ECB continued and even reinforced its policy of very easy credit. However, there are signs that this policy may be reaching its limits. In the course of the crisis, the ECB has acquired vast new powers and responsibilities, which make its independence from all political instances in the EU an even greater violation of democratic principles. Meanwhile the main EU initiative in the sphere of finance, the Capital Markets Union, seems unlikely to yield significant economic benefits and will arguably be seriously disrupted by Britain's impending departure from the Union.

<sup>5</sup> Silke Tober, 'The ECB's Monetary Policy: stability without safe assets?', *Social Europe*, No. 9, May 2016.

## 3 Migration and EU solidarity

It would be no exaggeration to say that migration within and from outside the EU has severely strained the unity and solidarity of the EU, in a way comparable to the failure to resolve the euro crisis. Migration was one of the key factors in the Brexit debate and influenced the final result in June 2016. In September 2016 Hungary held a referendum on the EU Commission's directive that set a quota (in proportion to their population) for each member state to admit refugees in 2016. The Hungarian referendum rejected the EU quota albeit on a low turnout. Mrs Merkel's laudable decision to admit the Syrian refugees has energised the extreme right-wing party of *Alternative für Deutschland* (AfD) to attack her migration policy and has fuelled anti-Islamic and anti-EU sentiments. Other EU members such as Poland, the Czech Republic and Slovakia have also called into question Merkel's decision to admit Muslim refugees by arguing it would undermine the Christian culture of Europe. There have also been anti-immigration policies in other EU countries that have targeted both intra-EU migrants as well as those coming from outside the EU. What is interesting is that some of the countries with most violent anti-non-EU migrant rhetoric and activities, like Hungary and Poland, have a very low ratio of non-nationals in their population (1.5% and 0.3% respectively including EU citizens<sup>6</sup>) whilst a large number of their own nationals have migrated to other EU countries under EU 'Freedom of Movement'.

### Different layers of migration and EU migration policies

There are different flows of migration at work here with different economic and political dynamics. For some countries like Britain it is the intra-EU migration from Eastern European countries that has been flagged up as a 'problem', whilst for others like Germany it is migration from outside the EU.

Intra-EU migration is governed by the 'Freedom of Movement' principle under article 3.c of the Maastricht Treaty that envisaged 'an internal market characterized by the abolition, as between Member States, of obstacles to the free movement of goods, persons, services and capital.' This is reinforced by article 8.a, that 'every citizen of the Union shall have the right to move and reside freely within the territory of the Member States'. These are extensions of the article 48 of Treaty of Rome in 1957 that aimed to achieve 'free movement of workers' in the European Economic Community that in the 1960s helped to alleviate unemployment in depressed southern regions of Italy through migration to the more prosperous areas of the European Economic Community (EEC).

<sup>6</sup> House of Commons, *Migration Statistics*, 2016, Number SN 06077.

In this context migration has been an important instrument for the improvement of living standards. It was effective as long as migratory flows were relatively small and were not concentrated on a few destination countries. Moreover, in the 1980s earlier concerns with large migrations from new southern member states (e.g. Greece, Spain and Portugal) to northern states did not materialise, if anything there was a migration of retirees from the richer north to the poorer south, in particular to Portugal and Spain. However, in the prevailing model of free trade and trickle-down economic growth, the free movement of capital and labour (with minimal structural and social fund expenditure) were taken to be all that was needed to bring about economic convergence.

The accession of large number of countries in 2004 (Estonia, Cyprus, Hungary, Malta, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Slovenia), 2007 (Bulgaria and Romania) and 2013 (Croatia) changed the dynamics in terms of numbers, migratory flows and concentration of migrants in a few destinations. Given the economic disparities between the new members and the old EU15, the latter were concerned about the negative impact of large migratory flows on their labour markets and the pressure on welfare and social services. The EU15 were offered a 'transitional arrangement' of seven years which imposed certain limitations on the 'Freedom of Movement' of the new EU citizens. With the exception of Ireland, Britain and Sweden, all other EU15 countries opted for this 'transitional arrangement'. The consequence was a large inflow of mainly Eastern European migrants into the three countries, which also had labour shortages for certain skills and in certain geographic areas.<sup>7</sup> Neither the EU nor the destination countries planned or envisaged any support for areas where the demand for migrant labour was high. Recent political developments, in particular the Brexit referendum, and increasing xenophobia and attacks on migrants in several member states have pushed the national governments to pledge support for areas receiving migrants.

The Maastricht Treaty (and the Treaty of Rome), were more concerned with liberalising trade across member states than matters such as convergence of living standards. Poverty and social policy in general are mostly a matter for member states, albeit subject to EU directives and legal scrutiny (the 'Working Time Directive' is a case in point). But under the non-discrimination provisions of 'Freedom of Movement', EU migrants have the same rights as nationals to social support and access to most health and education services. Whilst there is very little evidence of so-called 'welfare tourism', whereby people migrate to take advantage of higher unemployment benefits and social security support in richer EU15 countries, there are cases

of pressure on local services (health, education, housing and transport) especially in certain destination areas, like Britain, which have been experiencing years of social expenditure cuts, privatisation, and the general adoption of neo-liberal market-oriented policies since the 1980s. In other words, the pressure on local services is only partially due to the presence of migrants. On balance migrants are not a drain on destination economies. Moreover, the cost of their upbringing and education has been in many cases absorbed by their country of origin. They are on average younger and have a higher labour force participation rate than the nationals, and they contribute to the destination economy and national finances by paying taxes, which support local and national public services in host economies. This has not prevented immigrants from being made scapegoats for a host of social and economic problems brought about by neo-liberal globalisation.

At the same time, we should note that a sizeable section of benefit claimants are in employment but with incomes and circumstances which qualify them as poor and therefore entitled to benefits, a characteristic shared by nationals and migrants alike. According to the latest available data 17 million (15%) of 120 million poor people in the EU are actually working.<sup>8</sup>

Despite the fact that the great majority of migrants live off their own resources and labour and fully comply with the 'Freedom of Movement' rules that migrants should not be a burden on the host countries, the perception, fanned by right-wing propaganda, still persists that there is 'massive welfare tourism' as well as abuse of the resources of the host country. This has led to the disturbing development of poor migrants, especially the Roma, being expelled from France and Britain (before the Brexit referendum), in clear violation of 'Freedom of Movement'.

As for non-EU migrants, the current debate and concerns are more about asylum seekers and refugees than those who enter through the labour market and official recruitment procedures. According to the Dublin Convention of 1992 and its subsequent revisions, an asylum application must be lodged in the first 'safe' country of entry, unless an asylum seeker can prove that they have close family connections (that usually means spouse and unmarried children under the age of 18) in another EU country. The first 'safe' country rule not only disregards the wishes of the asylum seekers as to where they want to settle for personal, family and cultural, as well as economic, reasons, it puts enormous pressure on the so-called 'front' line countries, like Greece and Italy in particular, since the Syrian war and continuing political instabilities and conflicts in Libya, Iraq and Afghanistan.

7 N. Shimmel, 'Welcome Europe, but please stay out: Freedom of Movement and the May 2004 expansion of the European Union', *Berkley Journal of International Law*, Vol. 24, Issue 3, 2006.

8 European Commission, *In-work poverty and labour market segmentation in the EU*, 4 February 2011, <http://ec.europa.eu/social/main.jsp?catId=89&langId=en&newsId=986&furtherNews=yes>.

The arrival of tens of thousands of mainly Syrian refugees on Greek islands close to Turkey literally overwhelmed the administrative infrastructure in Greece, a country that has been grappling with years of severe austerity. It was in response to such pressures and the unfolding humanitarian crisis that Germany offered asylum to Syrian refugees. Some EU countries, especially those en route between Greece and Germany objected to German policy, arguing that it went against the Dublin rule. These countries did not offer any other real solution to the refugee crisis. The EU Commission's intervention by pledging financial and logistical support to Greece and allocating refugees in accordance with the EU states' population size, came too late and was too little. The EU also offered €2.35 billion to support refugee camps in Turkey in order to stem the flow of asylum seekers to the EU, but only €0.45 billion has been disbursed so far.<sup>9</sup> Some Eastern European member states such as Hungary and Poland flatly rejected the allocation of Syrian refugees among member states on thinly disguised racial and religious grounds. As noted earlier, objections to the entry of Muslim Syrians had been preceded by objections to the 'Free Movement' of Roma across many EU countries. Older EU members also joined this anti-refugee group – Austria erected barriers on some of its border crossings with Italy and Slovenia. Right-wing politicians in Poland and Hungary even went as far as to argue that the Christian identity and racial purity of Europe would be in danger.

To the extent that supposedly cultural concerns are not simply a disguise for racism, they are belied by the facts that people of Islamic faith have been present in different parts of Europe for centuries, living peacefully side-by-side with other religions, and that folk culture in many parts of the EU, e.g. Spain, Portugal, Hungary and Romania, owes much to their Roma cultural heritage.

These reactions have seriously tested the solidarity and cohesion of the EU as well as border and visa-free travel within the Schengen Zone, whilst ignoring the long-term demographic ageing of the EU and the low cost of supporting the current number of asylum seekers and migrants in the EU.

### Alternative approaches

Based on a plausible case of EU housing 3 million refugees, Mencinger estimates that if the EU were to offer these refugees financial support at the level of average social transfers in the EU, the total cost would be no more than 0.1% of the EU GDP.<sup>10</sup> Depending on the allocated number of asylum seekers to each member country and its level of social transfer, the cost varies between a low of 0.008% in Latvia

and a high of 0.2% of GDP in Denmark. Germany, with the largest quota of 488,000 asylum seekers, would have to pay 0.17% of its GDP. These are bearable costs even within the current austerity budgets and can be afforded even by the poorer member states. This is not going to be a long-term financial commitment but could decline over time as asylum seekers gain refugee status and settle in – that has been the lesson of history of previous migratory flows.

Yet money has to be raised and national populations should be receptive towards refugees and convinced that any social transfers to refugees are not at their expense; especially in the poorer countries. Building solidarity between the nationals and the asylum seekers and other migrants is as important as raising money to support them.

Several policy measures could be recommended in order to support both asylum seekers and areas that have come under pressure from recent migration flows. Both objectives could be met if the EU were to channel some of the money being used for the Quantitative Easing instrument of the European Central Bank. This would not only have the advantage of reducing the pressure on the national governments to divert their own resources to support asylum seekers but also would boost local economies. There are other sources that also could be tapped, such as issuing a 'European Immigration Bond' along the lines of the currently proposed 'European Defence Bond'<sup>11</sup> with the latter having as one of its objectives the strengthening of the EU external borders – in part a migration control policy.

At the same time there could be an extra element of subsidy for poorer countries with low social welfare infrastructure. One could go even further by targeting services such as health and education that are essential for all residents. The inflationary impact of such spending would be modest given that money could be allocated in relation to the number of asylum seekers and level of development of social welfare in each country. In many of the countries concerned it is deflation, rather than inflation which is a threat. The EU should also cooperate with national governments to target municipalities that have come under pressure by the inflow of large number of EU immigrants and asylum seekers to overcome their resource problems.

These are modest proposals that can be acted upon relatively quickly, if there is a will on the part of EU politicians. These politicians and their citizens have a huge responsibility to steer public opinion away from the fear of migrants that has led to deep divisions within European societies. Europe has a chequered history when conservative and right-wing politicians have blamed the 'others' for problems of unemployment and poverty. We should learn the lessons of the pogroms and wars of 19<sup>th</sup> and 20<sup>th</sup> centuries. The mark of a civilisation is how it looks after its weakest people.

9 Jozse Mencinger, 'Refugees and thousandth: demographic and economic effects', Paper presented at the 22<sup>nd</sup> Conference on Alternative Economic Policy in Europe, Coimbra, Portugal, 2016 [http://www.euromemo.eu/annual\\_workshops/2016\\_coimbra/workshops\\_papers\\_coimbra/index.html](http://www.euromemo.eu/annual_workshops/2016_coimbra/workshops_papers_coimbra/index.html).

10 Ibid.

11 'Brussels eyes bond to fund defence plan', *Financial Times*, 15 September 2016.

## 4 Right-wing and economic nationalism in the EU: origins, programmes and responses

The global crisis that began in 2007-08 has accelerated the growth of the nationalist right in the EU. Nationalist right-wing parties govern on their own in Hungary and in Poland. In Belgium, Denmark and Finland, they are either part of the governing coalition or support without being directly part of the government. In many other EU countries, nationalist right-wing parties have emerged stronger from recent elections.

The present rise of the nationalist right displays parallels with the interwar years when the liberal economic order entered into deep crisis. As Karl Polanyi pointed out, two counter movements to liberalism emerged – a left socialist alternative on the one hand and anti-democratic far right-wing movements, often of a fascist character, on the other. He emphasised that, in the interwar years, left-orientated governments repeatedly failed in dealing with the extremely rigid gold standard monetary system and in imposing sufficiently strong restrictions on international capital movements. More recently, first the European Monetary System (EMS) and later the euro area have imposed restrictions on progressive or left-wing economic policies that are in some respects similar to the gold standard of the interwar years.

The left-wing Syriza government has been exposed to the economic policy limitations imposed by the ordo-liberal institutions of the euro area to an extreme extent. In 2015, it suffered a strategic defeat when the German Minister of Finance, Wolfgang Schäuble, presented it with the alternative either of leaving the euro area or accepting neoliberal austerity and structural adjustment. Since Syriza had not seriously prepared for leaving the euro area and was under enormous pressure, it acquiesced in the demands of the euro area finance ministers, led by Schäuble. Syriza's defeat has weakened other left-wing parties such as Die Linke and Podemos, which had advocated alternatives within the euro area. In contrast, the nationalist right – for example the Italian Lega Nord – has been strengthened as a self-styled alternative to euro liberalism. For many of the nationalist right-wing parties, a strong critique of the euro area is at the very heart of their economic programme. They do not interpret the conflict between Syriza and the EU institutions as a conflict between different economic policy concepts or as a conflict between a democratic mandate of a national government and the liberal-authoritarian concepts of the creditors, but as a struggle between a suppressed nation-state and the EU.

## Mapping the nationalist right

The nationalist right encompasses a broad range from more nationalist liberal conservative forces – like the EU-sceptic wing of the British conservatives – to openly fascist forces like the Hungarian Jobbik or Greek Chrysi Avgi. In contrast to the ultra-right in the interwar years, most of today's nationalist right does not question parliamentary pluralism. However, those nationalist right-wing parties that govern alone – like Fidesz in Hungary and Prawo i Sprawiedliwość (PiS) in Poland – have weakened the separation of powers and have tried to take tighter control of the judiciary and mass media.

In quite a few cases, nationalism has been radicalised into racism which has often taken the particular form of anti-Muslim racism. Nationalist right-wing parties have therefore often been classified according to the degree of nationalism and racism which they display.

An alternative classification could be based on the degree of neoliberal, national-conservative and, in certain cases, fascist elements that guide their programmes and, potentially, government practice. Such a classification seems to be more adequate for analysing the economic and social policies of the nationalist right. In some cases, nationalist neoliberalism predominates. This is the case for the Czech Občanská demokratická strana (ODS), Slovak Sloboda a Solidarita (SaS), UKIP and, initially (though now no longer) Alternative für Deutschland (AfD). In many cases, a mixture of neoliberal and national-conservative elements is blended with strong agitation against 'migrants', as in the case of Fidesz, Freiheitliche Partei Österreichs (FPÖ), Lega Nord and the French Front National. At times, national-conservative elements are accentuated more strongly, as with PiS in Poland. There are then the formations which display openly fascist tendencies and references. As noted above, these include the Hungarian Jobbik, the Greek Chrysi Avgi and the Slovak Ľudová strana – Naše Slovensko.

The stronger the national-conservative orientation is, the stronger the deviations tend to be from mainstream economic policy proposals and the inclusion of some heterodox policy elements. National conservatism tends to be particularly strongly pronounced regarding issues linked to gender relations, with proposals which aim at restoring what are perceived as 'traditional' gender roles.

In the more far right formations, strong emphasis on a 'national preference' in social and labour market policies can be observed. On the basis of a pronounced exclusion of the 'other', the ultra-nationalist right tries to present itself as a 'social right'. The self-presentation as a pro-social force aims at enlarging the traditional electoral base in the middle strata towards the popular classes. The orientation towards fac-

tions of the domestic bourgeoisie is, however, not abandoned, with nationalist parties favouring the strengthening of 'national' capital in specific economic sectors.

### Right-wing economic policy concepts between orthodoxy and heterodoxy<sup>12</sup>

In recent years, nationalist right-wing parties have increasingly incorporated heterodox, *etatist* programmes and policies. Likewise, the role of selective economic and social protection mechanisms has been increased. This shift had already begun before the recent global crisis. The selective adoption of heterodox elements is aimed at enlarging the parties' social base and addressing specific development blockades and crisis phenomena.

The economic policy proposals are strongly shaped by the position of the countries concerned in the European division of labour. This is reflected particularly in the position in relation to the euro area, which is a key topic of the nationalist right. Nationalist right-wing parties in neo-mercantilist core economies, like AfD in Germany and FPÖ in Austria, advocate the creation of a core euro area consisting of the strongest export economies. In this vein, the FPÖ demands 'a rapid restructuring of the euro area through the exit of weak economies and the reduction to economies of comparable strength if the euro does not stabilise'. The Southern European euro member states are perceived as a burden. This perspective is shared by the nationalist neo-liberals of Slovak SaS (Sloboda a Solidarita) who emphasise the strong economic links and the shared austerity culture with Germany.

In Italy and France where extensive de-industrialisation has occurred since the adoption of the euro, the Lega Nord and the Front National have taken a strong stance against the euro. In a booklet on the euro, Lega Nord emphasises that the euro is overvalued for Italy and is harmful for Italian manufacturing. While Lega Nord views exiting the euro area as a precondition for overcoming the crisis, it does not regard such a step as a panacea and advocates complementary industrial and investment policies. Both Lega Nord and Front National complement their opposition to the euro area by demands in favour of small- and medium-scale enterprises.

In Central Eastern Europe, Fidesz, PiS and ODS have positioned themselves against adopting the euro. They want to preserve the possibility of national exchange-rate policies. In both Hungary and Poland, foreign-exchange credits have been taken up as an important political issue by the nationalist right. In Hungary, debts denominated in foreign currency were much more widespread than in Poland

and were a major negative factor in the 2008-09 crisis. They were a major problem for the upper-middle strata, the core constituency of Fidesz. After being elected into office, Fidesz gradually converted their foreign debt into Forint-based securities. For this, the party was prepared to provoke a limited conflict with the predominantly foreign-owned banks. The measure increased the space for autonomous exchange-rate and interest-rate policies, which Fidesz has used to some extent. The Fidesz government increased its influence over the Central Bank and used this to promote its economic policy agenda.

In its 2015 election campaign, PiS also highlighted the issue of foreign-exchange credits. It has, however, so far desisted from compulsory conversion and advocates voluntary solutions. This change of mind seems to have been motivated by the aim of expanding the share of domestic banks in the banking sector, and PiS seems to be trying to avoid burdening those domestic banks with the conversion costs.

Expanding the role of domestic capital is on the agenda of both Fidesz and PiS. In the case of Fidesz, this endeavour is exclusively focused on specific service sectors (like banking). In export manufacturing, the Fidesz government relies completely on foreign direct investment. PiS, for its part, is more critical of the present development model characterised by low wages and extremely low research and development expenditure.

### Social and labour relations policies between neoliberalism and national conservatism

The tax policies and proposals of the nationalist right clearly favour private capital and high income groups. This bias is visible in their position towards trade unions. With the notable exception of PiS, they tend to display anti-trade union stances. In social policies, they tend to combine – in differing combinations – neoliberal workfare and some national-conservative elements, mainly in so-called family policies. Strikingly, PiS made the introduction of a 500 zloty payment for every child from the second child onwards its main social policy reform. It is the largest expansionary social policy measure in Poland since the 1970s. The conservative social policy aim of the PiS is to restore so-called traditional gender roles.

In several West European countries with a major population of migrant origins, the 'national preference' tends to be the major social policy slogan of the extreme right. Consequently, exclusion is the main principle of this nationalist right variety. In some EU countries, like Austria (at least at regional level), mainstream parties have already begun to assimilate this policy direction and begun to discriminate in the provision of social aid for refugees.

<sup>12</sup> More detailed in Joachim Becker: 'Editorial. Konturen einer wirtschaftspolitischen Heterodoxie von rechts', *Kurswechsel*, No. 3, 2015.

There is little conflict between the economic and social policy programmes of the various nationalist right-wing parties. The same applies to their perspectives on the EU. For example, the vision of a smaller euro area, held in both core and periphery, complement each other. Their main conflict is about migration. Nationalist right-wing parties in the core are critical or even hostile towards migration from countries in the periphery (often including the EU periphery) whereas the nationalist right in Eastern Europe wants to preserve migration within the EU while being fiercely opposed to migration (and refugees) from outside the EU.

### Counter strategies

The nationalist right proposes national rather than 'European' solutions. The response of the Left cannot be simply to assert the primacy of 'European' over national solutions. It should rather focus on socially egalitarian policies that promote forms of development that are regionally more equal and ecologically sustainable. This should include selective domestically-oriented industrialisation in the periphery, something which would require protective measures. Short-term counter-cyclical measures should include measures designed to promote productive restructuring. This would involve selective challenges to the *acquis communautaire*. But, if alternative policies are not possible within the constraints of the euro area, leaving the euro area would have to be considered. Strategies to promote sustainable development should start from local, regional and national levels. The national level is, nevertheless, a crucial terrain and should not be left to the Right. It is also at the national level that there is the greatest possibility of pressing for progressive changes at the EU level since this is currently structured in a way which is highly inimical to popular and left-wing forces.

## 5 European external relations

### CETA

The Comprehensive Economic and Trade Agreement (CETA) and the Transatlantic Trade and Investment Partnership (TTIP), negotiated with Canada and the US respectively, are beginning to feature more prominently in the public arena. For several years now these treaties – considered as in-depth or third generation trade agreements – have been negotiated in the utmost secrecy. Yet, if they were to be ratified they would have major economic, social and political implications. Indeed, underlying the debate on the impact of these treaties regarding environmental protection, public services, the rights of workers and protection of investors, is the question of the ability of public authorities to produce – taking into consideration collective preferences – rules and regulations imposed on each and everyone, including on multinational capital. In this respect, it would be interesting to remind ourselves of the statement of David Rockefeller, President of the Trilateral Commission: 'Somebody has to take the government's place, and business seems to me to be the logical entity to do it.'<sup>13</sup> With TTIP and CETA, Europeans and in general citizens of developed countries, are discovering the reality of the constitutionalisation of neo-liberal globalisation.<sup>14</sup>

Opposition has progressively mounted – albeit with a certain time lag due to the secrecy of negotiations – especially with the beginning of CETA's ratification process. In France over 40,000 people took to the streets in more than 30 cities, while there were 10,000 protesters in Brussels and 320,000 in seven German cities. Several parliaments are expressing their reservations regarding the Treaty. Only the Walloon Parliament had persisted in refusing to sign the provisional application of the Treaty. It changed its mind after receiving certain guaranties.

Since the beginning of the temporary suspension of the negotiations at France's behest over the TTIP and the initiation of CETA's application, the latter has stolen the limelight. The most controversial and telling of the actual risks of the Treaty are the Regulatory Cooperation (RC) EU-Canada and the Investor-State Dispute Settlement (ISDS).

<sup>13</sup> *Newsweek*, 1 February 1999.

<sup>14</sup> Marija Bartl, 'Reflections on the Impact of TTIP, CETA and TISA on the Legal Systems of the European Periphery, and in particular Croatia', Paper presented at the 22<sup>nd</sup> Conference on Alternative Economic Policy in Europe, Coimbra, Portugal, 2016.

## Regulatory cooperation (RC)

The aim of RC is to promote regulatory convergence between the two parties. It shares the same objective as Better Regulation Agenda (BRA) which is slowly emerging as the European Commission's priority area for action: deregulation in order to increase businesses' profitability through lowering the costs linked to regulations.<sup>15</sup> Regulations for consumer and environmental protection, social rights, etc. are only considered as costs. This conception fails to consider that such regulations also reflect societal choices, correct market failures and contribute to general welfare.

The RC – also prescribed in TTIP – constitutes a threat to the European social model. It would accentuate the pro-business orientation of EU regulation given the imposing presence of US companies in Canada (40,000) as well as the proximity of American and Canadian regulations after years of regulatory cooperation between the two countries under the North American Free Trade Agreement (NAFTA). US companies would thus be able to realise, via CETA, a substantial part of TTIP's objectives.

The RC would lead to a degradation of European regulation – present and future.

- The quality of the current regulation would be affected at first, because of the key regulatory cooperation mechanism in CETA, namely recognition of the equivalence of both sides' regulations. This provision would lead to a generalisation of regulations of lesser quality since, generally speaking, they are cheaper for producers.<sup>16</sup> Genetically modified organisms, shale gas, hormone treated beef, etc. would be allowed whereas they are rejected *en masse* by Europeans.
- As for future regulations, the growing complexity of the decision-making process now requires an impact evaluation for each regulation on trade and investments as well as a regulatory dialogue. This would lead to delays in the regulatory process and a general weakening of regulation.<sup>17</sup> However, the challenges of our time – climate change, pollution, financial regulation – need a strengthening of existing regulations and the introduction of new ones.

Finally, RC would obfuscate even more and render even less democratic the decision-making process. Thus, pursuant to the disposition stipulating that each party

has to inform the other as early as possible on its regulatory projects, the European Commission will have to consult on its future projects with the Canadian trade authorities and businesses before they are brought before the Council or the Parliament. Besides, Environment as well as Labour relations and sustainable development 'are the only chapters of CETA where the importance of transparency, public access to information, and public participation is emphasised. They are also the only ones that are not legally enforceable and have no penalties. In all other areas (...) where there is enforcement and penalties (under the Dispute Settlement mechanism), there is a complete absence of all these features.'<sup>18</sup>

## The Investor–State Dispute Settlement (ISDS) mechanism

The ISDS mechanism inserts the Investment Court System (ICS) into CETA, after a few minor changes which fail to iron out its original flaws.<sup>19</sup> Foreign companies retain the right – exclusive and unilateral – to sue states before private arbitration tribunals for losses incurred following a change in legislation. A two-tier system is thus instituted: one for multinational groups and one for the national enterprises and individuals.

The ICS does not offer any guarantee of independence or impartiality: the court empowered to rule on litigation cases is not open to the public. The appeal mechanism introduced is incomplete. The independence of ICS tribunal members is not guaranteed, since CETA permits them 'to work secretly on the side (and be paid lucratively by a foreign investor) as ISDS arbitrators.'<sup>20</sup> And, as underlined in the Corporate Europe Observatory's study, 'In a one-sided system where only the investors can sue, this creates a strong systemic incentive to side with them – because as long as the system pays out for investors, more claims and more money will be coming to the arbitrators.'<sup>21</sup> Finally, no sanction is proposed against judges in case of misconduct or fault.

The ICS system, if put in place, would call into question the public authorities' regulatory capacity and would considerably weaken its role. Although CETA declares that 'the right to regulate within their territories to achieve legitimate policy objectives' is guaranteed to the states, any possibility of standing in a tribunal with loom-

<sup>15</sup> Kenneth Haar, 'Cooperating to deregulate', Paper presented at the 21<sup>st</sup> Conference on Alternative Economic Policy in Europe, Roskilde, Denmark, 2015, [http://www2.euromemorandum.eu/uploads/haar\\_ttip\\_regulatory\\_cooperation\\_and\\_better\\_regulation.pdf](http://www2.euromemorandum.eu/uploads/haar_ttip_regulatory_cooperation_and_better_regulation.pdf).

<sup>16</sup> O'Brien Ronan, 'Moving Regulation out of Democratic Reach: Regulatory Cooperation in CETA and its Implications', Paper presented at the 22<sup>nd</sup> Conference on Alternative Economic Policy in Europe, Coimbra, Portugal, 2016.

<sup>17</sup> Kenneth Haar, 'Cooperating to deregulate', Paper presented at the 21<sup>st</sup> Conference on Alternative Economic Policy in Europe, Roskilde, Denmark, 2015, [http://www2.euromemorandum.eu/uploads/haar\\_ttip\\_regulatory\\_cooperation\\_and\\_better\\_regulation.pdf](http://www2.euromemorandum.eu/uploads/haar_ttip_regulatory_cooperation_and_better_regulation.pdf).

<sup>18</sup> O'Brien Ronan, 'Moving Regulation out of Democratic Reach: Regulatory Cooperation in CETA and its Implications', Paper presented at the 22<sup>nd</sup> Conference on Alternative Economic Policy in Europe, Coimbra, Portugal, 2016, [http://www.euromemo.eu/annual\\_workshops/2016\\_coimbra/workshops\\_papers\\_coimbra/index.html](http://www.euromemo.eu/annual_workshops/2016_coimbra/workshops_papers_coimbra/index.html).

<sup>19</sup> Van Harten Gus, 'The European Joint Interpretive Declaration/Instrument on the CETA', *Osgoode Hall Law School Research Paper*, No. 6, Volume 13, Issue 2, 2017.

<sup>20</sup> Ibid.

<sup>21</sup> Corporate Europe Observatory, *The Great CETA swindle*, 18 October 2016.

ing colossal indemnities is sufficient to paralyse any action from governments.<sup>22</sup> Additionally, the wording of investors' rights in the Treaty is often vague and can lead to different interpretations.

### Opposing free trade agreements

CETA still has to be ratified by national parliaments. Therefore, the member states level will be the key level for opposing CETA. In several countries, such as Germany, there are indications that the national ratification process might prove to be an obstacle to the final passing of CETA. In the case of other agreements, such as TTIP, actions at various levels from the local to the EU level seem to be appropriate.

### The European Neighbourhood Policy (ENP)

Nowadays the ENP is in limbo. The Eastern partnership has been failing since the onset of the Ukrainian crisis, for which it is partially responsible, while civil wars are raging in the south and – above all – in the south-east of the Mediterranean. The ENP is therefore becoming, on its two fronts, the collateral victim of the US confrontational policy towards Russia.<sup>23</sup> Moreover, Russia's growing involvement in Syria's civil war since September 2015 has strengthened the interdependence of the Ukrainian crisis with the Syrian crisis making the former even more intractable.<sup>24</sup> (Russia is threatened with increased sanctions for its interference in the Ukrainian crisis, unless it diminishes its involvement in the Syrian war).

The consequences of the increasing interlocking between ENP and US strategic interests are serious.

The breach created by the Ukrainian crisis is paving the way for outside interventions, which are reinforcing divisions and fragmentation within the EU. The first division is between countries comprising the military 'cordon sanitaire' which the US is establishing on the Eastern frontiers of the EU (Poland, Romania, Bulgaria, the Baltic States) and the other EU countries. The second division is between European countries that support maintaining sanctions against Russia, as well as Ukraine's entry to the EU, and the rest. These divisions are amplified by the handling of the refugee influx from the Middle East and North Africa, which leads to a questioning of the free movement of people – one of the cornerstones of the EU.

The Ukrainian crisis lays bare and exacerbates the EU's inability to act independently. The Ukrainian government, encouraged by the ambiguous attitude of the US and despite the catastrophic situation in the country,<sup>25</sup> is blocking the implementation of the Minsk Agreement drawn up by the EU in 2014, while the Russians are tending to by-pass Paris and Berlin in order to have direct contact with Washington which seems to be the only Master of the Game.

What remains to be seen is the impact of Trump's election on the US-EU relations and on the EU's external relations in general. The implementation of the policy advocated by Trump could lead to a weakening of transatlantic ties. A likely request to renegotiate certain TTIP clauses in a way more favorable to US interests would amplify the opposition to the Treaty in Europe. Trump also questions the principle of collective defence in NATO and he has declared that he would raise US sanctions against Russia. Finally, he would consider disengaging the US from the war in Syria. A weakening of transatlantic ties could strengthen centrifugal tendencies in the European neighborhood. This would force Europe to cope with its responsibilities, that is to implement an ENP considering the interests of all parties rather than focusing almost exclusively on the promotion of European commercial interests.

### ENP: cooperation, not subordinate integration

The ENP approach has been based on making countries in the EU neighbourhood adopt parts of the EU *acquis communautaire*. This is a form of subordinate integration. Such integration deepens de-industrialisation tendencies in the periphery. And in a couple of cases, such as Ukraine and Moldavia, it has deepened internal geopolitical fault lines. In the case of Ukraine, EU policies have decisively contributed to producing the conditions for military conflict. Instead of promoting deep free trade and subordinate integration, EU neighbourhood policies should establish forms of mutually beneficial cooperation, for example at sectoral levels.

### Questioning militarisation

Over recent months, high ranking EU and national officials have proposed a strengthening of the military capacity of the EU as the way forward out of the crisis. Resorting to domestic and external coercion has been a traditional right-wing response to multifaceted social crises. It will solve socio-economic problems as little as it has done in the past. In this context, it should be remembered that EU countries

22 Van Harten Gus, 'ISDS in the Revised CETA: Positive Steps, But is it a Gold Standard?', *Investor-State Arbitration Commentary Series*, No. 6, 20 May 2016.

23 Mediapart, 'Les nouvelles stratégies US de George Friedman et Zbigniew Brzezinski', 24 May 2015.

24 J.-C. Galli, 'Conflit gelé en Ukraine: les (dés)Accords de Minsk persistent' *Figaro Vox*, 16 September 2016.

25 Heikki Patomäki, 'EU's Role in the Evolvement of the Russia-West Conflict and Outbreak of War in Ukraine', Paper presented at the 22<sup>nd</sup> Conference on Alternative Economic Policy in Europe, Coimbra, Portugal, 2016, [http://www.euromemo.eu/annual\\_workshops/2016\\_coimbra/workshops\\_papers\\_coimbra/index.html](http://www.euromemo.eu/annual_workshops/2016_coimbra/workshops_papers_coimbra/index.html).

have decisively contributed to the present wars in the Middle East by direct military intervention (Iraq and Libya) and arming (mostly Islamic) military groups (e.g. in Syria). The vast number of war refugees originating from the region is a result of the interventionist policies of the US and of certain European powers.

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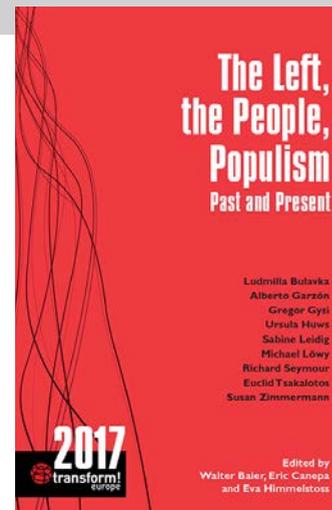
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