Contours of a Political Union

Recalibrating European Economic and Monetary Union through More Integration

BJÖRN HACKER

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- The crisis of Economic and Monetary Union has brought to light fundamental inadequacies in the European Community architecture. »Business as usual« in accordance with the *méthode Monnet* of gradual integration is no longer an option.

- It is not primarily the lack of competitiveness or poor budgetary discipline of individual member states that form the background of this crisis. The focus on Greece has brought to the fore long-existing asymmetries in the EU.

- In the debate on the crisis the defenders of the system of market states and their policy of adaptation under the aegis of austerity are at odds with both the growing camp of Eurosceptics and the advocates of deeper political integration.

- In the short term, the current crisis can be overcome only by means of a symmetrical adaptation strategy that combines rules for the reduction of macroeconomic imbalances with the solidarity-based financing of member states and thoroughgoing regulation of the financial markets.

- In the medium term, the instruments of European governance must be strengthened by means of wage-policy coordination, a Social Stability Pact and a strategy of social growth in Europe. In the long term, however, this largely corrective framework must be abandoned if European policy aspires to play an active role. Questions about institutional design, state sovereignty and democratic legitimacy will then re-emerge.

Content

Introduction

Europe, as it came to be constituted in the post-War period, has lived through several crises and its integration has been brought to a halt time and again. One might mention Charles de Gaulle's »empty chair« policy in 1965, the integration fatigue dubbed »Euro-sclerosis« in the mid-1970s, the de facto end of the European Monetary System (EMS) in 1993 and the failure of the ambitious project for a European Constitution at the beginning of the 2000s. Compromises and temporary constructs, new needs and the specific dynamics of Communitisation, which has got off the ground at least after a fashion, have nevertheless led to a constantly expanding common *acquis*. But the fragility of the European Union's evolving economic and political multi-level system has been – brutally – highlighted only by the current (and so far the worst) European crisis.

It is a long time since economic policy in Europe was confined within the borders of the nation-state. The Single Market and Economic and Monetary Union (EMU) have forged shared responsibilities and competences between the nation-state and supranational levels in the EU. The numerous defects, inadequacies and imbalances of integration brought to light by the financial and economic crisis since 2007 are not to be dealt with by means of gradual correction. The overall design of integration as it stands today has long been the object of criticism. »Business as usual« in accordance with the *méthode Monnet*, comprising gradual concessions to integration without a specific objective, is no longer an option.

From the Social Democratic perspective the model of a Political Union is an exigent task for the completion of European integration. The feverish search in the eye of the storm for new options and ways of managing transnational economic activity and establishing coordinated and harmonised policies does not have to start from scratch. Building on a description of the causes of the crisis (Section 1) and a categorisation of the discursive landscape (Section 2) we put forward policy proposals for overcoming the crisis in the short, medium and long term and for recalibrating European integration (Section 3). In the course of this, in particular we draw on numerous studies, analyses and position papers published by the Friedrich-Ebert-Stiftung since 2006. As a structured whole they provide the first contours of a Political Union. Other central elements of an alternative social growth model are the reduction of inequalities with regard to living standards and the extension of Europe's social dimension.

1. Background of the Crisis and New Challenges

The liquidity and solvency crisis of individual EU member states that in the course of 2011 has developed into a full-fledged Eurozone crisis and is now calling into question the multi-level political system and institutional structures of the EU as a whole cannot be regarded as a one-off accident befalling a stable structure. Many of the things that have happened to EMU can be plausibly explained in terms of the effects of the global financial and economic crisis that commenced in 2007. However, the background comprises various elements whose analysis requires, first, a look at the organisation and state of European integration in the period up to the outbreak of the crisis (or crises).

1.1 Predominance of Market-creating Integration

European integration is characterised first and foremost by economic development. While its central projects – the Single Market and Economic and Monetary Union – have led to gains in prosperity for the member states, they have also exacerbated the negative effects of globalisation on the continent. Integration is taking place primarily as a »market-creating« process, involving the elimination of trade barriers and the intensification of competition. In contrast, what might be characterised as the »market-shaping« and »market-correcting« aspect of the institutional design and development of the EU's political competences has been confined (Höpner/Schäfer 2010) to a so-called »constitutional minimalism« (Platzer 2009).

Based primarily on a market-oriented model a system of so-called »market states« (Busch 2009: 8, 16) was created. Within this framework the EMU member states compete for capital investments, production locations and jobs in a regime of »Communitised« monetary, but largely nationally determined fiscal policies, utilising comparative advantages arising from low wages and ancillary wage costs and low taxes. In the Single Market the principle of competition, by guaranteeing the free movement of people, goods, capital and services, has a higher priority than national employment protection and social standards (Erdmenger et al. 2009). By means of mutual economic dependence, Monetary Union offers »political incentives to free-riding« (Collignon 2010: 4) at the expense of partner countries.

Based as it is on competition rather than solidarity this system has been unable to curb the Community's socio-economic heterogeneities. Instead, the economic asymmetries and social disparities within the EU have increased considerably (Dauderstädt 2010b). This is demonstrated by, for example, the different savings and investment rates, increasingly diverging income distribution and, not least, the unequally distributed current account surpluses or deficits of EU states. In contrast to what was claimed in justification of the EU's growth strategies, completion of the Single Market and far-reaching liberalisation and flexibilisation on member state labour markets to date have not provided positive impetus for growth and employment. On the contrary, the productivity gains based on competition have instead led to employment reductions and falling growth rates (Dauderstädt 2007: 33).

On the one hand, attempts have been made in the EU over the past two decades to respond to globalisation – getting swept away by prevailing trends in the process – and also to take the lead in the irrational competition to provide the lowest production and labour costs. The Lisbon Strategy of 2000 to 2010, the objective of which was to make Europe into the »most competitive and dynamic knowledge-based economy in the world«, expresses this approach. The dismantling of regulatory »interference« in the market, which allegedly hampered economic dynamism, the flexibilisation of labour markets and the – quantitative rather than qualitative – increase in jobs were the focus of the Lisbon Strategy at the latest after its relaunch in 2005 (Fischer et al. 2010: 4f). In a globalised world, however, competition for low wage costs and social standards is a mug's game: there is no telling how low it might sink. Europe's opportunities lie elsewhere: in shaping globalisation and guaranteeing high quality infrastructure, public services, well developed social security systems, environmental policy, a high level of protection for employees on integrated labour markets and innovative and highly productive companies (Bullmann/Kunz 2007: 90).

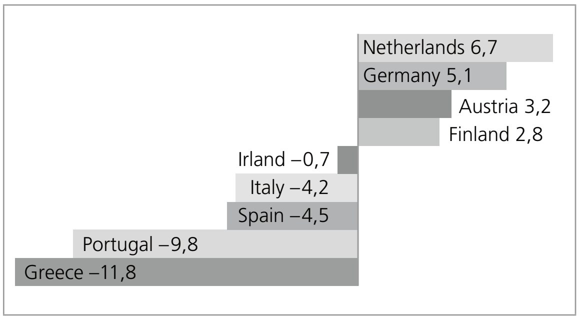
The EU's constitutional asymmetry between market-creating and market-correcting policy instruments is intensified appreciably by the chosen path of maximum competition between the member states. Stepping up competition between member states as a principle of Community organisation makes a mockery of the urgent need for political coordination in the face of growing common challenges – for example, from further market globalisation, climate change and resource scarcity, not to mention demographic development. Instead of seeking comparative cost advantages in the Single Market with regard to wages, taxes, social security contributions and subsidies the productivity of the factors labour and capital should be brought back to the centre of European competition policy (Dauderstädt 2007: 44). A European growth strategy should focus on increasing social productivity in order to make progress in terms of quality of life. Instead of launching only supply-side structural reforms in the member states the Single Market and EMU require a common and closely coordinated policy mix to »complete the economic circuits« also at the European level. To date, important components of social growth, such as improving job quality, fair distribution of productivity gains, sustainable production and consumption, investment in new products and services, education and training have barely been coordinated and promoted in the EU (AK Europa 2010a).

1.2 Unequal Economic Development

The abovementioned fundamental problems and shortcomings of primarily »market-creating« European integration have culminated in the EMU crisis. Europe is »growing together« (Willy Brandt), that is true. But the efforts of many southern and central and eastern European states to catch up economically have been enabled by an increase in social dumping and high indebtedness in the private sector. Income inequality has increased in most countries, even if some countries' catch-up processes have slightly decreased inequality between states. The savings growth brought about in this way has fuelled speculation on asset markets. In the Eurozone, the low interest rate helped to boost the foreign indebtedness of individual states. By contrast, in other states, such as Germany, assisted by years of wage restraint and, as a result, favourable export prices, high current account surpluses have formed (Dauderstädt 2009; Dauderstädt/Hillebrand 2009; Dullien 2010b).

The EU is extremely susceptible to asymmetric shocks. In a closely integrated economic area such as the Eurozone the effects of the latter do not stop at national or regional borders. The export surpluses of individual countries find their equivalent in the current account deficits of other countries (see Figure 1). Debtor and creditor states are in the same boat: the collapse of either would sooner or later lead to the capsizing of the other, whether through the loss of assets abroad or the collapse of sales (Hacker 2011).

Figure 1: Current account balances as a percentage of GDP, 2010



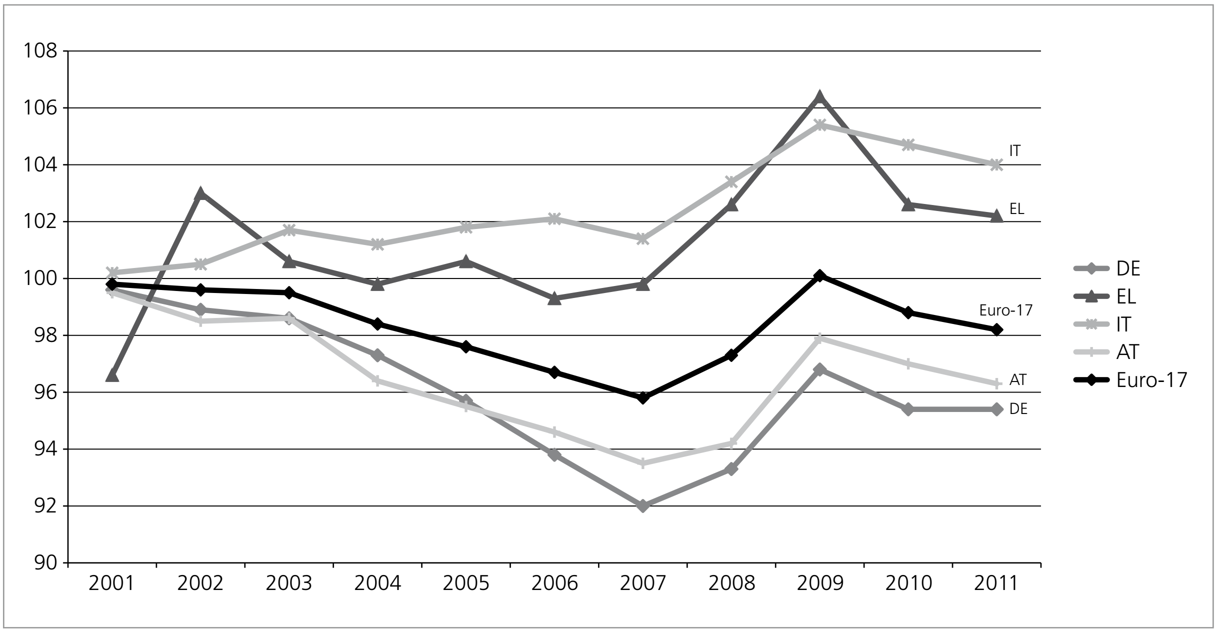
Source: AMECO database

Since spring 2010 the EMU crisis has often been termed a »debt crisis«. The focus is on Portugal, Ireland, Greece and Spain (GIPS), countries in which government new and overall debt has risen considerably in the course of the economic crisis and whose households and companies ran up massive foreign debts beforehand. After being downgraded by the credit rating agencies these countries have had to contend with speculative attacks by financial market players and their solvency is under threat because of the loss of refinancing loans at favourable rates as a result of high risk premiums in the market. The reaction of EU member states is vacillating between extensive solidarity measures in the form of financial bailouts, transfers and stabilisation mechanisms on the one hand, and the prescription of tough austerity measures the long-term consequence of which will be a policymaking »freeze«, on the other. Contrary to popular opinion, however, the current predicament is by no means a »euro crisis«. The stability of the common currency has so far not been seriously endangered. The euro's exchange rate against the US dollar has barely changed, despite various dire warnings, and only deteriorates from time to time because of uncertainties about the implementation of rescue measures. The euro is still well on the way towards becoming the world's second reserve currency. Nevertheless, because of the onerous foreign debts of some member states, in conjunction with the public deficits that have exploded because of the crisis, panic has set in among creditors (Dauderstädt 2011), which makes it more difficult or even impossible for individual states to service their debt and raise new loans on the capital markets.

The reasons for the high government debt of some countries are to be sought not in lax budget policies but in the consequences of the collapse in growth as a result of the international economic and financial crisis. Especially in the crisis states Ireland, Portugal and Spain first private debt and thus the banks came under pressure. In the boom years and with the help of the low base rate, the latter had issued loans freely, thus contributing to the formation of speculative bubbles, for example, on the housing market. The rescue by the state of banking institutions that had got into serious difficulties required immense sums, to which the costs of economic stimulus packages and labour market support measures must be added. The reasons for the current account imbalances can be found in unit labour cost paths that had been diverging for a decade (see Figure 2), disparity between savings and investment rates in some countries and uniform money market interest rates for a currency area in which asymmetrical macroeconomic developments between the member states are exacerbated instead of corrected (Priewe 2011: 69).

The debt problems in the so-called GIPS states would best be described as a »liquidity crisis« (Collignon 2010: 11) or a refinancing crisis. This was ignited by their downgrading by the credit rating agencies, which shortly before that had played their part in accelerating the international speculative merry-go-round, leading to the global financial market crisis. The capital markets, which were primarily responsible for this, continue to function within the framework of inadequate regulation and today pass judgement on the creditworthiness of crisis countries (Busch/Hirschel 2011). In the meantime, in view of the situation in Greece, it is fair to say that there is a solvency crisis. On top of the causes of the crisis discussed so far come country-specific problems, such as high public debt even before the crisis caused by weak states negligent of tax collection the management of investment, as well as an inefficient public sector (Malkoutzis 2011).

Figure 2: Development of real unit labour costs, 2001–2011 (2000 = 100)



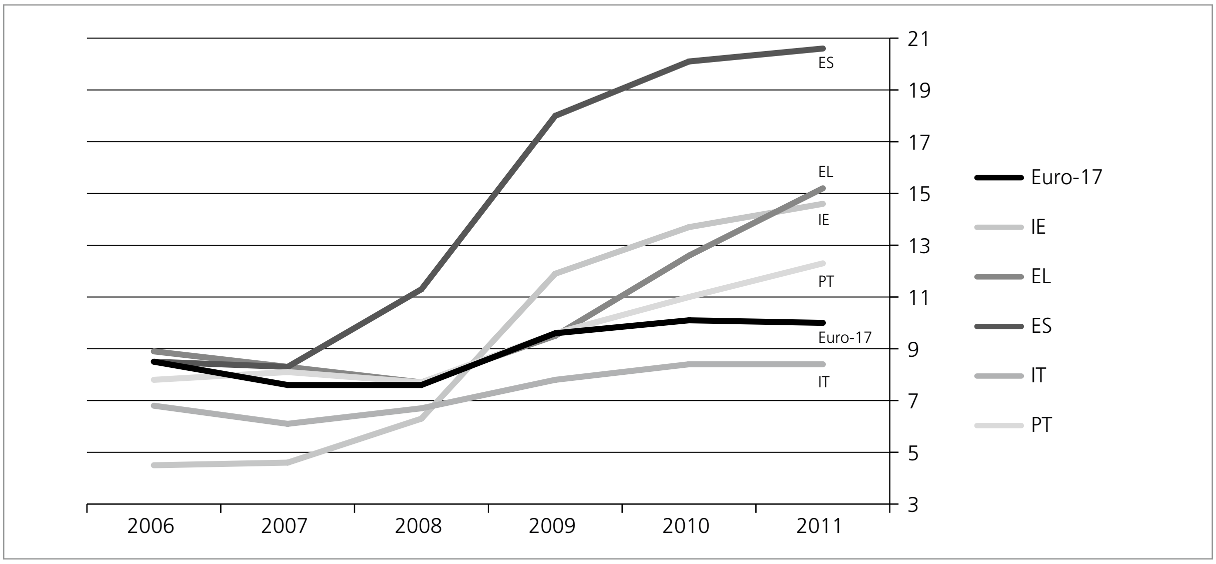
Source: European Economy, statistical annex, spring 2011

Since the current account imbalances in the Eurozone were largely a consequence of the foreign debts of the private sector the public budget deficit reduction strategy fails to address the reasons for the crisis (Priewe 2011: 80). Furthermore, it can be predicted that the strict austerity policies being implemented in the deficit countries will only make the economic situation there worse. »Saving one's way out of the crisis« is scarcely possible because the possibility of state investment is thereby taken away and demand will collapse as a result of the recommended wage restraint. The Eurozone is thus threatened by years of stagnation or even deflation. Not only would the agreed objectives of the ten-year Europe 2020 strategy for »smart, sustainable and inclusive growth« be affected, since this is scarcely achievable in the face of permanent austerity (Hacker/van Treeck 2010), but in individual member states the pressure on social security systems has increased considerably since they are the main target of austerity programmes. This could lead to considerable changes in welfare state arrangements that have evolved over a long period (Heise/Lierse 2011). Besides the socio-economic upheavals that have already become apparent in countries such as Greece, Ireland and Portugal the current policy course aimed at overcoming the debt crisis will lead to a legitimation crisis for the EU (Malkoutzis 2011). The citizens of the relevant states will increasingly have to defend themselves against rising unemployment (see Figure 3), wage cuts and cuts in social services. Predictably, Brussels will be held mainly responsible for the crisis situation, which has been prolonged unnecessarily by the wrong economic policy prescriptions. This could give a strong impetus to Euroscepticism or even the outright rejection of European (economic) integration (Busch/Hirschel 2011). As a result, some member states could try to go it alone. This would not necessarily have to take the form of an exit from the Eurozone, as frequently discussed in the media, or a split into a northern and a southern currency area (cf. Münchau 2010: 4) since this would entail considerable costs for the exiting state and its economy. Even a (temporary) exit from the Single Market by reintroducing customs duties is conceivable for the purpose of squeezing imports by making them more expensive. This would also decrease the current account deficit and boost state revenues, thereby cutting the budget deficit (Dauderstädt 2011: 4). These radical »solutions«, however, could also spell the end of the European integration project as a whole.

2. Positions in the Crisis Debate

The need – hitherto largely ignored – to establish a coordinated European economic and financial policy and to reach agreement on the direction that this integration

Figure 3: Unemployment rate as a percentage of the active population 2006–2011



Source: AMECO database

step will take is now evident. In this connection questions arise about the conditions needed to increase European prosperity (Dauderstädt 2007; AK Europa 2010a), as well as institutional questions on the division of competences in the European multi-level system (Hacker/van Treeck 2010), their democratic safeguarding and legitimation (Collignon 2010) and questions about the consequences for welfare state systems hitherto largely under national control (Heise/Lierse 2011).

The debate on the crisis concerns rather current developments and instruments that might be used to solve it. The longer it lasts and the more hopeless and purposeless seems the course being followed to overcome it the more radical will be the political positions taken on the restructuring of the area of integration.

2.1 Defenders of the Status Quo: System of Market States

The guardians of neoclassical and monetarist economics consider themselves vindicated by the euro crisis: inflexible labour markets, extravagant social security systems and low mobility have supposedly made it impossible to establish an optimal currency area that facilitates the four freedoms of the Single Market, thereby automatically balancing out economic heterogeneities in EMU. The onerous public debt is owing to the member states' lack of budgetary policy discipline, in particular their non-compliance with or circumvention of the Stability and Growth Pact. Besides those who are now contemplating the collapse of the euro, a large number of people in the liberal-conservative camp are defending the integration sequence originally chosen. Accordingly, they are calling for more integration, although to be sure based on reinforcement of the competition principle and enhanced mechanisms for central budgetary control, intervention and sanctions (for example, through the Europe 2020 Strategy, the revamped Stability Pact and the European Semester). On this basis, imitation of Germany's export-oriented model, with high current account surpluses and moderate public debt is recommended. Loan guarantees for member states enduring a refinancing crisis are granted only reluctantly and piecemeal. Tough macroeconomic adjustment programmes are being demanded for merely temporary and exceptional guarantees and emergency loans. The no-bailout clause is again to come into effect in the medium term: in other words, each state is to take responsibility for its own debts and the refinancing of public debt at favourable interest rates on the financial markets.

2.2 Advocates of Political Integration: Balancing Out Socio-economic Heterogeneities

Even the critics of the currently dominant crisis management approach are calling for more integration in the EU. Their discussion of the causes of the euro crisis, however, is along different lines. For example, the high level of public debt is regarded not as a cause but primarily as an effect of the bank rescues, economic stimulus packages and high expenditure to prevent or manage high unemployment in the wake of the global economic and financial crisis. There are calls for a symmetrical approach to resolving the crisis that does not one-sidedly affect countries with hefty debt burdens and negative current account balances, but also gets countries with current account surpluses to take their obligations seriously. Furthermore, there are also demands for a clear differentiation between private, corporate and public debt or savings. The still dominant competition principle should be put within a political framework, it is argued, political integration of the EU expedited and socio-economic heterogeneities gradually reduced. Concrete proposals in this connection range from enhanced coordination efforts through uniform frameworks and minimum standards to the extensive Communitisation of economic and social policies.

2.3 Eurosceptics/Anti-Europeans: Get Rid of the Euro

As the crisis worsens and drags on, the influence of the eurosceptic camp grows. A rollback of economic integration to date is being discussed more and more openly on the grounds that it has led to unwanted side-effects. However, there are different kinds of Eurosceptic:

- Left-wing eurosceptics who are willing to capitulate in the face of the underlying neoliberal trend but who wish to retain the national welfare state.

- Liberals who are pushing for EMU to be split up in fear of the need for financial Community-liability.

- Right-wing populist anti-Europeans who are mobilising against the European idea in principle and have gained considerably in popularity right across the social spectrum as a result of the crisis.

A considerable increase in Euroscepticism is to be expected as a result of the consolidation to which many countries are committed, supervised by Brussels and to be implemented in the form of massive austerity measures. This has already manifested itself in huge public protests in the affected countries, such as Greece and Spain. Inversely, in the countries of central and northern Europe with current account surpluses and robust debt sustainability the willingness to grant new loan packages that are increasingly unlikely to be repaid is diminishing. This is clearly demonstrated by the gains of the euro-critical »True Finns« at the last parliamentary elections in Finland, as well as by repudiatory statements on the extension of the European Financial Stability Facility and the establishment of a permanent European Stability Mechanism (ESM), for example, by the Slovakian government or within the government coalition in Germany. The renationalisation debate is characterised primarily by political or populist arguments rather than by economic considerations (for example, calls for the abolition of the euro).

3. A Programme of Measures to Overcome the Crisis

The one-sided orientation of economic policy governance towards state debt criteria during EMU's formative phase has been continued and reinforced in the crisis by the dominant political forces in the EU. However, we are calling for an alternative approach to overcoming the current crisis.

In a positive perspective, the crisis offers politics a window of opportunity to correct obvious defects not by means of superficial and ad hoc repairs, but by the profound reorganisation of the integration process. The key issue is how social growth in Europe can be financed and organised and, at the same time, how existing socio-economic inequalities can be limited and reduced. Rectifying the current imbalance between competition and solidarity in EMU can be achieved by means of short-, medium- and long-term measures (Pinzler 2009). First, the current EMU crisis must be overcome. The requisite urgent measures will be supplemented in a second phase by new instruments that will smooth the way in a third phase for comprehensive changes in the current design of European integration.

3.1 Overcoming the EMU Crisis on a Solidarity Basis (Short-term Measures)

3.1.1 Pursuing a Symmetrical Adjustment Strategy

A line of demarcation clearly divides the advocates of an asymmetrical approach to dealing with the EMU crisis and those who advocate a symmetrical adjustment of existing macroeconomic imbalances between states. The German government, the Bundesbank, the European Central Bank and the Taskforce of President of the European Council Herman van Rompuy are calling for an asymmetrical adjustment of imbalances: they regard the GIPS states' current account deficits as problems of their own making and thus expect the latter to furnish a solution. From this standpoint the wage restraint pursued in Germany for many years is recommended as a successful model that could be emulated to improve competitiveness. Accordingly, the gaps that have emerged in the development of unit labour costs can be closed by means of wage restraint in the deficit countries. This model of asymmetrical adjustment is backed up by the view that a high export surplus is to be regarded basically as a positive goal for an economy, never mind how it is achieved. International competition for the most innovative products and the highest productivity is eminently desirable. However, it is distorted if comparative cost advantages are largely based on low wages. Furthermore, many advocates of such asymmetrical adjustment confuse foreign trade deficits and public deficits (Dauderstädt 2011).

Critics of this approach consider the one-sided pursuit of competitiveness at the expense of wages and thus also of demand in the economy overall as wrong and point out that countries with current account surpluses share responsibility for the crisis (Dullien 2010b: 35ff.; Münchau 2010): »Surplus countries that fail to correct their internal imbalances between saving and investment over a long period, but rather engender growth solely or mainly by means of export surpluses are in effect pursuing a beggar-thy-neighbour policy, throttling domestic demand and expecting demand from their trading partners to do the job instead, pushing the latter into deficit« (Priewe 2011: 82). Furthermore, the putative success of cheaper export products on world markets is at the expense of workers in the producing country who have to put up with below average wage growth for this purpose. We therefore recommend a symmetrical adjustment in terms of which the consolidation policy in the deficit countries is matched by an expansive wage policy and the reduction of precarious employment in the surplus countries. This would boost consumption in the surplus countries which would have a positive effect on domestic demand and increase imports from the deficit countries (Joebges 2010).

The proposals put forward by the European Commission for redesigning the Stability and Growth Pact (the so-called »six pack«) are symmetrical to some extent. For the first time a procedure to combat macroeconomic imbalances between the EMU member states is being implemented. There will be a set of indicators – a so-called scoreboard, taking in not only public debt, but also for the first time private debt, as well as current account balances and unemployment rates – which will be used to respond promptly to the development of imbalances, in terms of specified ceilings and floors. In the so-called procedure for the prevention of macroeconomic imbalances countries with current account deficits or surpluses are to be restored to balance by means of »structural reforms«. Should a country prove uncooperative fines could be imposed. This symmetrical approach is counteracted, however, by the other elements of the package adopted at the end of September 2011 by the European Parliament and the European Council. For example, not only will the existing objectives of a maximum level of new public debt in the amount of 3 per cent of GDP and a debt ratio of 60 per cent of GDP for each member state be strengthened by the introduction of new sanction mechanisms, such as interest-bearing and non-interest-bearing deposits and penalty payments in the corrective part of the Stability Pact, but in future reform recommendations could be made to member states and sanctions applied if they do not meet their »medium-term« consolidation goals, even if they keep to the rules of the Stability Pact (preventive component). It is questionable whether the indicator-based scoreboard procedure can ever have the same impact as quantitatively established debt targets aimed at preventing future crises – inadequately and illogically from an economic standpoint – solely with regard to public debt.

The same question arises with regard to the 10-year strategy for growth in the EU, known as »Europe 2020«, launched in 2010. Despite the lamentable lack of ambition of the successor agenda to the Lisbon Strategy (Fischer et al. 2010) the economic, employment and social policy goals listed here remain dominated by the criteria of the Stability and Growth Pact. In order to integrate the coordination of budget policies more closely with the EU's growth strategy the so-called »European semester« was brought into being. Although in principle policy coordination is welcome, unfortunately it suffers from the highly disparate influences of the various instruments of European governance. There is therefore reason to fear that a self-assertive logic of adjustment and competition, continuing to focus on public debt, will extend – via the European Semester – deep into the core areas of member states' economic policy and welfare state sovereignty. In future, objections that a given member state's budgetary policy is insufficiently stringent or plain wrong will result in EU interference in that member state's fiscal, employment and social policies (Hacker/Van Treeck 2010).

This logic is also in keeping with the so-called Euro-Plus Pact agreed by the EMU member states – and open to further enlargement – in March 2011 on the basis of a German-French initiative. Based on the targets laid down in the Stability and Growth Pact and the Europe 2020 Strategy and in the European Semester the signatory states are committed to close coordination of their social, tax and budgetary policies. Specific targets are to be agreed for this purpose each year. For example, the role of unit labour cost development in the generation of distortions of competition and macroeconomic imbalances is correctly recognised (Busch 2010; Pusch 2011). However, only strong and incessant increases in unit labour costs are referred to and accordingly downward corrections are called for (European Council 2011a: 16). This intervention in wage formation which is subject to national determination is accompanied by demands for greater labour market flexibility, pension cuts by prolonging working life and cuts in the health care system and other social benefits in order to ensure »full implementation of the Stability and Growth Pact« (European Council 2011a: 18). Furthermore, it is recommended that all the states signing the Euro-Plus Pact introduce debt brakes or other disciplinary budgetary provisions.

Overall, a picture emerges which is dominated by a competition-driven policy approach on the German model. It repudiates the equal responsibility of deficit and surplus countries for the correction of macroeconomic imbalances and consequently looks for solutions in asymmetrical adjustment on the part of the crisis-hit states to the competitiveness, export orientation and strict consolidation policy of the surplus countries. Social protection, wage policy and economic policy stimulus through investment are subordinate to the requirements of the Stability Pact and its strict budget targets. This neglects the fact that for the GIPS states extreme austerity measures make economic catch-up impossible. In the medium term, the creditor states will also suffer as a result of this when sales markets collapse or foreign asset positions are lost as a consequence of debt rescheduling (Hacker 2011: 3). Furthermore, the asymmetrical austerity policy increases dependence on sales markets outside EMU, in particular China. Large export surpluses depend on a succession of large markets that permit the requisite import surpluses: »If this was the only way to achieve growth the global economy would stagnate due to a lack of interplanetary export opportunities« (Dauderstädt 2010a: 4).

It is disastrous that the countries entangled in a refinancing crisis are being prevented from growing their way out of the crisis and switching to a policy of social growth because crisis management is being applied in the wrong place. As a consequence, an increase in socio-economic heterogeneities, macroeconomic imbalances and thus more susceptibility to asymmetrical shocks are to be expected. In the case of Greece, the Eurozone heads of state and government recognised too late that a strict austerity policy cannot liberate the country from its debt misery. At its summit meeting on 21 July 2011 for the first time a »comprehensive strategy for growth and investment in Greece« was called for (European Council 2011b: 2). At the same time, however, consolidation pressure increased on all euro states but especially on Greece, Ireland, Portugal, Spain and – after the first financial market speculation in mid-July – Italy.

3.1.2 Introducing a Foreign Trade Stability Pact

Institutionally, a reinforced coordination strategy with instruments like the European semester empowers the EU to have a say in policy areas hitherto reserved for the member states. The strengthening of European *governance* that goes hand in hand with this remains in large part intergovernmental and not subject to the Community method.

The establishment of true European economic government is needed which would make it possible to coordinate economic competences without pursuing one-sided economic-policy premises. Until the EU has a fully developed political dimension in which the rights of democratic participation are ensured, as in its member states, there can be no question of simple centralisation of economic-policy decision-making in Brussels. The EU is not a single state and the political legitimation it enjoys derives from a complex multi-level democracy which also has to be taken into account with regard to economic-policy governance. Given EMU's advanced economic integration and the seriousness of the problems that have recently come to light this may appear unsatisfactory. However, a centralisation of economic-policy authority in the form of economic government would be justified only if democratic control could be ensured (Collignon 2010). Until this can be guaranteed the possibility of setting up an economic-policy counterpart to centralised monetary policy at EU level remains in the domain of soft economic governance. Nonetheless, the available options are far from exhausted (for an overview see Heise/Heise 2010).

That means that »the key to reforming the European Monetary Union [lies] in an intelligent balance between independently exercised but collectively coordinated economic policy, on the one hand, and the need for centrally governed measures on the other« (Arbeitskreis Europa 2010: 3). On this approach, central management is necessary only if decentralised coordination to prevent heterogeneous macroeconomic developments fails and corrective measures have to be taken. The principal element of economic governance defined in this way is the introduction of a so-called foreign trade stability pact (Dullien/Schwarzer 2009; Dullien 2010a). In this way the existing Stability and Growth Pact would be expanded to include targets for the foreign trade balance; current account balances of more than 3 per cent of GDP would trigger sanctions. Neither high deficits nor surpluses would be allowed, which amounts to a return to the »Magic Square«, in accordance with which the target of a balanced foreign trade contribution ought to be equal in value to the targets of appropriate and steady economic growth, price stability and high employment (AK Europa 2010b: 5; Priewe 2011: 85). The advantage of this approach lies in its sovereignty-preserving governance: the objective of a »foreign trade balance« gives the member states leeway to decide for themselves how to achieve a current account balance. »The Spanish government, for example, could itself have decided whether to rein in the consumption and building boom by intervening in the wage formation process, through higher land transfer taxes or higher income taxes« (Dullien 2010b: 41).

It is important that such a foreign trade stability pact takes a symmetrical approach and does not envisage adjustments only for countries with current account deficits. Action is urgently required in particular for Germany with its high export surplus, but also for the Netherlands, Austria and Finland. Primarily because of stagnation in real wages and the policy of budget consolidation Germany has dampened private and public demand for 15 years and has obtained competitive advantages over its European neighbours through the »import deficit« (Dauderstädt/Hillebrand 2009; Artus 2010). The absorption ratio between investment and savings should now be looked at in the surplus countries: »The trick here is not to reduce the consumption of private households but their savings and to redistribute them to the state« (Kamppeter 2011: 25).

It is therefore indispensible to switch direction by boosting the domestic economy in Germany. To that end, productivity-oriented wage rises in all branches are as necessary as the reduction of the low wage sector, for example by means of a generally binding national minimum wage. Public investment in education and infrastructure would also stimulate domestic demand. If considerable new public debt is foreseen the focus should be on higher tax revenues by means of modified tax rates or new forms of tax (Joebges 2010). The aim is to encourage the private sector to engage in more private consumption which would also include higher imports from the GIPS states, and thereby current accounts could move closer together (Münchau 2010). In contrast to what the advocates of asymmetrical adjustment say, there is no question of reducing German export strength, but rather of a decent share in it for workers (AK Europa 2010b: 5). If the crisis countries are enabled to grow out of their specific structural problems higher debt and an expansive policy on the part of »surplus savings countries« definitely makes sense (Kamppeter 2011: 25). By means of targeted investment in education, the environment and climate protection, new technologies and services for an ageing society Germany could pave the way for a social growth model for the whole of Europe.

3.1.3 Ensuring Solidarity in the Financing of the Member States

The durability and gravity of the crisis have already led to a rethink with regard to the urgent debt problems in certain places: for example, the ECB has jettisoned some of its principles borrowed from long defended monetary dogmas (Dauderstädt 2011: 4) and bought up the debts of the GIPS states. Furthermore, after much struggle and manoeuvring in summer 2010 a rescue mechanism was provided for overindebted states in the form of the European Financial Stability Facility (EFSF). The member states of the Eurozone are jointly liable for the placement of bonds on the capital market by the EFSF. De facto this annuls the no-bailout clause in Article 125 of the EU Treaty which forbids the EU from assuming liability for a member state's debts. Further progress was made along this road with the establishment of a permanent European Stabilisation Mechanism (ESM), agreed in December 2010 and planned for 2013. The ESM consists of a fund totalling 700 billion euros with basic capital and loan guarantees from the member states and a loan from the IMF. In addition, from 2013 all government bonds in EMU with terms of more than one year will have so-called collective action clauses with which, in the case of payment difficulties, creditors can play their part by means of loan repayment or interest rebates. The resolution of the heads of state and government on 21 July 2011 to extend the stabilisation instruments of the EFSF and ESM by means of preventive action and enabling them to intervene in the financial markets – by buying up the government bonds of over-indebted states on the secondary market – is a decisive step in the right direction of solidarity financing.

Problematic features of the new regulations on credit-based aid include the emphasis on the ultima ratio principle in their implementation, the conditionality of financial help as opposed to participation in economic policymaking in the country in question and the high interest demanded on loans. Instead of taking the step of integration in a political transfer and fiscal union and mobilising a long-term commitment to stability on the part of all Euro-states and the ECB (Dauderstädt 2011), as consistency demands, the activation of financial aid via the ESM is to be possible only as a last resort in a refinancing crisis and subject to detailed test procedures. The ESM could therefore exert considerable indirect influence as a result of pre-emptive adjustments to its standards in order to avoid its usage (Vehrkamp 2011: 2). The trend towards tough austerity and consolidation measures in the GIPS countries which has become apparent in the shadow of market sanctions and the EFSF could thus be intensified. Financial aid is granted by the ESM only if a so-called macroeconomic adjustment programme has been agreed between the applicant country, the European Commission, the ECB and the IMF. This contains targets and guidelines for the economic policy of the indebted state. Their general direction has been adequately described in Section 3.1.1 with regard to the reform of the Stability and Growth Pact, the European Semester and the Euro-Plus Pact. »As a result, a country renounces autonomy over substantial parts of its economic and financial policy for the duration of ESM financial aid« (Vehrkamp 2011: 3).

It long remained incomprehensible why the EFSF set out an interest rate for new loans which, although below the market rate, was still high, even in comparison to IMF loans. After all, the goal of the rescue scheme is supposed to be to prevent state insolvency and to restore the creditworthiness of the state in question, not to establish a »profit-maximising bank« (Lenz 2011: 1). Only at the European Council summit meeting in July 2011 were lower interest rates made possible for Greece, Ireland and Portugal with regard to the EFSF loans and an extension from 7.5 to at least 15, and at the most 30 years, with a 10-year grace period (European Council 2011b: 2f).

Countries with high current account surpluses, such as Germany, the Netherlands, Austria and Finland, have lent money to private, business and state borrowers in other member states and thus have amassed substantial asset positions abroad. In the wake of the financial and economic crisis, however, some deficit countries have lost credibility with regard to debt servicing and thus their creditworthiness. »The obverse of a debtor's loss of creditworthiness is the loss in value of the creditor's foreign assets. The fruits of higher competitiveness are then spoiled very rapidly: they are not sustainable. Creditors and debtors, therefore, are both negatively affected by the current account crisis« (IMK et al. 2011: 27). The creditor states therefore have a strong vested interest in the economic survival of the debtor states, but the financial aid instruments provided, although partly correct, are subject to conditions that make growth improbable and further increase susceptibility to speculative attack. This is illustrated in particular by Greece which, despite a massive austerity programme under the supervision of Brussels, lurches from one emergency loan to another.

Even debt rescheduling is now being applied as a radical measure for solving Greece's tragedy. In principle, this would be an appropriate instrument for involving state and private creditors. Within the framework of a so-called »haircut« creditors must renounce a portion of their claims, whether by a radical cut in the debt or so-called »soft rescheduling«, which consists of an interest rate reduction on financial aid, a prolongation of repayment schedules or a repurchase of one's own debt. »Rescue measures should be borne not only by the general public, but also by those who deployed their capital so riskily« (AK Europa 2010b: 10). However, laying down an insolvency regulation (see Deubner 2010) for the countries of the Eurozone would be fatal. This would be a signal to all creditors to liquidate their exposure and to flee the threatened investments and countries, which would throw the financial markets into even worse panic than anything seen so far (Spahn 2010: 3f.; Dauderstädt 2011: 2). But rescheduling scenarios – whether soft or hard – entail the danger of a permanent loss of creditworthiness on the part of the countries concerned in accordance with the judgement of the rating agencies. Furthermore, the European banking sector could be hard hit by such a measure due to the loss of assets in the relevant country (see Lenz 2011). This also applies to the European Central Bank which has bought up large quantities of GIPS securities. If private banks had suffered a haircut the financial crisis would have been ameliorated, but this was rejected in favour of bank rescues. Now a debt cut would endanger the funding of the deficits taken on by the state, without which a return to growth is not possible (Kamppeter 2011: 26). Exit from Monetary Union would also have fatal consequences for the country concerned and for the Euro area. Although the exchange rate mechanism would once more become available to the exiting state, which would improve its competitiveness, the likely scenario is one of continuing inability to pay due to the greater difficulty involved in servicing old euro-denominated debts and the impossibility of borrowing on the capital markets on reasonable terms because of high interest rate premiums (AK Europa 2010b: 8f).

The integration of the ESM in a real European Monetary Fund should be institutionalised. Its primary task should be to enable an anticyclical fiscal policy for indebted state budgets while at the same time restoring market confidence (Dauderstädt 2011: 4). A central instrument of this Monetary Fund should be Community bonds or Eurobonds guaranteed jointly by the Eurozone member states and issued at a uniform interest rate. Since the creditworthiness of bonds would correspond to the European average, in a liquidity crisis states could obtain them at lower interest rates via the market for European government bonds that would thereby emerge. In order to avoid moral hazard, however, indebtedness in Eurobonds should be limited to 60 per cent of GDP (blue bonds). Borrowing above this limit (red bonds) would remain strictly the national responsibility of the country concerned and would accordingly be more expensive in the case of a lack of fiscal discipline and credibility. Eurobonds should be subject to a low interest rate so that debt reduction is possible. Its introduction would be compatible with the creation of the ESM and would considerably reduce its planned volume (Delpla/von Weizsäcker 2011). The key notion behind blue and red bonds is the promotion of European solidarity between the member states which at the same time does not absolve individual countries of their particular responsibility. Eurobonds are necessary if the common currency is to be maintained. It needs to be understood that in a debt crisis both debtors and creditors are in the same boat and convincing solutions involving all Euro area member states must be sought.

Even far-reaching rescheduling in Greece could be alleviated by means of blue and red bonds. If they were introduced abruptly it could be combined with the restructuring of the national debts of the GIPS states: blue bonds would therefore function as the equivalent of Brady bonds (Delpla/von Weizsäcker 2011: 3). Private sector participation in aid measures for ailing states is desirable. On a voluntary basis, however, as in the case of the Greece package agreed by the EU in July and again in October 2011, private participation is unlikely to work. It would make more sense in pursuit of a kind of »originator principle« to introduce a financial transactions tax or a property levy to enable a specific growth strategy for the GIPS countries. This and the guarantee of lower interest premiums on government bonds are to be preferred to a harsh debt cut. If the latter is unavoidable, however, it must be conditional on the introduction of Eurobonds and a plan for the recapitalisation of faltering banks. The most urgent task is to get the GIPS states back onto a growth path. »A crisis fund must be considered for investment, innovation and education in the European periphery which would be covered by an earmarked solidarity levy in the Euro countries« (Hacker 2011: 4). Alternatively, the money required for a strategy of social growth in the GIPS states could be granted directly from the EU budget.

3.1.4 Putting the Financial Markets to Work for the Real Economy

Every kind of economic policy coordination and mechanism for overcoming the refinancing crisis is strongly dependent on the parallel regulation of the international financial markets, due to their independence and capacity to enforce their will. The international financial and economic crisis that broke out in 2007 has called into question many economic dogmas that had come to be accepted as the conventional wisdom, such as the efficiency of market allocation and self-regulation (Schreyer 2007; AK Europa 2008, 2009). »We now know that without sufficient state regulation markets are susceptible to catastrophic crises: they have no power to compel the human drive towards profit maximisation to serve the common good« (Steinbach/Steinberg 2010: 1). As a result, the inadequately regulated financial markets considerably intensified the European crisis generated by the macroeconomic imbalances between the Euro states. »They had the effect of oil poured onto the flames: speculation severely worsened the already difficult situation of the deficit countries« (AK Europa 2010b: 7).

Besides the urgency of financial market regulation at the international level within the framework of the G20 (Pohlmann et al. 2010; Helleiner 2009) it is important that the EU begin to introduce specific legislation for the European area. In this way regulation could be standardised and Europe could establish itself at the forefront at the global level. »Closely integrated financial systems are only as stable as their weakest systemically important element … Stabilisation of the European financial system will not be sustainable if nations try to go it alone« (Dullien/Herr 2010: 14). The main task is to return the financial markets to servicing the real economy (Kamppeter 2011; Kapoor 2010; Dullien/Herr/Kellermann 2009, 2011). A sustainable social growth model for Europe needs a financial sector policy that protects capital market actors from themselves (Dauderstädt 2009: 4).

At the European level much headway has already been made with bringing the financial markets under closer political control. This includes concentrating the supervisory architecture and regulations, higher capital requirements for banking institutions, stricter regulation of rating agencies and stronger control concerning derivatives trading and securitisation (see Dullien/Herr 2010; Noack/Schackmann-Fallis 2010). But there is still a great deal to do.

In keeping with this, the authorisation of financial products should be strictly limited so that the financial industry is not able to evade new regulatory provisions with the constant invention of new derivatives and securitisations. Certification by an admission board for securities is needed which examines the economic benefits of financial products (Steinbach/Steinberg 2010: 2). Progress with regard to the regulation of rating agencies remains hindered by their continuing structural dependency arising from the fact that they are paid by the companies on which they are supposed to pass judgement. In order to ensure objectivity and neutrality, therefore, a European rating agency must be established – perhaps with public backing, which could be financed from Community resources. Also unsatisfactory is the »fragmentation of financial market supervision« (Dullien/Herr 2010: 13): what Caspers (2011: 2) calls the »regulatory jungle«. The authorities recently established by the EU lack the requisite robust competences to issue instructions and impose restrictions that national supervisory authorities have, which tend to regulate the domestic banking sector more liberally so as not to undermine the national financial centre (AK Europa 2010b: 8). With the agreement on new capital requirements (»Basel III«) the demands on financial institutions have been heightened; however, the core capital ratio of 6 per cent that will apply from 2013 could prove to be too low. Furthermore, a risk-independent debt limit for financial institutions must be agreed so that there is a limitation on the maximum possible borrowing in relation to total assets (the so-called leverage ratio). No solution has yet been found in the EU with regard to banks that get into difficulties and are regarded as systemically important or »too big to fail«. Besides higher capital requirements for such institutions and new regulations on bank insolvency a strict separation of commercial and investment banks (Kamppeter 2011: 23; Steinbach/Steinberg 2010: 2f.) would be helpful – which tentatively has already happened in the USA (the so-called Volcker Rule). The comprehensive regulation of the financial markets in order to prevent systemic risk is also a key condition of efficient monetary policy via central banks (Illing 2011).

The introduction of a financial transaction tax, a key reform demand, remains on the agenda but nothing has been done yet (Noack/Schackmann-Fallis 2010: 15; AK

Europa 2010b: 7f). Since introduction within the framework of the G20 is unlikely, Europe should take the lead here, too. The aim of such a tax, on the one hand, is to make short-term speculation and use of the most marginal arbitrage opportunities more unattractive and thereby reduce market volatility. On the other hand, it brings in additional tax revenues. Even low hypothesised tax rates of between 0.0001 and 0.1 per cent on all transactions involving financial securities would generate estimated revenues of between 1.8 and 51.3 billion euros. In the EU, such a tax could be introduced by means of a directive binding on all member states, regardless of whether the EU's tax competences are reinforced (see Section 3.3.1). However, this entails the risk of a race to the bottom with regard to tax rates, since they would remain a national responsibility. Furthermore, considerable revenue asymmetries must be assumed which should be taken into consideration in the realisation of common European projects (Paul/Neumann 2011).

3.2 Strengthening European Governance at All Levels (Medium-term Measures)

3.2.1 Reinforcing Wage Policy Coordination in the EU

As the case of Germany in particular shows, wage policy is a crucial parameter in the development or avoidance of macroeconomic imbalances. It is therefore necessary that wage increases in the member states on average take full advantage of the distributionally neutral scope offered by the rule of thumb »productivity growth plus inflation adjustment« in order to avoid distortions of competition and to help to balance current accounts (Busch/Hirschel 2011: 6). In this way states with high deficits should limit unit labour cost increases, whereas surplus countries are called on to abandon wage restraint. Also worth considering is the extension of wage negotiation networks and, supplementing them, the introduction of a uniform European price rise indicator to reduce tensions with regard to price competitiveness (Pusch 2011). One forum for stronger coordination of diverging wage policies could be provided by the relaunch of the Macroeconomic Dialogue as a joint committee of the European Council, the Commission, the ECB and the social partners (Hacker/van Treeck 2010: 10; AK Europa 2010b: 4). Indispensible if efforts are to be intensified for wage policy coordination is an institutional and organisational Europeanisation of trade unions and employers' organisations (see Box 1). Wage policies, however, must not be brought into play as the sole instrument for correcting macroeconomic imbalances, but should be only one aspect in a mix of measures (Pusch 2011: 10ff).

Since the adoption of the Doorn Declaration in 1998, the establishment of transnational wage negotiation networks and the adoption of coordination guidelines in various branch organisations the European trade unions have striven to conduct collective bargaining and wage policy beyond national level. As a rule of thumb, national collective agreements should at least reflect increases in both productivity and inflation. After first the European Metalworkers Federation (EMF) called on its member organisations – in 1998 – to base their wage policy on this formula in due course all important branch trade unions have followed suit. Implementation to date has foundered on the employers' organisations and the weakness of the trade unions, however (Busch 2010: 7). This means that while, on the one hand, the laying down of binding targets and procedural regulations is in evidence at the European level, the orientation of national policies ultimately depends on the individual commitment of member organisations and their respective decentralised »clout« in the national context (Platzer 2011: 121). Transnational collective bargaining thus constitutes a central field of activity given that how things stand with EMU is increasingly inducing unilateral governance and self-regulation at the European level if the trade unions are to limit or avoid wage policy upheavals and location-related conflicts (see Platzer 2010). In particular the EMU crisis demonstrates the fine line between using wage policy coordination as a macroeconomic instrument and the danger of centralised »mechanistic management« of collective bargaining, thus distancing trade unions from their core task of improving workers' working conditions and living standards (see commentaries in Pusch 2011). Since approaches such as the Euro-Plus Pact pose a real danger to free collective bargaining, curtailing it against the background of major economic upheavals in the EU, it would appear that the trade unions themselves need to establish a European coordination mechanism. Otherwise, there is a serious danger of EU policy committees assuming top-down governance of wage policy and its subsumption among the exigencies of macroeconomic planning.

Box 1: Using the Crisis as a Signal to Accelerate the Europeanisation of the Trade Unions

Besides collective bargaining, the Social Dialogue and transnational agreement policy are as important as policy on multinationals for European trade union policy, closely linked to supporting and guiding European works councils (EWR). These represent »a far from exhausted resource for bottom-up Europeanisation« (Platzer 2011: 123). To this end trade unions' cross-border organisation policy structures must be more closely integrated and work must begin on developing common positions on key issues of European integration. Similar to European social democracy, internal organisational conflicts with regard to programmatic and strategic orientation must be overcome (Platzer 2010: 10; Busemeyer et al. 2007). Given the *fait accompli* of the largely economically oriented integration process trade unions cannot avoid redefining their position with regard to Europe. Confronted by the rolling back of social and employment policy interests in favour of marketisation and economic liberalisation the danger is that the initial »naive pro-Europeanism« (Urban 2009: 19) will be converted, via a growing »Euroscepticism in many parts of the European trade union movement into an open rejection of the European integration process« (Busch/Hirschel 2011: 7).

Vacillation between affirmative, proactive support for the European project and criticism of the main direction of EU policies (Kowalsky 2010: 128ff) must be resolved in favour of »pro-European criticism of Europe« (Urban 2009: 17). However, this must do more than list the shortcomings of the integration process: advocacy of a »social Europe« as a counter-model must be given substance (Kowalsky 2010: 140f). There is no shortage of options. A social dimension could be developed for the EU Single Market (Erdmenger et al. 2009); the dominant competition strategy could be replaced by a new combination of sustainability, solidarity, cohesion, equality and social progress as Europe's agenda for the future (Sommer et al. 2010); and the EMU crisis could be addressed in terms of an economic policy based on solidarity and social equity (Buntenbach et al. 2011). But these approaches should be fitted together into a coherent whole and presented as an alternative model.

3.2.2 Agreeing on a Social Stability Pact for Europe

A key design fault in EMU was the deliberate creation of a »system of market states« in Europe (Busch 2009: 8, 16). Within this framework the member states compete for capital investment, production locations and jobs in a regime of communitised monetary policy but a largely nationally determined fiscal policy. With this in view low wages, low social contributions and low taxation are used as comparative advantages. Instead of this, »decent work«, social progress and environmental sustainability should be adopted as target criteria on a par with competition and the Single Market freedoms in order to enable a process of social growth. Rather than using the level of taxation, social security contributions and wages as bargaining counters in a system of market states mechanisms should be introduced which can restore social cohesion to the centre of European coordination efforts. Continuing reliance on structural reforms of the welfare state on the basis of stronger recommodification and individualisation of risk alongside procyclical fiscal policy is unlikely to overcome the EU's socio-economic heterogeneities. In order to steer internal European competition for investment, jobs and production locations along regulated lines competition-driven harmonisation should be superseded by a Social Stability Pact. Within this framework the member states' minimum wages, corporate taxes and social spending would be coordinated in accordance with their respective economic capacities. As in the case of the Foreign Trade Stability Pact (see Section 3.1.2) what is called for is an intelligent balance between policies agreed on between the member states and implemented decentrally, on the one hand, and a central European framework, on the other hand. This could be achieved by means of a revamped open method of coordination (OMC) within the framework of the Europe 2020 Strategy (Hacker 2009; Hacker/van Treeck 2010: 11f).

The first element to be addressed in a Social Stability Pact for Europe would be minimum wages. At present, 20 of the 27 member states have a statutory minimum wage. Denmark, Finland, Italy, Austria and Sweden, by way of an equivalent, have a high degree of collective bargaining coverage. Only in Germany and Cyprus is there no minimum wage or comparable regulation in collective agreements (Bosch et al. 2009: 20ff). A European minimum wage policy could prove to be an important instrument against increasing wage differentiation and the expansion of the low wage sector (Zitzler 2006). It is not a question of establishing a uniform minimum wage for the EU, but the introduction of statutory minimum wages or generally binding collective agreements in the individual member states in accordance with their economic capacities, expressed as a percentage of national average income. In accordance with the concept of decent work wages in all EU member states should at least ensure a minimum standard of living. Accordingly, minimum wages should not fall below 50 per cent and in due course 60 per cent of the average wage in the respective country (the poverty line laid down by the EU stands at 60 per cent of the median income). Regardless of this uniform floor the member states are free to introduce higher minimum wages if they choose. Minimum wage regulations should apply to both citizens and migrant workers (Hacker 2009). In order to analyse the effects of the minimum wage and to develop recommendations for a gradual alignment of minimum wages at the uniform level of 60 per cent of the national average income an independent low wage commission should be established at the European level with representatives from EU institutions, the social partners and academia. While the trade unions would be called upon to help implement European minimum wage policy the role of the EU would consist in supervising its implementation at national level along the lines of the OMC (Zitzler 2006: 3f).

A second element of a Social Stability Pact could be a framework regulation for European governance of corporate taxation. The purpose would be to reduce competition in the provision of low tax rates and thus to ensure state powers with regard to tax revenues, tax structure and effects on other forms of tax. Crucial in this respect is the introduction of a mandatory EU-wide consolidated basis of assessment and a minimum tax rate (Uhl/Rixen 2007; Kellermann/Zitzler 2007). In contrast to the issue of minimum wages the interests of European countries vary considerably. A large group of advocates of coordination is opposed by a large group – primarily the UK and Ireland and Central and Eastern European states – that wish to defend the status quo. Yet other states are ambivalent. One pragmatic solution, therefore, could be enhanced cooperation among a small group of states favouring coordination (Kellermann/Kammer 2009: 8ff). The proposal presented by the European Commission in spring 2011 for a directive on the introduction of a common consolidated corporate tax base (CCCB), however, is highly unsuitable if the aim is tax harmonisation. It is supposed to operate on a voluntary basis which de facto would lead to a twenty-eighth tax system in Europe which is only likely to intensify competition (Rixen/Uhl 2011).

The third element of a Social Stability Pact would comprise the binding of state social protection spending to the development of national per capital income. This coordination mechanism should ensure that the currently still close relationship between economic and social progress in the EU is maintained and prevent manifest social dumping. Margins would be laid down within which total expenditure on old age, health care, inability to work and unemployment, among other things, could fluctuate in accordance with each countries' level of economic development. The application of a guiding framework to keep social spending within a politically determined corridor would mean that no EU member state would be able to gain a competitive advantage by means of below average expenditure. No country would be overburdened, even if its economy was less developed than the bulk of its EU neighbours and in this way even the problem of »underload«, which tends to accompany uniform minimum standards, or the danger of socio-political levelling would be avoided. The member states' freedom to decide how to distribute social benefits would remain untouched: only their total level is at issue. The objective for all states would be advancement towards the leading group of countries that combine high economic productivity with a high social spending rate (Busch 2011). Besides social protection it would also be possible to integrate education expenditure in the corridor model or the Social Stability Pact.

3.2.3 Reorienting Growth Strategy as a Well-being Strategy

Europe will not be able to save its way out of the current debt crisis of individual EMU states. Only growth will make it possible to reduce the state debts accumulated in the wake of the financial and economic crisis. This is another reason why the EU needs its own growth strategy. Having said that, different economic paradigms are needed from the Lisbon Strategy of 2000–2010 and now the Europe 2020 Strategy, which as its name suggests runs until 2020. The Lisbon Strategy, which in many respects has failed (Collignon 2008; Kellermann et al. 2009; Kaiser 2009) was incapable of meeting expectations with regard to Europe-wide economic, employment and social policy coordination, not to mention the envisaged growth targets. Its one-sided supply side and market liberal orientation – at the latest from its mid-term relaunch – did not recognise the need for an alternative policy mix for Europe (Fischer et al. 2010).

Instead of measuring the EU's competitiveness with regard to other regions the main point of reference should be progress in terms of quality of life based on a »social growth model for Europe« (Dauderstädt 2010a: 4). »The EU does not need a competition strategy but a sustainable strategy on well-being. Social, environmental and economic progress must rank equally in such a strategy which makes sustainability, employment and social cohesion the focus of its endeavours« (AK Europa 2010a: 3). A growth path which, within the framework of the European system of market states, incentivises a race to the bottom with regard to wages, taxes and social security contributions in the medium term does not increase quality of life, but facilitates redistribution in favour of the rich without generating substantial growth. The focus of European coordination efforts, besides straightforward productivity advances, should be urgent improvements in quality of work, fair distribution of the gains from productivity advances and environmentally sustainable production and consumption patterns (AK Europa 2010a: 3).

The EU's second ten-year strategy is not convincing in this respect either. Although it talks of promoting smart, sustainable and inclusive growth the severely curtailed and unambitious objectives of the Europe 2020 Strategy continue to pursue a competition-centred understanding of European growth dynamics. The largely toothless open method of coordination, the lack of democratic legitimacy and civil society participation with regard to the Lisbon Agenda have not changed (Sommer et al. 2010; AK Europa 2010a). Worse still in the wake of the EMU crisis is the enframing of the Europe 2020 Strategy by the European Semester and the Euro-Plus Pact and thus the de facto exploitation of economic, employment and social policy goals to meet the needs of the tightened-up Stability and Growth Pact (see Hacker/van Treeck 2010).

The EMU crisis highlights both the urgent need to regulate macroeconomic imbalances and asynchronous economic cycles (Dauderstädt 2007: 37) and the unsustainable model based on competition and comprising privatisation, deregulation and liberalisation. A new social, fair and sustainable growth model must be put in place not only for individual member states within the EU but for the Community as a whole, which is becoming ever more closely integrated. A transnational economy needs a transnational political framework which offers the participating member states a convincing alternative to the logic of competition, protectionism and political freeriding (see Evans/Coats 2011: 28). Besides the instruments already mentioned the following elements should form an integral part of a European strategy to coordinate social growth between the member states (see Fischer et al. 2010; Sommer et al. 2010; Kopp et al. 2009; Collignon 2008; Kellermann et al. 2009; Pohlmann/Hassel 2010):

- A strong role for public investment to renew infrastructure – in particular in the domain of social services – stimulate private investment and ensure a strong welfare state.

- Political coordination of fiscal and wage policies with the monetary policy of the European Central Bank (ECB) and the creation of a dynamic European labour market concerned with social cohesion by revitalising the Macroeconomic Dialogue.

- Development of an environmental and energy-efficient industrial base by means of an active, employment-oriented and sustainable European industrial policy in the form of a Green New Deal and the corresponding restructuring of energy and transport infrastructures.

- Ensuring efficient public services accessible to all in a single market that sets social and environmental standards.

- Increasing »social productivity« by revamping flexicurity and prioritising the principle of »decent work« to reinforce employment and income security as well as private consumption by means of high quality jobs, including innovative forms of working time and job innovation and the prevention of precarious employment.

- Ending forms of wage, tax and social dumping and facilitating social cohesion by equalising living standards in Europe in order to protect the capacities of the state, in accordance with a fairer distribution of economic growth.

- A policy mix comprising high public spending on education, training and research for all citizens, including immigrants living in the EU, to enable lifelong learning in the knowledge society and as a requirement of equal opportunities and social mobility.

The target triangle of the economic, the social and the environmental must become the basis of a social growth model for Europe. Its focus must be increasing quality of life for Europe's citizens and enabling the state, after decades on the sidelines, to play an active role in the financing, regulating and co-shaping of future economic and social policy. New instruments are also needed for this purpose, as already discussed concerning the dual Foreign Trade and Social Stability Pact. In a socioeconomically extremely heterogeneous Europe of 27 member states the endeavour to apply one size fits all solutions, aimed at imposing cohesion and harmonisation via managed competition, must cease.

3.3 Striving for a European Political Union (Long-term Measures)

3.3.1 Understanding Europe as a Federal Entity

In the long term, conceiving of Europe as a federal entity is more important than corrective measures designed to reduce competitive pressures and to flesh out positive EU integration. The policy proposals presented above – such as a European Monetary Fund, Eurobonds, wage policy coordination and a dual Foreign Trade and Social Stability Pact – are important steps towards correcting the constitutional asymmetry between economic and political integration dynamics in the EU and towards the enabling of a new, specifically European approach based on social growth. These steps require a high degree of European solidarity among the member states and at the same time ensure that national sovereignty is not unnecessarily curtailed. Ultimately, they provide a regulatory framework to be given content by way of democratic processes and civil society participation in the individual member states. However, this approach that preserves sovereignty and accepts constitutional realities largely as given inevitably comes up against its limits when something more than the correction of the current situation is involved and European policy is required to be proactive. Makeshift instruments of governance will not last forever. The EU's economic policy, social and democratic deficits will scarcely find satisfactory solutions on the basis of the current state of the Treaty (Fischer-Lescano/Kommer 2011).

The problem becomes apparent, for example, with regard to the call for a financial transaction tax that would be more than the sum of the rules of individual states. In connection with the EU's next Multiannual Financial Framework (MFF) from 2014 there is some controversy over the extent to which a reform of the European own resources system could also be used to introduce a separate EU tax (Petzold 2010: 3f). Various options suggest themselves: a CO_2 or energy tax, an air travel levy, a uniform corporation tax or simply a financial transaction tax (see also Section 3.1.4) (Begg 2011). However, this would require that the current system, based primarily on member states' contributions, be modified significantly. The member states' attitude of »juste retour« (fair returns) and the relatively small EU budget that results from that – which in any case is far too heavily weighted towards agricultural policy than research, knowledge and innovation – at present makes it impossible at the European level to prioritise the future tasks we have identified on a sustainable basis (Dauderstädt 2007: 39f.; Haug 2011). It is therefore essential that the EU give thought to attaining its own tax competences and deploying the resources of the common budget, by way of extended or yet to be created regional, structural, cohesion and investment funds to cofinance and safeguard converging economic, working and living conditions in the European integration area.

More far-reaching proposals – such as the possibility of financial transfers between the member states or the establishment of a common European unemployment insurance to balance out regional boom and bust cycles (Heise/Heise 2010: 9ff.; Schwarzer 2007: 5f.) – call for the establishment of a culture of solidarity within the EU. Possible approaches along these lines are currently being tested as regards their resonance among the public in the form of the rescue mechanisms set up within the framework of the refinancing crisis currently afflicting the GIPS states. In future this will be even more important in order to ensure that some states do not benefit handsomely from integration, on a permanent basis, while others are left behind. Possible instruments – ranging from a Eurosolidarity contribution to institutionalised European fiscal equalisation – would not be aimed at aligning economic and production structures, but rather at implementing the elements of social growth outlined in Section 3.2.3, adapted to the relevant national context. Furthermore, the individual member states will no more disintegrate than the comparative advantages of their economies could be levelled out – and nor should they! However, in a future structure which must be much more federal in nature, developing from a European union of states into a federal state of Europe, equality of living standards must be ensured.

3.3.2 Daring More European Democracy

A trade-off is increasingly becoming apparent between the general desire to bring about mutually compatible economic structures, the equalisation of living standards and common European economic and social policy priorities and objectives on the one hand, and member states' need to protect their sovereignty, to reduce demands on their own populations for more policy integration and to »do business on their own account«, as well as to be evaluated by the electorate solely on this basis, on the other hand. »Daring more Europe«, reducing socio-economic heterogeneities and establishing a new social growth model in the EU: all this encounters resistance because it shakes the foundations of the inherited order. If a European economic government is to be more than an instrument of European governance and is also to emulate institutional functions of government and responsibilities, it is essential that the member states take courage and move forward with integration. The fact is that to equalise negative and positive integration, apart from the European framework and quasi-automatic stabilisers as a fundamental requirement, a certain transfer of sovereignty is required from the national to the EU level (Heise/Heise 2010: 14). »If the Euro-countries do not feel responsible for one another an enormous crash is in prospect« (Fricke 2010: 6).

Nevertheless, one can understand the reluctance of many in the national political arena to surrender significantly more competences from the member-state to the supranational level, not for populist or nationalistic reasons or from disappointment with the course of integration so far, but from democratic considerations. »Europe can no longer be ruled by ›enlightened despots‹; citizens are now demanding that their sovereign rights be taken seriously. Europe's economic governance here touches the core of democracy« (Collignon 2010: 12). »More Europe« by further strengthening the principle of competition and by diminishing the scope for policymaking and democratic legitimacy will cause the European project to implode. It is clear, however, that the challenges facing us, including further globalisation, climate change and the depletion of natural resources, not to mention demographic change can be dealt with only on a Community basis. Furthermore, the – seemingly so painful – surrender of national sovereignty needed for this would also make it possible to institute decision-making and policymaking competence (*Gestaltungskompetenz*) at a higher level, in other words, an increase in European sovereignty via shared responsibility and competences (Habermas 2011).

The establishment of a social dimension for Europe on a par with the integration projects of the single market and EMU; bringing into being central economic policy governance including European fiscal equalisation and the completion of macroeconomic circuits at the transnational level require an impulse of democratisation for the EU that can be achieved over the long term only through the creation of a political union. Strengthening the role of the European Parliament (Collignon 2020: 12f), Europeanising national parliaments (Benz/Broschek 2010) – also by means of new institutional arrangements, such as a common budget committee (AK Europa 2010b: 7) – and deepening the European competences of the trade unions and political parties (Platzer 2010) could point the way forward when it comes to following up and implementing this model.

4. Epilogue

Preoccupation with the acute problems experienced by EMU during its current crisis and the focus on the dire situation in Greece have tended to obscure the asymmetries in the EU and its constitution that existed long before the crisis broke out. At first, the gamble that a common currency area could function without deeper political integration seemed to have paid off. The structural deficits of the Community architecture that have culminated in the current crisis have painfully revealed the failings of earlier integration measures, including the still recent Lisbon Treaty.

The »terrible ending« (which according to the proverb is better than terror without end) of policymaking based on the market-and-competition mantra, brought about by the global financial and economic crisis, gives us an opportunity to restructure European integration differently from how it has developed so far. Alternative policies of the kind presented here in terms of concrete short-, medium- and long-term measures are suddenly possible after many years of neglect by the political and economic mainstream. In certain respects – often against the will of the governing or self-appointed managers of the crisis – the complex crisis arithmetic has brought them to the surface and led to their implementation. Whether they will form a new basic design of growth and integration in their entirety, as presented here, remains open, however. The forces of inertia that would keep us on the traditional path should not be underestimated; nor should the ever shriller scepticism concerning the European project in general. If closer political integration does not happen because national, economic or welfare state egoisms and refractoriness gain the upper hand in the recently commenced reorganisation of European structures central beacons of integration will start to totter. If they should topple over this would generate scenarios still regarded as inconceivable, for which there are neither preparations nor a master plan.

More optimistically, the window of opportunity for a fundamental reorientation of economic integration in Europe has not been as open as it has become during the current crisis for decades. From a Social Democratic standpoint, the combination of overcoming current problems in the Eurozone and the correction of important basic determinants of the Community architecture offers perhaps a unique opportunity to make progress towards Europe's political union. It should be seized.

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About the author

Dr Björn Hacker is a political analyst at the International Policy Analysis unit of the Friedrich-Ebert-Stiftung in Berlin.

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