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New Options for a European Economic and Social Policy

There is increasing ambivalence concerning the economic and social consequences of European integration in the political debate across Europe. On the one hand, people hope for protection against the effects of globalisation and safeguarding of their own welfare state from the European Social Model, while on the other hand, people feel threatened by the effects of European integration. Catchwords such as job exportation, tax competition and migration of low wage employers who force high-wage employees out of their jobs, dominate the European political discourse. In France and the Netherlands, this discontent found expression in the defeat of the constitutional referenda and ushered in a crisis of the EU. The European Economic and Social Model faces the daunting task of harmonising the interests of 25 member states.

Against this background the present paper focuses on the different policies making up the European Economic and Social Model. It is true that leading politicians have already developed approaches in some policy areas in order to strengthen the positive effects of enlargement and integration and to limit the negative ones. But in many policy fields concrete reform proposals are lacking. Moreover, it remains largely unclear to what extent even the existing proposals are capable of achieving consensus in an enlarged Europe. Such consensus is indispensable, however, in order to realize policies at EU level.

In the following, eleven central policy areas of European economic and social policy will be discussed: fiscal policy, the Stability and Growth Pact, monetary policy and the European Central Bank, wage policy, employment policy and the Lisbon Strategy, social policy, social dialogue, macroeconomic coordination, tax harmonisation, agricultural policy, structural and cohesion policy, and the services directive. Within the policy areas, we will briefly examine the discursive range of each issue so as to identify central critical points and corresponding reform proposals (primarily with a short-term focus).

Fiscal Policy and the Stability and Growth Pact

The regulations of the Stability and Growth Pact were set up in order to stabilise the monetary union on a permanent basis. The two regulations which comprise the Pact bind participating states to submit 'stability programmes' and 'convergence programmes', as well as to adhere to a deficit limit of 3% of GDP.

Over the last few years, a number of weaknesses have become apparent in the Stability and Growth Pact. Above all, the Pact has been unable to effectively diminish the tendency to incur debt and to reduce indebtedness in economic upswings. Furthermore, the Pact has left little fiscal room to manoeuvre in the case of weak economic growth. Problems arising due to strongly diverging regional economic cycles and rates of price increases have been particularly significant. On the basis of the uniform interest-rate structure, countries with higher inflation have lower real interest rates than those countries with lower price increases. Downward spirals can thereby be set in motion, as recently observed in Germany (low growth and low inflation, relatively high real interest rates, low investment and low consumption, even lower growth, and so on). The most recent EU enlargement has heightened the problem of a 'one size fits all' rule even further.

Particular regulations have also frequently been criticised: For example, the 3%-rule is regarded by many as too restrictive and arbitrary. The most recent relaxation of the Stability and Growth Pact is essentially an extension of situations in which no deficit procedure was instituted despite violations of the 3%-rule. Structural reform of the Pact was not agreed, however.

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Criticisms	Reform proposals
One-size-fits-all approach	• Further economic integration in order to limit different economic cycles (legislative harmonisation, services directive); regions with lower inflation (and lower growth) could benefit from price advantages • Country-specific provisions deriving from the EU's overall deficit (corresponds to a Commission proposal in the mid 1990s, which was defeated in the Council; see, most recently, Buti/Nava 2003) • EMU states with lower national indebtedness (for example, <50%) could be released from the Stability and Growth Pact and could sign a 'debt sustainability pact'; stabilisation by means of higher deficits in economic downturns and a medium- to long-term sustainability rule (Pisani-Ferry 2002) • Smoothing out of economic cycles by means of European corporate tax and unemployment insurance; corporate tax should finance the EU budget, in growth periods it should finance surpluses, restriction of pro-cyclical spending policy (the same is true of unemployment insurance as basic insurance relative to income). Reduction of purchasing power in countries with high growth and lower unemployment, increase of purchasing power in countries with cyclical downturn (Dullien/Schwarzer 2005) • An independent 'Fiscal Policy Committee' which draws up country-specific rules. Responsible to the European Parliament; problems: budgetary policy is a core competence of member states (Wyplosz 2002)
Pro-cyclicity due to Stability and Growth Pact criteria	• Consideration of the nature of deficit: evaluate debts due to investment – in conformity with the Lisbon Strategy – differently from debts for Pact criteria consumer purposes • Consideration of national savings rates; low savings rates (as in UK and Portugal) are reflected in the medium term in higher burdens on the state budget (Weale 2004) • Use of structural budget deficits as reference value, possibly taking into account future pension-system burdens • Golden Rule: debts only for public investment (for criticism see Buti et al. 2003)
Too restrictive criteria under the Stability and Growth Pact	• Abolition of the 3%-rule in favour of concentration on the 60%-rule (level of indebtedness) from among the convergence criteria; evaluation of annual budget deficits on the basis of the formula 'GDP growth rate x 0.6 over the economic cycle' (Hishow 2005)
Convergence Criteria inappropriate for new member states	• Orientation towards structural reforms rather than convergence criteria (in particular, pension systems)

Monetary Policy and the European Central Bank

The primary aim of the European Central Bank (ECB) is to ensure monetary stability (inflation target below 2%). To the extent that this is not jeopardised, the ECB is supposed to support the EU's economic and employment policy aims. In recent years the rate of inflation has usually been above the 2%-mark. In 2000 and 2001, that led to a rather restrictive monetary policy. In the meantime, the ECB has established as its goal 'below or at least close to 2%'. It remains unclear whether the ECB considers rates of price increases of 1% and below to be problematic and how it would react to such deflationary developments.

What has been criticised above all, however, is the neglect of the second goal of cyclical support by means of monetary policy, giving rise to demands for a higher inflation target and/or a more active monetary policy. Comparisons with the policy of the US Federal Reserve show that the latter reacted more rapidly and more strongly to fluctuations in the economic cycle with interest rate cuts than the ECB. The reasons for this are (i) the different mandate of the ECB, (ii) the need to build credibility as a new institution, (iii) different theoretical approaches, and (iv) greater asymmetries in the countries of the Eurozone (De Grauwe 2002 and 2005). Only (i) can be influenced directly by political action.

In its 'two-pillar model' for the assessment of price developments, the ECB uses future inflationary expectations on the basis of a number of monetary indicators (wage development, economic growth, long-term interest rates, exchange rates, and so on). The second pillar refers to the development of money supply M3 and serves to provide a medium-term prognosis. In the official justification of its interest rate policy, the ECB has referred primarily to the second pillar, although the target variables of this indicator have frequently been missed. In the literature, it is therefore assumed that the ECB prioritises the first pillar (De Grauwe 2002: 703; Begg et al. 2002; Lommatzsch/Tober 2003). The 'two-pillar model' has repeatedly confronted the ECB with accusations of inconsistency.

Asymmetries between the countries of the Eurozone are proving problematic for more flexibility in European monetary and interest-rate policy. Due to different growth and inflation rates in the Eurozone, Ireland, for example, temporarily had negative real interest rates. In contrast to this, in Germany, they were 3% in 2001. The problem of some countries with high inflation rates and high growth on the one hand, and countries with low inflation and low growth on the other, has been exacerbated by the new member states and will continue due to their economic catch-up processes.

Looking at the external value of the euro, the question of stabilising exchange rate volatility against leading currencies like the US dollar and the Yen arises in order to reduce transaction costs and to diminish currency speculation. Between the two poles of a flexible arrangement of currency relations by market mechanisms (status quo) and a linking together of currencies ('Bretton Woods II'), there are proposals for a 'managed float' or a target corridor. Both imply central bank intervention as soon as currencies reach the limits of such a corridor (comparable with the European Monetary System or EMS), or deviate from the exchange rate target.

Criticisms	**Reform proposals**
One-sided concentration on price stability	• Reformulation of the ECB's tasks: price stability and cyclical targets
Unclear inflationary target	• Symmetrical (therefore equal valuation of inflation rates which are too low and those which are too high) and higher inflation target on the part of the ECB (Allsopp/Artis 2003) • Medium-term pinpoint target of 2% (no corridor since this would not be met in the case of special influences – Lommatzsch/Tober 2003)
Two-pillar strategy	• One pillar instead of a 'two-pillar strategy' (Gerlach 2004) • ECB measures on the basis of the first pillar, and the second pillar solely as control instrument
Exchange rate volatility	• Currency linking • 'Managed float' • Target corridors for leading currencies

Wage Policy

In the current EU institutional context wage policy is one of the most important remaining *national* instruments of adjustment since monetary and fiscal policy are subject to special rules or have been taken out of national hands. In the attempt to level out competitive disadvantages in recent years, stronger involvement of trade unions in 'social pacts' with the aim of wage moderation has been observed. In order to avoid a downward wage spiral ('competitive disinflation'), the trade unions of the Benelux countries and Germany, within the framework of the Doorn Declaration, agreed on a productivity-growth-oriented wage policy in 1998. There are even more far-reaching forms of coordination in the European Metalworkers' Federation, which tries to prevent wage dumping and inflationary tendencies by information exchange, agreement on common targets and coordination of wage bargaining (Schroeder/Weinert 2003). The trade unions have abandoned the aim of developing uniform wage rates in Europe since the beginning of the 1990s (Schroeder/Weinert 2003, p. 577). This reduced solidarity has its origins in the fact that the trade unions on the one hand want to be solidaristic supranational

organisations, but on the other hand have become rivals due to European liberalisation. In any case, the heterogeneous trade union structures in EU countries hinder Europe-wide integration that goes beyond co-ordination.

Two different economic-policy approaches compete in the debate on the future of a European wage policy. The hitherto dominant neo-monetarist approach advocates wage moderation and at the same time decentralisation of wage determination. Representatives of the post-Keynesian approach consider national and EMU-wide coordinated wage negotiation systems to be necessary (Hein/Niechoj 2004). Central instruments for this purpose are collective bargaining agreements (*Flächentarifverträge*). Here, a tension occurs with the decentralisation of wage negotiations to the sectoral and regional level as demanded in the *Broad Economic Policy Guidelines* (European Council 2003), and the also proposed differentiation of wage settlements for low earners and new entrants to the labour market, which rather correspond to a supply-side economic model. Of course, both positions agree on the goals of preventing wage dumping between member states and avoiding inflationary settlements.

Wage settlements in recent years have been quite moderate. Depending on one's (economic-policy) perspective, however, wage settlements which are too low can have deflationary effects and lead to declining domestic demand. On the other hand, some critics claim that decentralisation and differentiation of settlements in the low wage sector in some countries must go on in order to activate employment potential.

Finally, irrespective of the level of wage negotiations, a demand for the introduction of a European minimum wage was raised (Schulten et al. 2005). While there is a minimum wage in many EU countries German trade unions regarded it as a threat to bargaining autonomy. More recently, and as a result of experiences in other countries, this position appears to be changing.

Criticisms	**Reform proposals**
Lack of coordination of wage settlements	• Strengthening of macroeconomic dialogue between ECB, fiscal authorities and social partners; strengthening of the organisational capabilities of the trade unions; strengthening of pattern-setting collective bargaining agreements • Strengthening of macroeconomic dialogue between ECB, fiscal authorities and social partners; decentralisation and differentiation of wage settlements
Danger of wage dumping	• European minimum wage (for example, 50% of the respective national average income – Schulten et al. 2005)

Employment Policy and the Lisbon Strategy

The central pillars of European employment policy are the European Employment Strategy (EES, since 1997) and the Lisbon Strategy (2000). The EES was revised in 2003 and more strongly interlinked with the Broad Economic Policy Guidelines and the Lisbon Strategy. In accordance with the long-term-oriented Lisbon Strategy of 2000, Europe should become the 'most competitive and most dynamic knowledge-based economic area in the world'. There is a far-reaching agreement concerning the associated goals of the European employment guidelines and the Lisbon Strategy: reduction of unemployment, increase in employment rates, increase in women's employment rates, reduction of youth and long-term unemployment, creation of better jobs, improvement of training, extension of child care, and so on. In the 'halftime review' carried out by the European Commission in spring 2005, the appropriateness of the goals was reaffirmed, although they had not yet been achieved (European Commission 2005a).

A new start was decided upon for the Lisbon Strategy – activities were concentrated in eight core areas:

1. Support for knowledge and innovation in Europe.
2. Reform of subsidy policy.
3. Improvement and simplification of the regulatory environment of enterprises.
4. Completion of the internal market for services.
5. Conclusion of an ambitious agreement within the framework of the Doha round.
6. Removal of obstacles to mobility in the areas of transport, work and training.
7. Development of a common concept for economic migration.
8. Support for measures for alleviating the social effects of economic restructuring (European Commission 2005a).

Generally speaking, the core areas emphasise aspects of deregulation and liberalisation more strongly than the original Lisbon list. And despite the reduced list of eight core areas, the problem of implementation again manifested itself. Particularly in the cost sensitive areas (for example, higher investment in further training, universities, and so on), no progress was made, not least because at the same time most states were requested to take measures towards budget consolidation. The European Commission's draft on the services directive likewise met with opposition in many member states, and the faltering Doha negotiations of the WTO cast doubt on the contents of 'ambitious agreements'.

Discussion and evaluation of the implementation of the European Employment Strategy, the Lisbon Strategy and the Broad Economic Policy Guidelines were streamlined and should be coordinated more strongly. The employment policy directives provide for stronger coordination of policy areas, although it is clear that results in this respect are limited so far.

Criticisms	**Reform proposals**
Failure to achieve the targets of the EES and the Lisbon Strategy	• Prolongation of time limits • Harder forms of control in place of OMC • Linking of structural and cohesion funds to implementation of employment policy guidelines • Restriction to employment policy in the narrow sense (active labour market policy)
Limited results in consequence of institutional mix	• Feasibility studies for individual countries
'Naming and shaming' ineffective	• Reinforced public debate through stronger involvement of the social partners and national parliaments
Targets (for example, employment quotas) are socially unbalanced	• Interlinking of quantitative targets with qualitative indicators (for example, women's employment quotas, wage differentials and proportion of short-time employed) • Introduction of minimum standards
Incorrect macroeconomic concept / collision with the goals of the Stability and Growth Pact	• Integration of investment programmes (training, R&D) in the Lisbon Strategy • Modification of the Stability and Growth Pact

Social Policy

Current EU social policy has its foundation in the Amsterdam Treaty. Social policy comes under the joint responsibility of the European Union and the member states. So far, European social policy has been a policy area which is subject to soft regulations and guidelines. However, there are demands from all sides to strengthen social components alongside the development of market freedoms by means of social policy provisions. While in the area of labour law, Europe can show a discernible social dimension (minimum standards), regulations in the area of social services and social provisions are either non-existent or in the form of guidelines.

Measured in terms of the Esping-Andersen typology of social democratic, liberal and conservative welfare states, no convergence of welfare states towards a single European social model can be discerned over the

1990s (Petring 2005). One of the most important reasons for applying soft forms of regulation in the area of social policy is the heterogeneity of welfare state arrangements, which has increased as a result of enlargement (Kittel 2002). Because these differences are partly deeply rooted in national culture and traditions, the application of the open method of coordination in these areas at first appears practicable. On the other hand, the 'hard' provisions of the Stability and Growth Pact and the single market always dominate over the 'soft' forms of coordination. All recommendations and target agreements in the area of social policy are tied into the criteria of the Stability and Growth Pact and the monetary policy of the ECB (Scharpf 2002).

Due to the EU's eastern enlargement, fears have increased that migratory movements from the new member states could overload national social systems. This fear is grounded in the obligation to make social security available to all workers and their families, who migrate within the EU (EEC order no. 1408/71). Previous enlargement rounds did not lead to a massive increase in migration. However, it is assumed that states bordering on the new members – especially Germany and Austria – will be affected to a significantly greater extent by labour migration (Kvist 2004; Kittel 2002).

Besides the above mentioned directive, which regulates the aggregation of periods of insurance, the maintenance of benefit entitlements and the provision of benefits, labour law provisions represent the most strongly integrated area of social policy. In recent years it appears that these minimum standards have definitely represented improvements in social protection also for developed welfare states (cf. Falkner et al. 2005).

Criticisms	Reform proposals
Unsatisfactory social policy standards	• 'Hard' regulations instead of OMC • Lower limits for social expenditure as a % of GDP (Scharpf 1997) • Introduction of a European tax to ensure a subsistence minimum / European unemployment insurance (Dullien / Schwarzer 2005)
Heterogeneity makes a common social policy impossible	• Various directives at a relatively general level for groups of countries should continue
Social policy is dominated by competition law and monetary policy	• Revise the Services directive in this regard (social services) • Inclusion of social rights in the Charter of Fundamental Rights

Social Dialogue

Dialogue with the social partners is one of the pillars of the European social model, although freedom of association and wage bargaining autonomy are still the prerogative of member states. The Commission 'shall have the task of promoting the consultation of management and labour at Community level and shall take any relevant measure to facilitate their dialogue by ensuring balanced support for the parties.' (Article 138 of the EU Treaty). This can lead to contractual agreements. For this purpose the Commission has developed a process of continuous dialogue with the social partners, conducted with the leading representatives of the employers' organisations (UNICE and CEEP) and the trade union confederation (ETUC). Within the framework of this dialogue, common positions have been developed in the areas of education and training, labour market organisation and economic policy orientation. In the area of employment the active participation of the social partners stands at the centre of the new European Employment Strategy.

At the national level, in countries with a successful employment policy, the labour market reforms of the 1980s and 1990s were implemented through the involvement of the social partners. Denmark serves as a reference in this respect, but the same thing happened in the Netherlands and Sweden. In the 1990s, however, also countries with no corporatist tradition resorted to 'social pacts' (for example, Italy, Ireland, Spain). The core elements of these 'social pacts' were

deregulation of the labour market, wage moderation, improved training and the extension of the social security system to cover precarious employment (Hassel/Ebbinghaus 2000; Hassel 2003).

The attempt to transpose these instruments to European level has proved difficult. Since 1993, and laid down in the Amsterdam Treaty since 1997, the social partners have had the possibility to negotiate on employees' rights at EU level. Since then the social partners have been able to exert a stronger influence over the EU's directive policy, although implementation through the Council of Ministers is still required in order to ensure that it be legally binding. So far, three directives (parents' holidays, part-time work, fixed-term employment) and three framework agreements (teleworking, lifelong learning and stress at the workplace) have been adopted.

Alongside social dialogue at the macro level 31 branch committees have been set up in the EU since 1998. The only binding results so far have been the directives on working time in air and maritime transportation. Further results of sectoral dialogue still have the status of non-legally-binding common standpoints and declarations. The reason for the low output of this form of regulation is above all the interest of the employers' organisations in the continuation of the status quo. Because there must be a consensus of the social partners for the initiation of negotiations, UNICE and CEEP possess a de facto right of veto (Schroeder/Weinert 2003: 572).

The directive on European works councils was adopted in 1994 to promote social dialogue at the enterprise level. This body, which is primarily designed for information and consultation, has so far been established in around 40% of enterprises, which fall under the jurisdiction of the directive (Lecher/Platzer 2003). In consultation with the trade unions, European works councils can make an important contribution to transnational coordination. Of course, the Europeanisation of collective bargaining policy is still regarded by many national trade unions with scepticism. European works councils could play an important role above all in the conclusion of Europe-wide sectoral collective agreements. The networking, coordination and demarcation of tasks between trade unions and European works councils, however, remain unsatisfactory (Lecher/Platzer 2003).

Apart from that, in 2001, an initiative was launched to promote the social responsibility of enterprises (*corporate social responsibility* or CSR). CSR deals with aspects of human resource management, employment protection, enterprise restructuring, ecological matters and relations between enterprises. The aim of dialogue between Commission, social partners and NGOs is not so much the production of further EU directives but rather the establishment of common standards, learning by 'best practice models' and taking into consideration ethical and ecological aspects in stock indices.

Criticisms	Reform Proposals
Imbalance between employers and employees due to the de facto veto right of the former	• Stronger social policy activities on the part of the Commission in order to increase the interest of employers in the social dialogue
Unequal influence of trade unions and employers	• Heightened involvement of the social partners in decision-making processes (similar to the Lisbon Strategy)
Weak coordination at the sector level (Keller 2003)	• Coordination between European works councils and sectoral trade unions

Macroeconomic Coordination

Stronger European coordination of national economic policy is hotly contested and so far, there are no effective macroeconomic coordination instruments – the Stability and Growth Pact merely limits national room to manoeuvre. As a first step to macroeconomic coordination, the Broad Economic Policy Guidelines have been developed since 1993 and in 1999, the Cologne Process was launched. In recent years more and more policy areas have been included in the Broad Economic Policy Guidelines: They include country-specific recommendations, the member states are responsible for the implementation.[1] There are no sanctioning mechanisms, however, since these guidelines belong to the so-called soft form of coordination. The macroeconomic dialogue is the only body in which all relevant economic-policy actors are represented: members of the Commission, the economic and finance ministers of past, current and future presidency countries, as well as representatives of the ETUC, UNICE and the ECB. The macroeconomic dialogue has so far not led to positive results in the form of a higher economic growth. This state of affairs is connected to the

1 Since 2005 the Guidelines have been issued by the Commission together with the employment-policy guidelines as 'Integrated guidelines for growth and employment'.

heterogeneity of assessments of different economic-policy concepts in the EU. There is no common strategy by means of which the current form of 'negative economic-policy integration' can be overcome. Therefore, structural reform and deregulation remain predominant national strategies. Positive integration cannot be achieved without common goals and European instruments. Besides the reservations of individual actors on the basis of different economic theories concerning stronger coordination, the ECB in particular has no interest in greater competences being given to the macro-economic dialogue because it sees that as a threat to its independence (Schroeder/Weinert 2003). The macroeconomic dialogue is therefore essentially an information forum and not an effective instrument of coordination.

The alternative of national macroeconomic stimuli tends to produce inefficiency and/or counter-productivity due to the low level of positive coordination. For example, an expansive financial policy in one country can only produce somewhat higher inflation rates than the EU average and use the resulting lower real interest rates to stimulate economic activity. If, however, several states resort to this strategy, the inflation rate rises in the eurozone with the consequence of a more restrictive interest rate policy. In this way, low wage settlements (to level out competitive differneces especially in Germany lose their effect, since Germany's wage settlements function as a reference for wage settlements in most member states. Prevailing imbalances threaten to consolidate or even to become enlarged.

Criticisms	**Reform proposals**
Lack of macroeconomic coordination	• Wyplosz (2002) proposes an independent Fiscal Policy Committee (FPC) which would lay down country-specific rules. The FPC would be responsible to the EU parliament. • Reform of the macro-economic dialogue: stronger competences, binding resolutions
Coordination with wrong economic orientation	• Neo-Keynesian macroeconomic policy in case of the retention of current forms of coordination (Hein/Nichoj 2004)

Tax Harmonisation

Taxes continue to be a core element of national sovereignty, particularly the direct taxation of private incomes and corporate profits. EU tax policy so far relates predominantly to the rates of indirect taxes (such as VAT and consumption taxes) in the context of single market harmonisation. In addition, the Community budget is partly financed from VAT income. Therefore, the burden of contributions ought to be fairly distributed by means of harmonisation among all EU member states.[2] Beyond that, it is ensured that tax provisions do not hinder free movement of capital in the EU.

Due to increasing cross-border competition in corporate taxation, the EU will have to deal with this issue. With eastern enlargement the number of low-tax states has increased. The example of Ireland showed that low tax rates on corporate profits and corporation taxes could contribute to accelerated economic growth – sometimes at the expense of other EU member states. Such tax competition is sometimes criticised as tax dumping by countries with higher tax rates. On a longer term basis, pressure is growing to reduce tax rates in the countries concerned so that in the end income from corporate taxation tends towards zero and 'free riders' profit from a high level of infrastructure (Jarass/Obermair 2005). So far, the EU has only achieved the enactment of a 'code of conduct' which is supposed to ensure that no competition-distorting tax benefits are introduced. The EU is not aiming at the development of uniform tax rates or minimum tax rates, although an EU basis for assessment for corporate taxation is to be worked out.

Homogenous and generalisable data on tax competition are difficult to find at this point. However, it is possible to conclude the following: Nominal tax rates (particularly for corporations) have decreased in the last few decades, although this has been accompanied by a broadening of the tax base. Total revenue from taxation has therefore not decreased substantially. Tax competition has, as a result, prevented a further increase in taxes; on the other hand, a 'race to the bottom' is not (yet) discernible (cf. Genschel 2005; Ganghof 2000).

2 A VAT minimum rate of 15% was agreed Europe-wide for most goods and services, although variations are possible. Within certain limits higher or lower rates as well as exceptions for some goods are possible. In general, these are restricted to goods and services which are not in competition with goods and services in other member states.

In order to accelerate integration of the single market the EU has taken a number of measures to coordinate and adapt taxation systems. The requirement of unanimity in the Council of Ministers has once more proved a hindrance in this respect. Tax policy is therefore resisting the trend towards an ever closer union (Genschel 2002). Ultimately, progress in tax policy integration is typically connected with considerable distribution effects and there is no visible lobby for the Europeanisation of tax policy. Apart from that, the Commission is too weak to help the member states out of these conflicts.

Measures that go beyond harmonisation and coordination efforts towards an own source of financing for the EU ('EU tax') have found only isolated support. Austria is the only member state that have declared itself in favour of the option of financing the EU budget by means of a harmonised corporate tax.

Criticisms	**Reform proposals**
Lack of harmonisation	• Bring tax issues under majority voting • EU competence for raising taxes (in accordance with the institutional model of monetary policy)
Tax competition (especially from new member states)	• Europe-wide minimum tax rates • Europe-wide minimum tax rates with time limits • Consolidated corporate taxation for transnational enterprises (e.g. 'strict deduction of tax at source', cf. Jarass/Obermair 2005) • EU tax on financial transactions ('Schüssel proposal') • EU tax on capital income

Agricultural Policy

The EU's agricultural budget is by far the largest budget component (in 2004 around 45% of total expenditure, although it is falling). The Common Agricultural Policy (CAP) is the sole completely 'communitised' area of the European Union. If the status quo had been maintained, the most recent enlargement round would have meant a clear increase in the agricultural budget. As a result, in December 2003, a delayed introduction (to 2013) of agricultural subsidies for the new member states was decided upon. EU agricultural policy is divided into three areas: market interventions (for example, export subsidies), direct payments and payments for the development of rural areas ('second pillar of agricultural policy'). Direct payments represent, at around 30% of the EU budget, the largest budgetary item. The debate in this policy area concerns whether the EU should continue to focus the largest part of its expenditure on agricultural policy.

With the conversion of direct payments to regionally uniform payments to farms related to size (amount of agricultural land) one substantial weakness of the old EU agricultural policy has already been removed.[3] This change was at the same time a WTO-compatible reform, although a number of products are still exempt from this regime. In addition, there have been criticisms that large-scale farmers will be the main beneficiaries of these payments.

There have also been developments in another area: With regard to export subsidies for agricultural products, a WTO agreement was reached on complete abolition in 2004. No agreement has so far been reached on the question of duties and import restrictions.

3 This conversion corresponds to the decoupling of subsidies from production. Member states can choose between farm-size-related and regional subsidies. In Germany a gradual transfer from farm-size-related to regional subsidies is taking place.

Criticisms	Reform proposals
Inefficient system (incentives)	• Decentralisation of the CAP (renationalisation in accordance with the subsidiarity principle): only framing legislation from the EU in order to ensure policies in conformity with the single market, leaving concrete agricultural policy to member states
Excessive costs (particularly after EU enlargement)	• Degressivity of payments over time • Co-financing by member states • Exclusive EU financing of the 'second pillar'
Product-related direct payments	• Extension of 'decoupling' to agricultural produce (particularly sugar)
Wrong incentives of decoupling: rationalised large concerns benefit	• Upper limits for direct payments to single farmers • Individual rather than direct payments to single farmers • Linking of payments to the 'second pillar' (development of rural areas, ecological aspects, innovation, employment-policy aspects)
Export subsidies	• Swift implementation of WTO resolutions (abolition of all export subsidies)
Duties and import restrictions	• Gradual reduction; Doha negotiations are supposed to give priority to the export interests of industry rather than the interests of the agricultural lobby

Structural and Cohesion Policy

Structural policy is a central policy area of the European Union. It is supposed to serve the consolidation of economic and social solidarity ('cohesion') in the community and thereby to promote particularly growth and employment in underdeveloped regions ('regional policy'). Between 2000 and 2006, EUR 213 billion or one third of the EU budget was allotted for regional-policy purposes.

The structural funds serve the aims of structural adaptation of underdeveloped regions (goal 1), the economic and social transformation of areas with structural problems (goal 2), and the adaptation and modernisation of training and employment policies (goal 3).[4] Only regions whose per capita income is below 75% of the EU average qualify for structural funds. In contrast to the structural funds, cohesion funds have a *national* orientation: they support environmental and infrastructural projects in the poorer member states (GDP below 90% of the EU average).[5]

With regard to the future of the EU's structural and cohesion policy the fundamental question is how the economic power and living standards of the member states should be assimilated: Should structurally weak regions be supported or should there rather be investment in growth centres? Should the regional approach be maintained or should sovereignty with regard to resources and projects be left to member states (or to the market)? The background of those questions is the prevailing uncertainty of the effectiveness of European structural and cohesion policy.

This debate was intensified, at least on issues of distribution, by the accession of ten new member states in May 2004, since the regional differences in the EU thereby increased significantly. Under the current regime of the structural and cohesion funds, almost all old member states will lose their entitlement to support (only Greece, Portugal and Spain remain below 90% of the EU average after the 2004 enlargement). If the criteria were adapted so that the regions supported hitherto retained their entitlement, resources for structural and cohesion policy would have to be significantly increased. In the negotiations on the financial framework for 2007–2013, in contrast, reduced contribution payments of 1.14% GDP were envisaged, including cuts in the area of structural and cohesion policy.

More radical proposals call for the end of structural and cohesion funds against the background of their lack of efficiency, or at least a significant tightening of the selection criteria for recipient countries (for example, GDP per capita below 50% of the EU average; Boldrin/Canova 2003). More moderate proposals incline towards the co-financing of regional programmes

4 The most important structural funds are (i) the European Regional Development Fund (EFRE), (ii) the European Social Fund with an employment-policy orientation, and (iii) the European Agricultural Guidance and Guarantee Fund (EAGGF), with which structural reform in agriculture and the development of rural areas are supported.

5 Since 1 May 2004: Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Slovakia, Slovenia and Spain.

through national resources to increase the 'ownership' of measures (Weise 2003). Or they propose to give up the regional approach in favour of a national approach with the aim of institution-building and investments in research and development, vocational-training and infrastructure. The measures would be conditional and would have to be measured against benchmarks (Sapir 2003: 146–150).

For the financial period 2007–2013 the Commission proposes a revision of its current policy, which aims at intensified feedback, concentration on urban matters, transfer of more responsibility to the member states and regions with regard to questions of financial control and a reduction in the number of financing instruments. The regional orientation should thereby be preserved.

Criticisms	Reform proposals
Insufficient resources to maintain current payments	• Increasing the EU budget • Tightening up the criteria for structural funds • Concentration of structural policy on infrastructural and training investments (cancellation of fishing and agricultural subsidies, adoption of suitable programmes in agricultural policy, partly already decided) • Renationalisation of structural and regional policy • Sweden and the Netherlands are considering the reduction of regional support in favour of concentration on country support (no more structural funds, only cohesion funds) • Termination of the cohesion fund (country support) in favour of only regional support
Reduction of support for disadvantaged areas in the EU-15	• Determination of two thresholds for eligibility (one for the disadvantaged areas regions in the EU-15 and one for the new member states)

Criticisms	Reform proposals
Inefficiency of regional support	• Abolition • Significant tightening of selection criteria (GDP per capita below 50% of EU average, Boldrin/Canova 2003) • Focus on individual projects (without a regional focus) and metropolitan growth zones (European Commission 2004)
Doubts concerning the efficiency of structural policy	• Stronger connection to the aims of the Lisbon Strategy • Apply OMC to structural policy • Obligatory co-financing of programmes through national resources ('ownership', Weise 2003) • Institution building • Investment in research and development, (further) training and infrastructure • Benchmarking and conditionalisation of resources (Sapir 2003)

Services Directive

The aim of the Services Directive is the creation of a harmonised EU internal market for services by 2010. The directive is therefore directly connected to the Lisbon Strategy which aims to develop Europe into the 'most competitive economic area in the world'.

Realisation of the EU internal market for services requires the assimilation of legal and administrative provisions. In accordance with the Commission's draft of 13 January 2004 (Bolkestein Directive) and the amended version of 25 February 2004, this assimilation will be achieved first by dismantling national provisions under the so-called country-of-origin principle: In the case of services crossing borders only temporarily, the country-of-origin principle applies to the service provider, combined with an extensive ban on restrictions in the recipient country. Control and oversight of the service provider depend on the country of origin. As regards other processes the member states should jointly (mutual evaluation and peer review procedures) agree on additional rules. New restrictions by individual member states are subject to the affirmation of the Commission.

In the political and academic debates, it is disputed what consequences the unmodified introduction of the directive would cause in the individual member states. Would it result in the feared 'race to the bottom', in work, social, quality and environmental standards, or would comparable services converge in terms of price and quality (Böhret et al. 2005; Matuschek 2005)? DG Internal Market and Services takes the view that the services directive does not represent a substantial innovation in relation to current EU law. Employees would already be insured in the social security systems of their own country and instead of a corresponding cross-border control and monitoring, cooperation between the individual administrative agencies would be a better approach. From this perspective the services directive is primarily an attempt to debureaucratise Europe. Uncertainties remain, however, in relation to exceptions in the case of the posting of EU employees which is regulated by the Posting of Workers Directive (96/71/EC) (Article 24 of the Services Directive).[6] The Posting of Workers Directive remains valid, although possibilities of control for the member state of the workplace have been significantly reduced (for example, it is not permissible to oblige posted employees to carry with them social insurance documents).

It is also unclear how the directive will affect the principle of local government in Germany:[7] The inclusion of 'services of general economic interest' in the Services Directive could significantly reduce the freedom of local government. Only 'non-market-determined services', as well as the provision of gas, water, electricity, postal services and electronic communications, are explicitly excluded. For these areas the Commission has already issued separate directives within the framework of its competition policy. Hereby the Commission is pursuing the aim of allowing monopolies only in the case of the infrastructure of tasks of general economic interest, although allowing competitors access to this infrastructure. The Commission refuses to designate 'tasks of general interest', however, so that the extent of the liberalisation due to the directive in this area is difficult to evaluate. The opinion of the Internal Market and Consumer Protection Committee of the European Parliament therefore envisages explicitly member states the right to independently define what they understand by 'tasks of general interest (European Parliament 2005a, amendment 7).

Criticisms	Reform proposals
Unclear services concept	• Positive list • Explicit exceptions for health, welfare and social services (European Parliament 2005)
'Horizontal approach' (instead of the otherwise usual branch-specific provisions)	• Sector-specific provisions • Revision of the negative list of services which are excluded from the directive (particularly in the area of public services/social services) • Prolongation of transitional periods to protect important objects of legal protection (health, consumer protection, environment, cf. Böhret et al. 2005)
Country-of-origin principle	• Country-of-origin principle only after harmonisation • Country-of-origin principle in certain sectors as pilot projects • Rejection of country-of-origin principle
Uncertainties in relation to exceptions in the case of posting of EU employees, whose status is regulated by the Posting of Workers Directive (96/71/EC, Article 24)	• Revision and clarification (European Parliament 2005) • Revision of the Posting of Workers Directive and deletion from the Services Directive (European Parliament 2005) • Stronger control rights of posting member states (therefore of the state to which the employees are sent)

6 The Posting of Workers Directive establishes that for employees from outside the EU the same legal minimum standards shall apply to working time, holidays and health protection as for domestic employees. For the construction sector, in addition, a minimum wage is envisaged.

7 The principle of local government makes possible a free decision concerning how and by whom public services and public welfare oriented services will be provided (whether by municipal or private enterprises).

Conclusion: Mapping Interests for a New Consensus

Instead of drawing a conclusion at this stage, the Friedrich Ebert Foundation decided to carry out a research project on the economic framework and the social dimension of European integration. On the basis of the above described variety of competing policy options for a common European economic and social policy, and against the background of the current crisis of the European Union, we seek to analyze political views and interests with regard to the economic and social aspects of European integration. Our aim is the identification of positions in the relevant policy areas which might be capable of finding consensus – a *map of interests* in an enlarged Europe.

The planned research project includes a Europe-wide survey of leaders and senior executives in governments, political parties, trade unions and other institutions. It is taking place from autumn 2005 until mid-2006.

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