24
European Integration as a Vehicle of Neoliberal Hegemony

John Milios

Twenty-five years of neoliberal policies in Europe have influenced every aspect of social life. Starting from the late 1970s in most European countries, the privatisation of the welfare state, the downsizing of government, the emergence of new forms of social exclusion, the increasing unemployment and the polarisation of wages,[1] and the 'free-market' delivery systems for health, education, and welfare are changes which affect not only the economy but also the politics of European societies.

According to the conventional wisdom of official thinking, what is involved is a transition period until there is an upturn in investments corresponding to a rise in business profits, whereupon a new virtuous circle of development will get underway, with rising incomes. Yet, despite a clear recovery in profit levels and decreasing public deficits and inflation rates, neither investments nor economic growth rates are near the levels required for recovery in employment and living standards anywhere in Europe. On the contrary, the economic situation of broad social strata is deteriorating. In the name of private interest and the flawless workings of the market, social considerations take second place (Pelagidis et al. 2001).

As no alternative has been created to this way of managing public affairs in Europe, neoliberal economic strategies of 'deflation' are continuously 'rejuvenated', despite falling prices and fiscal stabilisation. Within this framework, misfits and the marginalized are perceived as a 'burden.' Even the so-called progressive socialist parties regard the cost of solidarity as unacceptably high.

This chapter focuses on the way that the ruling social, economic and political forces in Europe have channelled the process of European integration into an apparatus ensuring and reproducing the hegemony of neoliberal policies and ideas in European countries. A concluding section explores what ensures the sustained hegemony of neoliberalism, and the prerequisites for a change.

DIFFERENT GOVERNMENTS, SAME POLICY

In the 1980s or early 1990s, conservative parties obtained the support of the middle classes in many European countries and won elections on the strength of a clear 'liberal' political slogan: 'Let market forces act freely; fight all forms of bureaucratic, corporatist or monopolistic distortions of the market mechanism and the high growth rates of the past will be achieved again'. This conception was then concretised in a restrictive economic program aimed at curtailing wages and social spending, deregulating markets – including the labour market – and privatising public enterprises.

However, as the promised economic prosperity failed to materialise, liberal ideologies met with diminishing public acceptance. Most conservative parties, after a period in office – lengthy in the case of Britain and Italy, shorter in, for example, France or Greece – lost elections in the middle or late 1990s to centre-left parties.

Despite this shift in government power, though, economic and social policies did not change much in Europe. Exactly the same conservative policy was followed, sometimes slightly leavened by measures of social protection for certain marginalised sectors of the population. What actually took place was a retreat of the political and ideological visions of the (ruling) left and of social-democratic intellectuals, who now confine themselves to the continuous reiteration of the simple thesis that *full* deregulation can never exist and that therefore centre-left governments are more effective than conservative ones.[2]

Centre-left governments persist in not prioritising the reduction of unemployment or the promotion of growth by public spending. Instead, they prioritise price stabilisation, the reduction of public deficits, the promotion of 'labour-market flexibility' and the privatisation of public enterprises. So they appear as 'moderate' exponents of conservative policy, 'neoliberalism with a human face' as it were (see Chapters 2 and 21). These policies boosted the profit share in most European countries during the last two decades. Official statistics give the following data for the increase in the profit share between 1981 and 2003 (*European Economy*, Statistical Annex, Spring 2003, pp. 94–5): Italy: from 23.3 per cent to 32.3 per cent; Germany: from 26.9 per cent to 33.6 per cent; France: from 20.6 per cent to 30.7 per cent; Spain: from 25.4 per cent, to 34.5 per cent, and the United Kingdom: from 25.6 per cent to 26.5 per cent.

This persistence of neoliberal policies and ideas has been achieved through policies officially aiming at the promotion of economic, monetary and political unity among EU member states. These states seem actually to have declared that the process of European integration has as a prerequisite the implementation and maintenance of neoliberal strategies. In this way, they declare that, in order to promote European unification, these strategies must remain untouched by any critique and cannot be subjected to any substantial revision or change. By identifying it with European unification, the leading political and economic forces in Europe present neoliberalism as a taboo that cannot be violated.

There were three major agreements among EU states aiming at legitimising neoliberalism as the means of European unification par excellence: the 1992 Maastricht Treaty on European Union, the 1996–97 Stability and Growth Pact (SGP) and, most recently (2003–04), the [draft] European Constitution elaborated by the European Convention.

THE 'MAASTRICHT CRITERIA' AND THE 'STABILITY PACT'

In February 1992, the Treaty on European Union, signed in Maastricht, formulated certain economic 'convergence criteria', which were supposedly the precondition that would enable them to proceed to the third and final stage of a

Monetary Union (MU) and to launch the single currency: low inflation and interest rates, exchange rate stability, and, above all, public deficits and government debt no higher than 3 per cent and 60 per cent of gross domestic product respectively (Council 1993).

The restrictive 'deflationist' policy adopted by EU countries before the introduction of the common currency (the 'Maastricht criteria') was perpetuated after the circulation of the euro on the basis of the so-called SGP, signed in Dublin in December 1996. This 'pact' reasserts that budgetary restrictions should remain the keystone of economic policy, as government budget deficits shall not exceed a fixed upper limit of 3 per cent of GDP. Countries failing to restrict public deficits to the 3 per cent of GDP limit would have to face punitive measures, such as fines, up to 1.5 per cent of GDP. The SGP constitutes, therefore, an important instrument for implementing neoliberal policies of reducing the role of the state in the economy and of fiscal restructuring in favour of capitalist enterprises and higher income groups, in the post-euro era (European Economists 2003).

These neoliberal policies are being constantly reassessed in the Commission's Broad Economic Policy Guidelines (BEPG), where, for example, we read that 'wage developments should remain moderate' (European Commission 2003, p. 5), and that 'monetary policy, budgetary policy and wage growth' should always be 'compatible with price stability and the need to enhance confidence among business and consumers in the short run' (p. 16). Price stability is always supplemented by tax reduction, further liberalisation of financial markets, deregulation of labour markets and 'reform' of the pension system so as to shift it from public pay-as-you-go schemes to privately funded capital-market schemes (see Chapter 16).

However, these neoliberal policies proved to be very ineffective in the conjuncture of economic stagnation, which has hit the world capitalist economy since the turn of the century. Most European economies, following the restrictive course of the Commission's guidelines, were suddenly in danger of getting caught in a deflationary spiral. The declarations made at the Lisbon summit in March 2000 – the EU economy should become 'the most competitive economy of the world' within a decade, with an average growth rate of 3 per cent during the current decade – have been dramatically refuted: the GDP growth rate in the Eurozone declined from the average annual level of 2.1 per cent in the decade 1991–2000 to 0.4 per cent in 2003 (estimates of the European Commission), while growth rate of investment (Gross Domestic Capital Formation) declined from 2.0 per cent in 1991–2000 to −2.6 per cent in 2002 (*European Economy*, Statistical Annex, Autumn 2003, p. 87).

Despite cuts in the systems of unemployment benefits and social welfare, the 3 per cent of GDP limit for public deficits has proved a difficult target to meet in a conjuncture of weak growth and stagnation, coupled with tax reductions for corporate profits, capital gains and higher incomes. In November 2002, EU finance ministers voted to discipline Portugal for missing deficit targets. However, at the same time the German finance minister warned the Commission that his country was also unlikely to comply with the SGP deficit target for 2002. In fact, the German public deficit surged from 1.4 per cent of GDP in the year 2000 to

2.8 per cent in 2001, 3.6 per cent in 2002 and 4.2 per cent in 2003, while it is expected to remain above the 3 per cent of GDP limit until the year 2006. The situation developed in a similar pattern also in France, the second largest economy in the EU, as the country's public deficit ran over the 3 per cent limit and reached 4.2 per cent of GDP in 2003. As the two major EU economies involuntarily violated the SGP rules, the Commission declared, in March 2003, that the Iraq war provided an exception to EU deficit rules. However, after the protests by some of the smaller EU countries, claiming that 'sound' (read neoliberal) policies will lose their public credibility if not followed by all countries, the Commission began a sanctions process against the two countries, which could have led to fines of as much as 0.5 per cent of each country's GDP. However, this process was eventually abandoned by EU finance ministers, meeting in November 2003 in Brussels, who rejected the Commission's recommendations that France and Germany should immediately undertake deeper cuts in spending to comply with the SGP rules, or otherwise face sanctions. The European Central Bank immediately criticised this decision of the Council of Finance Ministers, claiming that it 'risks undermining the credibility of the institutional framework and the confidence in sound public finances' of the EU countries (Rhoads and Mitchener 2003).

The SGP has not been renounced; it was simply broken as a consequence of stagnation, aggravated by restrictive neoliberal policies. By abstaining from punitive measures against France and Germany, European countries reasserted their national authority over their own budgets. However, they still insist on following the neoliberal course, despite the fact that it was proved to aggravate stagnation and thus to be a major obstacle to more employment and growth.

EU ENLARGEMENT AND THE 'DRAFT CONSTITUTION'

In May 2004, ten new member states entered the EU; these include Cyprus, Malta and eight central and eastern European countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia). To be accepted into the EU, these countries have followed the restrictive policies connected with the Maastricht criteria and the SGP, despite the fact that some of them face major macroeconomic imbalances and a high unemployment rate (e.g. 19 per cent in the Slovak Republic and 20 per cent in Poland). The accession of two more countries (Bulgaria and Romania) is planned for 2007 or 2008.

To solidify the enlarged Union of 25 (and soon 27) member states, the ruling political forces in the EU have formed a 'Convention' which elaborated the draft of a 'Constitution for Europe', currently being negotiated among the EU member states (European Convention 2003).[3] The Constitution aims at 'finalising' the institutional framework of the EU for the decades to come, so that the 'deepening' of the process of European (economic, political and social) unification may be facilitated. However, it is not difficult to understand that the 'Constitution' actually aims at making neoliberalism 'irreversible' in the enlarged EU. The 'Draft Constitution' ascribes the character of 'constitutional order' to two major pillars of neoliberalism. First, deregulated markets. Article I-3 says that 'The Union's objectives: a single market where competition is free and undistorted'. Second, the priority of state security and 'military capacity' over human and social rights. Article I-40 says:

> The common security and defence policy … shall provide the Union with an operational capacity drawing on assets civil and military. The Union may use them on missions outside the Union for peace-keeping, conflict prevention and strengthening international security in accordance with the principles of the United Nations Charter.[4]

More specifically with regard to economic and social policies, after some 'progressive' formulations concerning the economic and social 'objectives' of the EU in part I of the Draft, which seemingly reproduce the general attitude of the 1948 UN Universal Declaration of Human Rights,[5] disinflation, the main motto behind all neoliberal policies, is acclaimed as a major 'constitutional' end: 'The primary objective of the European System of Central Banks shall be to maintain price stability' (Article I-29).

If one takes into account that in EU-15 the inflation rate (CPI) fell from 10.6 per cent on average in the 1970s to 6.5 per cent in the 1980s and to 2.1 per cent in 2000, to remain practically constant ever since, one can only reach the following conclusion: by choosing to further suppress inflation, European governments declare that they insist on the same neoliberal restrictive policies that have troubled the majority of the working people up to date, and that other goals, such as promoting growth, fighting unemployment, improving the welfare state, etc. are set aside for the whole historical period of 'consolidation' of the enlarged Union.

THE POSSIBILITY OF CHALLENGING NEOLIBERAL HEGEMONY

Neoliberalism is neither a 'correct' policy for economic reform and development, nor an 'erroneous' policy of certain governments, which could be amended through reasonable argumentation and discussion. It is a class policy, aiming at reshuffling the relation of forces between capital and labour on all social levels to the benefit of capital; it is a class offensive of capital against labour.

So far the capitalist offensive against labour has been resoundingly successful. It has succeeded in reducing labour's share in the net product: in the EU-15, it fell from an average of 73.9 per cent in the period 1971–80 to an estimated average of 68.3 per cent for the period 2001–05 (*European Economy*, Statistical Annex, Spring 2003, p. 94). In other words it has changed the relation of forces in favour of capital. Indeed, as a result a specific type of social consensus has been created, based on the acceptance by the labouring class of capitalist ideas and objectives. Isn't it consensus when trade unions accept that a key issue in social dialogue is how to increase profitability, or how to secure the national or European economy's competitive position in the global economy? It is consensus: consensus between the 'winners' and the 'defeated'.

By the same token, the post-Second World War welfare state can be seen as the product of class polarisation in the context of a balance of forces which no longer exists. In this context, policies of redistribution favouring wages, stimulation of demand among the popular strata and strengthening of social citizenship did not represent authentic democratic and social progress in general, but merely an alternative means for securing the rule of capital in a period which was relatively unfavourable for itself. It is clear then, that such policies, i.e. an anti-neoliberal agenda, cannot be implemented unless a radical shift in the present balance of forces between capital and labour takes place.

However, in order to establish a new distribution of the social balance of forces, the working classes must once again elaborate their own autonomous class objectives, independently of the capitalist imperative of labour discipline and profit maximisation. For this to be possible, labour must recreate its anti-capitalist strategy of social transformation. This is the great challenge that the 'movements against capitalist globalisation', rapidly growing in practically every part of the globe during the last years, are actually facing (Saad-Filho 2003).

Furthermore, the previous section has shown that the ruling social and political forces in Europe have managed to legitimise neoliberal policies as the means par excellence for 'economic convergence' and 'European unification'. Furthermore, neoliberal economic and social policies in Europe have been shaped in the form of 'common European policies', 'convergence criteria' and a common European 'constitutional' framework.

The process of European unification is thus being transformed into an ideological and political weapon of the European capitalist classes, in their conflict with the labouring classes: it is used as a vehicle for neoliberalism, as it has been identified with the formulation and implementation of economic and social policies of austerity, privatisation, market deregulation and suppression of rights. This conclusion does not lead, though, to 'anti-European' theses but it rather emphasises once more the importance of the formulation of an alternative strategy all over Europe that would promote the interests of the European labouring classes. Demands for a complete rewriting of the EU's anti-democratic and deflationary institutional structure and political agenda are motivated not by anti-Europeanism but by anti-neoliberalism and anti-capitalism: social reform, democratisation and the shaping of a strategy of radical change aimed at overthrowing capitalism and displacing it with an egalitarian and humane social order – i.e. communism.

NOTES

1. The increasing polarisation in wages, represented by the increasing ratio between the upper and the bottom ten per cent of the distribution of wages, has been apparent in all European countries since the mid 1970s. The same phenomenon appears also in the United States and in Japan. Since this ratio was decreasing during the first three decades after the Second World War, Harrisson and Bluestone (1988) defined it as 'the Great U-Turn'. For more recent data on wage inequality and polarisation, see Borjas (2000, ch. 8).
2. '[M]arkets will never replace governments in making strategic choices, organizing solidarity over a given territory and still more in institutionalizing markets … The state remains the most powerful institution to *channel and tame the power of markets*' (Boyer 1996, pp. 110, 108, emphasis added).
3. The draft Constitution has been adopted by all member states, with the exception of the clauses registering the weighting of votes in the European Council and the Council of Ministers. In

December 2003, the Council of European leaders failed to conclude on a final version of the Constitution, as Spain and newcomer Poland insisted on keeping the voting system crafted in 2000, which gave each of these countries almost as many votes as Germany, which has a much larger population than either. Germany and France insisted on reforming this voting system.

4. In the same article it is further stated (as a constitutional clause!) that ‘a European Armaments, Research and Military Capabilities Agency shall be established to identify operational requirements, to promote measures to satisfy those requirements, to contribute to identifying and, where appropriate, implementing any measure needed to strengthen the industrial and technological base of the defence sector, to participate in defining a European capabilities and armaments policy, and to assist the Council of Ministers in evaluating the improvement of military capabilities’.
5. e.g. Article I-3: ‘The Union shall work for a Europe of sustainable development based on balanced economic growth, a social market economy, highly competitive and aiming at full employment and social progress, and with a high level of protection and improvement of the quality of the environment.’ However, even at that general level, the European draft Constitution falls clearly behind the 1948 *Declaration* in relation to most social and human rights. With regard, for example, to the ‘right to engage in work’, we read in the draft Constitution: ‘Everyone has the right to engage in work and to pursue a freely chosen or accepted occupation’ (Article II-15) and ‘*Every worker has the right to protection against unjustified dismissal*, in accordance with Union law and national laws and practices’ (Article II-30, emphasis added). For comparison, we quote the respective article of the 1948 *Universal Declaration of Human Rights: ‘Everyone has the right* to work, to free choice of employment, to just and favourable conditions of work and *to protection against unemployment*’ (Article 23, emphasis added).

REFERENCES

Borjas, G. (2000) *Labor Economics*. New York: McGraw-Hill/Irwin.

Boyer, R. (1996) ‘State and Market: A New Engagement for the Twenty-First Century?’, in R. Boyer and D. Drache (eds) *States against Markets: The Limits of Globalization*. London: Routledge.

Council (Council of the European Communities / Commission of the European Communities) (1993) *Treaty on European Union*. Brussels and Luxembourg: ECSC-EEC-EAEC, 1992.

European Commission (2003) *Commission Recommendation on the Broad Guidelines of the Economic Policies of the Member States and the Community (for the 2003–2005 period)*. Brussels, 8 April.

European Convention (2003) *Draft Treaty Establishing a Constitution for Europe*. Brussels, 20 June.

European Economists (European Economists for an Alternative Economic Policy in Europe – Euromemorandum Group) (2003) *Full Employment, Welfare and a Strong Public Sector – Democratic Challenges in a Wider Union*, <www.memo-europe.uni-bremen.de>.

Harrisson, B. and Bluestone, B. (1988) *The Great U-Turn: Corporate Restructuring and the Polarizing of America*. New York: Basic Books.

Saad-Filho, A. (ed.) (2003) *Anti-Capitalism: A Marxist Introduction*. London: Pluto Press.

Pelagidis T., Katseli, L. and Milios, J. (eds) (2001) *Welfare State and Democracy in Crisis: Reforming the European Model*. Aldershot: Ashgate.

Rhoads, C. and Mitchener B. (2003) ‘Germany and France Dodge Effort to Rein In Spending; ECB Warns of Consequences’, *Wall Street Journal*, 25 November.