

A EUROPEAN RECOVERY PROGRAMME

The 1992 monetary crisis has been generally reported as a threat to the process of European union. But, paradoxically, that same crisis offers the clearest possible support to the idea that a single European currency is a vital necessity.

Such a contradictory perspective cannot easily be translated into practical measures. How feasible is the translation to full European monetary union? The criteria of the Maastricht Treaty were elaborated in terms of monetary policy. They presumed existing levels of deregulation, and beneficial market conditions. Long before the Danish vote against the Treaty, recession had posed a large question-mark over the practicability of many of these criteria. Convergence between highly developed and less developed economies sounds all very well, if it reflects an improvement in the productive potential of the poorest. But one law for the lion and the ox is tyranny, and to impose tight limits on public indebtedness in richer and poorer countries alike would be to lock the poorest into dire recession.

Awareness of these problems stimulated the demand for a European Recovery programme which would centre attention on full employment as the necessary bench-mark of progress towards integration. A modest commitment had been made, after the Maastricht meeting, to the proposals known as the "Delors 2" package, allocating funds for the development of social cohesion in Spain, Portugal, Greece and Ireland. But even this package has not been honoured by the Council of Ministers, who are reluctant to apply the necessary resources to fulfil commitments which flow directly from the decisions of Maastricht. We shall return to this matter below.

What lessons can be drawn from the great speculation of September 1992?

First of all, the sheer scale of that speculation gives us a picture of the ferocious monster which has been unleashed in the processes of deregulation. Today, more than ninety per cent of foreign exchange transactions concern currency speculation, as

opposed to less than ten per cent during the age of exchange controls. That transnational companies become deeply embroiled in the game is no mitigation: on the contrary, it intensifies the casino atmosphere of the contemporary economy. Corporations play the currency markets, partly to avoid the punishment of prospective devaluation. But defensive speculation is a contradiction in terms, and the result of the September crash gives a fearful warning of things to come.

It must be said, in passing, that the manner of the British Government's departure from the Exchange Rate Mechanism was as damaging as any blow struck by the Major administration against European institutions. It created the maximum confusion and pressure in allied states. Britain delayed seeking realignment until it was already too late, and then arbitrarily devalued by unilaterally breaking from the agreement. The result was further mayhem, much of which might have been avoided if there had been a serious attempt to reach agreement about the realignment of currencies within the mechanism.

We have now reached the point in which the case for a single currency is social and economic more than it is financial. Which country on its own can afford increased expenditure on job creation, or on social allocations, when its currency is vulnerable to the slightest movement in the foreign exchanges? It is not necessary to envisage a conspiracy to enforce Thatcherite programmes on reluctant governments. The speculative army, following the instincts of the wolf pack, will achieve conformity, all unbidden. If the invisible hand is supposed to regulate this process, its enforcement will be all too visible, red in tooth and claw. If governments are ever to recover the capacity to plan for higher levels of investment and expenditure, they will need to work together while moving towards the strength of the single currency. They may well also need to restrict the power of speculation by devising an appropriately progressive common tax on currency transactions, refundable only on the basis of hard evidence of their economic and social

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justification. Such a tax would penalise speculators and it would not be difficult to introduce alongside the Exchange Rate Mechanism. It could be maintained for external transactions after the advent of monetary union. Some estimates maintain that even an initial standard tax of a quarter of one per cent on such transactions would inhibit speculation by rendering it quite unprofitable for a large part of the time. Higher rates could be imposed on very large deals, or during periods of intense pressure. Of course, no individual government could control such transactions, but if all were to act together a tax would be perfectly feasible.

All this implies a resumption of the priority of public needs over private gain in the determination of Exchange Rate realignments. Evidently, Maastricht alone is not enough to produce such an outcome. Moreover, monetary union in the Maastricht style, as we have already seen, assumes measures which are highly deflationary. Strong though the measures for the single market may prove, countries balanced on the knife-edge between recession and depression will find a limit of three per cent. Of GDP on budget deficits far too restrictive. Of course, temporary derogations are permitted by the Maastricht Treaty. But in some countries, temporary relief is not likely to be sufficient. It is one thing to pursue policies which ensure that overall Community expenditure is not inflationary. But the unevenness of economic development within the Community insists on flexibility in pursuit of this policy. Where ten, fifteen or twenty per cent of the workforce is unemployed, public expenditure need not be inflationary. Work done by Stuart Holland and a team of economists reveals that the unemployment trends in the Community are most forbidding. Given the present low expectations of growth, and assuming weak cohesion, it is likely that the average unemployment rate in the Community could be as high as twelve or twelve and a half per cent by the turn of the century. Some analysts put it higher, at up to fifteen. This would give national and regional figures which are quite incompatible with the maintenance of present social institutions in some countries. On the worst guesses, almost twenty-five per cent of the Spanish population could lack work. Thirteen per cent could be unemployed in France. In Germany, even, the figure would rise to nine per cent. We must always recall that in recent years youth unemployment has been running at approximately twice the rate

Table 1

Country	Unemployment in Europe, 2000 AD				
	<i>If cohesion expenditure is minimal</i>	<i>If cohesion expenditure is strong</i>	<i>If cohesion expenditure is strong</i>	<i>If strong cohesion is linked to strong growth and 5% reduced working time</i>	
	<i>1.5% growth rate</i>	<i>3.5% growth rate</i>	<i>1.5% growth rate</i>	<i>3.5% growth rate</i>	
EUR12	14.2%	10.6%	13.6%	10.0%	8.3%
B	14.9%	11.8%	14.8%	11.7%	9.9%
DK	9.3%	6.4%	9.1%	6.3%	4.2%
D	9.5%	5.9%	9.4%	5.8%	5.8%
GR	11.6%	9.2%	9.3%	7.0%	4.9%
E	24.4%	19.1%	22.1%	16.8%	14.7%
F	16.1%	13.0%	15.8%	12.8%	10.7%
IRL	25.6%	22.6%	23.2%	20.2%	18.2%
I	15.6%	11.8%	14.3%	10.6%	8.5%
L	4.4%	0.9%	4.3%	0.8%	0.8%
NL	13.1%	9.2%	12.9%	9.1%	7.5%
P	9.0%	4.8%	8.1%	4.0%	2.1%
UK	12.3%	9.3%	12.3%	9.2%	7.0%
GDR	9.7%	7.1%	9.4%	6.8%	
GDR +D	9.6%	6.2%	9.4%	6.0%	

of general unemployment. Small wonder that areas of despair for youth correlate with the rise of racism and extremism.

The Stuart Holland team, which continues the ten-year old labours which were begun in the project, out of crisis, have produced detailed calculations based on an estimation of the effects of different variables on the likely unemployment levels in all the countries of the present European Community by 2000 AD.

The variables involve high and low growth rates, and strong and weak cohesion programmes. By way of assumption, estimates are made on the outcome of growth rates of 1.6% and 3.5% respectively. These are combined with projections of the results of maintaining present "low" levels of cohesion expenditure, and the outcome of "strong" social policies, which involve an increase of the Community budget of 0.44% of European GDP by 1997, rising to 0.60% by 2002, a

large part of which would fund external and internal cohesion programmes. As the table shows, strong cohesion plus high growth could diminish unemployment by one third in the Community as a whole. A similar reduction would pertain in Germany and Spain, Britain, France and Ireland would achieve a twenty-five per cent reduction. The overall average would then be ten per cent. Even better results could be achieved by average reductions of five per cent in working time, which are necessary because the productivity obtained with new technologies constantly outstrips the enlargement of market demand.

Whilst it is clear that shorter working time involves today, as it always has, keen bargaining in industry, and the likelihood of sharp contests, trade unions are likely to see the struggle for reduced hours as a key strategy for job creation and control over the allocation of working time. Already the 1500-

hour year is within reach in Germany and bolder ideas are gaining currency. The sharing of child-minding and domestic commitments adds to the pressure for cuts in working time and the recognition of new rights to domestic leave. The training revolution which new technology demands reinforces the need for paid educational leave, and indeed for educational access throughout working life. The European Parliament should endorse this case, and recommend it as a priority item for the social dialogue between employers it as a priority item for the social dialogue between employers and unions in Europe (involving UNICE and the ETUC). This is necessary because no solid progress can be made piecemeal by one country at a time, since those who refuse receive a competitive advantage in the short term even if they lose out in the end.

But necessary though it is, this argument is not enough. Evidently it must be conjoined to political and economic action at every level, from locality, to nation, to Community.

What precedents are there for a European Recovery Programme? They are quite clear.

The Japanese announced a special recovery programme, this summer, involving a total expenditure of 61.4 billion ecu (£43b). This is almost the same as the Community annual budget, of 63.2 billion ecu. It is comprehensively vast, and calculated to prime pumps in every sector of economic activity. Yen expenditure equivalent to 27.1 billion ecu is to be allocated to public works and infrastructure. Of that sum, the yen equivalent of 7.1 billion ecus will be allocated for regional and local programmes. If replicated in the Community, a programme of this magnitude would take structural funds to 24.8 billion ecus, a level they would not reach until some years into twenty-first century on current projections. No less than the equivalent of 28.5 billion ecus are to be injected by Japan into the financial system: not only to fortify weakened banks, but to boost development through special low-interest loans.

Can Europe afford to do less than Japan for its economic recovery? And how should this recovery be organised? It is no longer possible for nation states to be the motors of recovery. The main engine must surely be the emerging Community. There are contentious questions, but we do not have long to answer them.

Speaking to the socialist Group in the European Parliament, Jacques Delors said recently:

"We must bear in mind one figure. In 1997, Community expenditure will represent only 3 per cent of the total public expenditure of the member states. I myself had calculated the necessary amount at 5 per cent in the framework of economic and monetary union, and in the framework of subsidiarity, properly applied . . ."

In point of fact, the Delors 2 package, as it has become known, has been the object of a continued filibuster, in spite of the fact that it has been a rather modest project. True, it has been misrepresented by various national governments, some of whom have complained that it proposed a 30 per cent increase in Community expenditure. In fact, the increase which is projected would amount to 15 per cent, devoted to economic and social cohesion expenditure. This would be matched by national expenditure of an equivalent amount. But the national expenditure would come from the recipient state, and not be levied across the Community as a whole. Be that as it may, nobody could possibly compare this programme with the Japanese recovery effort, and think that it might substitute for a matching European Recovery Programme.

Here, we must face another paradox. Under the Maastricht Treaty, restrictive three per cent of GDP deficit limits, which have already fuelled strong criticism in the debate on the ratification of the Treaty, would certainly inhibit national decisions on recovery expenditure. Actions short of full-scale Community involvement will be divisive, and will in any case prove unlikely to succeed. Only a major increase in the Community's own budget would facilitate the development of a recovery programme on anything like an appropriate scale.

To this dilemma, we must join the urgent question of the deflation of social expenditure, which accompanies every recession, and will prove exceptionally marked in the present deep depression which has hit some countries. Social expenditure needs to be deflation-proofed.

Here, we encounter the major weakness in the Maastricht framework, which is most sharply reflected in the decision to allow the British Government to opt out of the entire Social Chapter. But that Social Chapter is by

no means as strong as it should be, and it leaves much to be desired in the area of social cohesion. The Delors 2 package shows a distinct awareness of this problem, and insists that competitiveness and cohesion should be two main dimensions of Community action in the 1990s. It also suggests an extension of cohesion funds into additional areas.

Not all social cohesion policies involve major expenditure. Both at the national and Community level, there are many policies of direct interest to working people which do not weigh heavily on the budgets. Let us list some of these which should be carried out in unison:

- (1) Reduced working hours would impose costs on employers to the extent that they were not matched by productivity increases. But the structural problem of modern industry is that productivity increases far outrun potential market growth. A five per cent reduction in working time throughout the Community would almost have the volume of unemployment to be anticipated by the year 2000. In optimum conditions, unemployment would come down to slightly over eight per cent in the whole area of the Community, without entailing any significant budgetary change.
- (2) Likewise, the establishment of rights for women and other employees can be widely secured without involving substantial spending. The right to negotiate flexible working hours to suit family needs can, with modern technologies, improve productivity at no additional cost.
- (3) Industrial innovation should have been underpinned by the pluri-annual research and development programmes in the Maastricht draft text, to which the British Government took exception. These proposals were both necessary and timely, and should be revived. The key is the combination of some Community expenditure with a vast innovative effort by leading firms.
- (4) Europe will not meet the challenge of Japanese competition if it does not transform the status of labour on the shopfloor, enabling greatly closer co-operation. This implies joint action rather than expenditure. We need an active Community to sponsor new innovation agreements in key sectors, and a participatory style of

management. These element of the Social Chapter and the social dialogue could bring immense improvement to productivity, at minimal cost.

(5) The enhancement of the scope for small and middle sized enterprises through networking in production, marketing, and innovation will enlarge the possibility of improvement for both manufacturing and sales. This can develop through the *Recite* and *Ouverture* programmes, which should be augmented and matched by other specialised initiatives. The promotion of networking by the Community can ensure that relatively small seed costs produce considerable returns which generate great gains both for the participating companies, and the nation states within which they are operating. This is a key dimension of regional policy, to which Community regions themselves should commit resources. It needs systematic encouragement and expansion, not least by the new Committee of the Regions.

None of these measures is entirely without cost if carried out collectively, but all can produce immediate and tangible benefits. However, the key question must remain one of substantial funding for a recovery programme, which can match the initiative taken in Japan, and thus help to ensure that the world economy does not slide through recession into deep depression and slump. Unless Europe is prepared to will such a programme, there will be no conceivable means of addressing the global problems which have already suffocated trade in many developing nations. It is possible that the political agenda may be eased after the American elections. But European response cannot simply wait on such beneficial changes, which may not happen. Europe's role in the world is sufficiently powerful to demand that we take our responsibilities for fostering global recovery, not only by international assistance, but also by reform of the conditions in which it operates.

The expansion of exports is absolutely inhibited by a wall of debt. Many underdeveloped countries are steadily sliding back, rather than advancing, in the grip of this debt. The collapse of primary commodity prices follows directly on the pattern which we have seen before, in the 1930s, and before that in the 1880s. In the 1880s, the fall in commodity prices relative to the prices of manufactured goods was round about twenty-

five per cent. In the thirties, this fall accelerated to fifty per cent, broadly the same as today's. The resultant pattern of default created the Baring brothers scandal in the eighties, when London's leading Merchant House had to be bailed out by the Bank of England with Government support. Government support was inadequate to prevent many of the failures of the 1930s, in spite of the creation of innumerable financial buttresses to shore up debt repayment. Michael Barratt Brown has documented this dreadful story, in a paper on commodity prices and debt, which offers a fearful warning to us today, at the present turn in global fortunes.

All these problems are likely to be aggravated by the failure of the GATT talks, unless a miracle intervenes. Positive steps to write off debt and correct widening inequalities are needed, if purchasing power is to be

re-established worldwide. No single government can do this without risking isolation and competitive strangulation. But if the European Community took the lead in an expansion programme, it could generate great pressures on the USA and Japan to follow behind. Instead, we seem to be poised on a new escalation of trade wars, with incalculable consequences. Were substantial resources focussed on the developing countries, European exports would rise in concert with the recovery of such countries. But if the debt and misery are to be reinforced, then they will suck in to their vortex many of those who have felt themselves to be immune from disaster.

Stuart Holland and Francis Cripps have offered a series of alternative projections of the European Community budget, between 1992 and 2012.

Table 2

Projections of the Community Budget for alternative expansion programmes (billion 1992 ECU)				
Base Projection	1992	1997	2002	2012
Structural Funds	17.7	20.2	22.9	29.4
External action	3.4	3.9	4.4	5.6
Other policies	42.1	48.1	54.5	69.9
Total	63.2	72.2	81.9	105.0
(per cent of GNP)	(1.15)	(1.15)	(1.15)	(1.15)
Low Projection				
Structural Funds	17.7	28.6	50.0	80.0
External action	3.4	6.1	11.6	21.3
Other policies	42.1	50.6	61.6	84.8
Total	63.2	85.2	123.2	186.2
(per cent of GNP)	(1.15)	(1.34)	(1.59)	(1.75)
High Projection				
Structural funds	17.7	44.3	62.9	88.3
External action	3.4	10.3	16.8	29.4
Other policies	42.1	54.6	66.7	93.6
Total	63.2	109.2	146.3	211.2
(per cent of GNP)	(1.15)	(1.59)	(1.75)	(1.80)

Table 3

Budget as a Percentage of Community GNP				
	Now	1997	2002	2012
Base	1.15	1.15	1.15	1.15
Low cohesion		+0.19	+0.44	+0.60
		1.34	1.59	1.75
High cohesion		+0.44	+0.60	+0.65
		1.59	1.75	1.80

(Cont. from page 10)

The table 2 estimates the size of Community budgets, allowing for economic growth, assuming first the continuation of present policies, secondly a "low cohesion" scenario, and thirdly, assuming a "high cohesion" scenario. These figures reflect the possibilities for external assistance, and for increases in structural funding.

"In the low and high cohesion scenarios, we have assumed that spending on "external action" will rise from ECU 3.4 billion in 1992 to twenty to thirty billion in 2012, while the budget for structural funds will rise from ECU 17.7 billion (1992) to eighty to ninety billion (2012)."

These calculations are based on a series of assumptions of growth rates which are tabulated in Table 3.

The base projection presumes that the budget will remain constant as a percentage of Community GNP, at 1.15. Of course, the size of the budget would still increase as a result of growth in the Gross National product, and enlargement of Community membership.

The low cohesion scenario would increase the budget by 0.19 per cent in 1997 to 0.44 in 2002, to 0.60 in 2012, mainly from expansion of the Commission to include former EFTA members. The high cohesion budget would augment these increase substantially, to 0.44 in 1997, and 0.65 in 2012.

It is on these calculations that the projections of potential employment recorded in Table 3, and the substantial discussion, have been founded.

Dismal though the present outlook appears, after the collapse of sterling, these estimates should show us that there is a way

forward, out of crisis. That way depends upon joint action. In the circumstances of the 1990s such joint action should naturally be led by the Commission, and co-ordinated with member governments. Not only will this be easier than the arrangement of convergent national initiatives outside the framework of the European Community, but it will provide a necessary catalyst to cross-border flows which can be calculated to maximise development possibilities, and the multiplier effect which these can exert. Of course the more though the attendant convergence of incomes and social cohesion can be, the more dynamic the recovery will prove. But this will require completely different policies from the restrictions on public expenditure which obsess so many Government in Europe, and above all from the dogmas which still dominate the reflexes of Government in Britain.