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European Union

The Lisbon strategy

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"The European Council emphasizes that competitiveness, innovation and the promotion of an entrepreneurial culture are defining conditions for growth... With the strides being made by other global players, the Union must act more decisively if it is to maintain the capacity to support the European social model in the years ahead. De-industrialisation remains a risk..." Conclusions of the European Council, March 2004

The attacks of March 11, 2004 in Madrid and the increasing international tension in Iraq, Afghanistan and Kosovo relegated to a secondary level what had been the priority debate at the European Council this spring - the Lisbon Strategy.

Adopted as a strategic programme by the European Union (EU) in March 2000, the Lisbon Strategy has as its declared objective the transformation of the single European market into the most competitive market in the world by 2010. It has determined the social and economic programme of the governments of the member states, becoming the only possible political framework whatever the nature of the government in power.

[https://www.internationalviewpoint.org/IMG/jpg/359051-2.jpg]

The Lisbon Strategy constitutes the major heritage of the Prodi Commission, which will come to an end in June 2004. It is being applied in a political conjuncture marked by social resistance to the application of neoliberal policies, expressed not only in a long series of strikes in Germany, France, Italy, Portugal, Spain, Greece and Belgium - whose sources go back to the French public sector strike in 1995, [1] but also in the electoral rejection of the governments which have applied it, in part independently of their political ideology - as was the case in Greece and Germany - but with special significance in relation to the conservative right, as in Spain and France recently.

The Lisbon Strategy was one of the key elements of the long term response of the EU at the end of the economic cycle of the 1990s and the recession which characterized the beginning of the new decade, in a context of generalized overproduction and stagnation of the rate of profit which significantly sharpened competition on the world market. [2]

It is not the only element, for this new phase of economic competition should be analyzed in the framework of “armed globalization” imposed by the US as a means of imposing its geostrategic and economic interests on the EU and Japan, as well as China, Russia, India and Brazil. The Lisbon Strategy - of which the Stability and Growth Pact (SGP) is the keystone - is also an essential component, converted into a law in the third part of the draft European Constitution, [3] which is intended to guarantee the legal-institutional legitimacy of European power.

Despite social resistance to neoliberal policies, European trade unions have been consulted and have taken part in the elaboration of the Lisbon Strategy. This latter was presented by the Commission as a set of policies indispensable to guarantee economic growth and to maintain the “European social model”, through which social redistribution would remain higher in Europe than in the US or Japan. Trade union involvement in the neoliberal policies of “modernization” was indispensable to limit social resistance. But the erosion of social and labour rights over the last 30 years - with attacks on pensions, health and collective negotiation combined with greater flexibility of the labour market and working hours - has put the leaderships of the big trade unions in the European Trade Union Confederation (ETUC) on the defensive and obliged them to support the struggles of their rank and file to call for European days of action, the last on April 3. [4] This resistance will be essential for the reconstruction of a European alternative left capable of proposing an different model of European development to that of the current neoliberal European Union.

The last months of the Prodi Commission have been largely devoted to shoring up the future of the Lisbon Strategy. On the legislative front, this was done by its integration in Part III of the draft constitution; on the financial front, by shaping the community budget for the years 2007-2013 in accord with its orientations; [5] on the political front, by rebuilding the consensus on the Strategy itself, after frictions appeared between the member states on the subject of the SGP. [6] It is this final aspect, summarized in the Commission's Report "Delivering Lisbon - Reforms for the Enlarged Union" (COM 2004 29) that we shall deal with in this article.

Recession, jobs, and productivity

The Report cited witnesses to the concerns of the Commission on the possibility of even reaching the goals of Lisbon by 2010. The first phase of the SGP, that of legislative reforms, should be completed by 2005 and allow an evaluation of each of the member states. From 2006 the legislation adopted should enter into force. But the EU has not emerged from the recession that began in 2000, despite signs of recovery in the second half of 2003. During these three years the average rate of growth of Gross Domestic Product (GDP) was 1.25% - as against 2.21% in the US - whereas it had been 2.7% in the second half of the 1990s.

The objectives of Lisbon were founded on the growth rates of the second half of the 1990s, without taking account of the possible recessionary cycle of the world and in particular of the European economy that the SGP was supposed to combat. The two key elements which were supposed to compensate for the difference of 28% in GDP per capita between the EU and the US were increases in occupation rate and in productivity.

The EU's occupation rate (the proportion of the active population in employment in relation to the active population which is unemployed) in 2000 was 62.5% - particularly low if compared to 71.9% in the US. The goal fixed for 2010 was an occupation rate of 70%. Despite the creation of six million jobs, this rate was still only 64.3% at the end of 2003. But the recession has at the same time increased unemployment, which reached 9.1% in the Euro Zone and 8.2% in the EU as a whole, or 3% more than the US. Also the enlargement of the EU will worsen these figure, for the occupation rate in the new member countries is only 57% while the unemployment rate in countries like Poland is as high as 18%.

If one analyses categories like the occupation rate of persons aged 55 and over or the female occupation rate, the EU's disadvantage is still more striking. The difference with the US is respectively 19.4% and 11.2%. Enlargement will not improve these figures, because the difference between the "old" and the "new" member states is more than 10% and 5.5% in each case.

The differences in productivity between the EU and the US are also important. The growth in productivity per person employed in the EU decreased throughout the 1990s and is currently around 0.8% per year, whereas in the US it increased from 1995 to reach 1.8% per year from 2000. The hourly rate of productivity is also 10% lower in the EU than in the US.

The Commission's Report explains these figures by appealing to two factors: the weakness and delay in the diffusion of new information and communication technologies (ICT) and lack of investment. As to the latter, the figures are indubitable, as private investment fell from 18.3% of GDP in 2000 to 17.2% in 2002 and public investment fell systematically for a decade to reach 2.4% of GDP in 2003 - nearly 1% less than in the US!

An erroneous explanation?

At the end of the day, the macro-economic model which is the basis of the Lisbon Strategy is founded on a comparison between the EU and the US determined by the final objective of victory in inter-imperialist rivalry on the world market. [7]

There is no doubt about the role played by investment as a motor of increased productivity. However, in the current situation, doubts are much greater as to the role played by investment in ICT. The thesis that strong productivity growth in the US between 1995 and 2000 is essentially attributable to such investment - as advanced by the studies of Jorgenson, Ho and Stiroh (2000) as well as those of Oliver and Sichel (2000 and 2002) - was heavily criticized by two later studies by Robert J. Gordon. [8] What's more, this thesis has been contradicted by reality because the strong growth of US productivity in 2001-2003 has coincided with a big fall of investment in ICT and the collapse of the value of shares in “new technologies” on the stock market.

It is then necessary to turn to another explanation and to see if it is compatible with the basic presuppositions of the Lisbon Strategy. The conclusions of Gordon's studies confirm finally the results of Brenner's Marxist analysis of the causes of the international recession of recent years - overproduction and falling profits and also the adaptation of entrepreneurial strategies to this situation.

In reality the impressive increase in US productivity is the result of a systematic reduction in the number of jobs, an extension of working time and wage increases lower than increases in productivity, which has allowed a net transfer of rent from wages to capital. As we know, the number of jobs began to increase in the US only in the first half of 2004.

This offensive by employers to reduce costs, in particular through reduction of the workforce, was a response to the slowness of the recovery of profits in the 1990s. To maintain profits, companies have plundered pension funds and manipulated their accounting, leading to a series of scandals, which has again increased the pressure for the rapid reduction of costs through reducing the workforce. [9]

The fact that this growth in the exploitation of labour has not been accompanied in the final instance by a reduction of production can be attributed - correctly in this case - to the cumulative effect of investment in ICT not only in the 1990s, but, as Solow showed in his time, since the end of the 1970s, through a slow accumulation of “intangible capital” in the form of the restructuring of the productive system and work methods.

The problem with Gordon's explanation is that it implies that the rate of growth of productivity in the US in the last three years is not sustainable, for it does not substantially change the causes of the recession, overproduction and falling profits. The current economic cycle remains dependent on private consumption - which can rapidly be affected in a negative manner by tensions in the international situation - and a policy of massive economic stimulants by the Bush administration and the Federal Reserve which, since the beginning of the recession in 2001, has reduced US interest rates from 5.5% to 1%, thus exhausting its margins of manoeuvre.

In the EU private consumption plays a more limited role. Although at the end of 2002 the indebtment of families was more than 80% of disposable income - a figure significantly lower than that of the US - the servicing of this debt absorbed a much higher proportion of income than in the US. Also, it is difficult to refinance this debt, as in the US, by the lowering of mortgages on property, because of the rigidity of the financial market.

Nonetheless indebtment of private companies grew proportionally more quickly in Europe than in the US in the second half of the 1990s (rising from 58% to 72% of GDP), in part because the financial market is more flexible for companies than for mortgages. Investment by European companies in the second half of the 1990s was higher than those of the US, precisely to cover the deficit in productivity and also because of the dynamic of the US economy.

This has created a serious problem of overproduction, aggravated by the fall in the value of the dollar in relation to the euro - reducing the competitiveness of exports - and by the monetary policy of the European Central Bank. [10]

The “other variables” of the Lisbon Strategy

If we put aside the cumulative effect which significant investment in ICT might have for the EU in the coming years and the extension of broadband communications with the aim of meeting the objectives fixed for 2010, there remain other variables that the Lisbon Strategy proposes to alter. All these variables can be summed up, as in the US, as an increase in the rate of exploitation of labour.

On the one hand, by imposing a limit of 3% on budget deficits, the SGP plays a depressive pro-cyclical role and deepens the tendency towards the systematic lowering of public investment manifested for a decade. Also, in order to maintain existing investment in infrastructure and subsidies to companies, it imposes a reduction in social expenditure, reform of state pension systems and an assault on the universality of the public health system, which constitute the very foundation of the “European social model”. The more the deficit increases, the stronger is the pressure to reduce social expenditure and to capitalize and privatize pensions systems so as to free up and depreciate capital.

On the other hand, the extension of working life beyond the age of 65 years appears incompatible with increased flexibility of the labour market of the kind compatible with the proposals of the Kok Report. The low rate of participation in the labour market of people aged over 55 and women could allow a simultaneous increase in the employed active population and unemployment - which initially seems contradictory. But the parallel growth of the employed population and the unemployed reserve army - not to mention the variable of immigration, essential in such an equation - has disastrous effects on wages, the intensity of work and the rights of workers, starting with the most marginal sectors and then extending to the entire labour market, to the extent that this weakens the capacity for trade union resistance.

Appeals for the development of professional training outside the workplace throughout working life - and the massive EU subsidies devoted to it - serve no great purpose as a response to the increased flexibility of the labour market, when the growing crisis of the system of public education (the consequence of budget cuts) is already reflected in the rates of youth who abandon the educational system or are expelled from it without gaining an elementary training - 18.1%, or a little more than one child in six. Appeals for an increase in private investment in secondary education, which strengthens the effects of social division, will have very little or no effect on the figures cited.

It is a little surprising, then, that the Communication only devotes one and a half page to the question of social cohesion, given the references to the “European social model” and to the fact that 55 million citizens of the EU-15 - a figure which will grow notably after enlargement - live in poverty or at its threshold. [11] This amounts on average to 15% of the population of the EU-15, and as much 21% in the countries of southern Europe. These figures should impose a policy concerning jobs - 38% of the unemployed are in this category - but also the equality of the sexes, because poverty is endemic among widows and single parent families. These figures remain more or less stable thanks to social benefits which reduce the inequality of incomes in the Gini coefficient to between 30% and 40%. [12] But whereas economic policies should be coordinated by law according to the draft European Constitution, social policies will remain the responsibility of each member states and their national plans of action.

But finally, all these aspects - like durable development or the realization of the Kyoto Protocol - remain secondary from the viewpoint of the Lisbon Strategy, of which the central objective remains boosting productivity through a rapid generalization of ICT and an increase in investment. The social effects are only taken into account through demand, at the level of wages [13] or the reduction of social charges. It's not by chance that the draft constitutional treaty subordinates the “European social model” to a “strong competitiveness” in its article I-3-3.

Private investment depends finally on profits expected. The Lisbon Strategy seeks to increase these expectations through greater labour market flexibility, reducing the “indirect” social wage through the reduction of social charges and reform of pensions systems. But it will also be necessary to deal with the paucity of public investment in relation to the US (around 1% of GDP), which concerns primarily infrastructure. In this sector, because of the inflexible character of the SGP, the contribution of the community budget, both directly and as a catalyst, is ever more important. Since 2000, the structural funds have mobilized 80,000 million euros for training, innovation and infrastructure. 8,000 million euros should strengthen these programmes in 2004. But in this sector also there are limits imposed on community budgets and restrictions on indebtment in the draft constitutional treaty.

The “risk” of deindustrialization

Although the conclusions of the European Council speak for the second time in less than six months of the “risk” of industrial delocalizations, the Commission's Report - basing itself on a study carried out in 2003 - consider that “there is no evidence that the EU economy is showing signs of de-industrialisation”. [14]

Recognizing a loss of competitiveness in employment in sectors like textiles, mines, non-ferrous metals and coal, it proposes a process of substitution of industrial sectors by others of greater capital intensity.

The enlargement of the EU here has a direct effect by incorporating into the single market ten new member states, with wages lower by two thirds, low levels of social protection but a system of subsidies to industry comparable to that of the rest of the EU thanks to the structural funds. 60% of German companies of less than 5,000 employees have already created subsidiaries in the new member states, which will concentrate the production of key sectors, like components for the car industry or chemical products, manufactured until now in countries like Spain or Italy.

Not to mention other sectors, like textiles, which thanks to the liberalization of the World Trade Organization (WTO) envisaged for January 2005, have already moved to Romania, Morocco, Byelorussia or Turkmenistan. The trade surplus of the EU-15 with the new member states is around 104,000 million euros and the single market demands compensation. But it also implies “social dumping” downwards in huge proportions, which the different sectors of the European working class must face up to, while the Commission suggests an “agreement between social actors”. [15] Thus the threat of delocalization has already been transformed into a powerful instrument of blackmail to oblige the unions to accept restructuring, that is the lowering of wages and the worsening of working conditions as a lesser evil.

Delocalizations allow companies to increase their competitiveness while avoiding the main constraints of the Lisbon Strategy, training and investment in human capital. In the manufacturing sector this process has already worsened in recent years both in France and Germany, which for political reasons try to maintain their employment levels to the maximum extent possible. It is obvious also in the secondary countries of the EU. The material bases for a “multi-speed” Europe thus appear through a centre-periphery dynamic. The linguistic diversity of the EU could act as a break on delocalizations in the services sector or at least act as a brake on what happens in the US or Britain where, for example, call centres are relocating to countries like India or Pakistan.

What is to be done?

The strategy of inter-imperialist competition conceived by the European Commission, in the context of a recession brought on by overproduction and the fall in the rate of profit, results in a range of tactics seeking to reduce productive costs and transfer income from wage earners to capital. If this seems like a "simplistic Marxist explanation" it is in any case superior to the ideological, sometimes esoteric, discourse on the capacities of the new ICT employed by the European Commission.

Faced with the Lisbon Strategy our point of departure can only be the "actually existing" social resistance. That means supporting their European coordination, through the meetings of European works councils and the days of action.

The ideology of "social partnership" which has entranced the ETUC union leaderships with promises of a "social pact" for the defence of the "European social model" is being eroded to the extent that the policies of the Lisbon Strategy have been implemented. The European days of action which the ETUC has been obliged to call witness to this erosion and also constitute an encouragement to the coordination of social resistance in Europe. That helps the construction of a European trade union left, inside and outside the confederations, which can give life to an alternative, in alliance with the movement against capitalist globalization and war.

The perspective of building an alternative, in the strong sense which includes an authentic model of sustainable development capable of satisfying the needs of citizens, is fundamental in this phase. Isolated resistance struggles without European coordination are largely condemned to defeat. Coordination at the European level can hold back the application of the policies of the Lisbon Strategy, but cannot force the governments to adopt a new orientation. To do that we need not only such an orientation but also a change in the relationship of forces, which requires new political instruments with an electoral impact.

The task of the next European Commission will be precisely to pass to the phase of the massive application of the SGP, resting on the effects of enlargement, the introduction of the European neoliberal Constitution and the financial Perspectives which will come into force in 2006. That is why the European alternative left should be capable of presenting its own alternative to the current neoliberal model of European construction. [16] Resistance is not enough.

Faced with the SGP we should propose a European Solidarity Pact, which allows a substantial increase in anti-cyclical public investment and which ensures an authentic "European social model" by maintaining and increasing the levels of indirect wages through fiscal redistribution. At the same time it is unacceptable that direct wages in the EU continue to fall in relative terms (a reduction of 0.7% over the last three years), in the name of the recoveryof"competitiveness",becauseinpractice this amounts to a transfer of income towards capital.

The SGP should be accompanied by a substantial increase in the community budget. The current limitation of this budget to 1.27% of the EU's GDP is clearly insufficient to face the combined challenges of recession and enlargement. The new European Parliament should have the ability to fix the contribution of member states to the community budget - in accordance with the objectives of the Lisbon strategy - to a level higher by at least 0.5% of the GDP and to allow a supplementary indebtment of 1% of GDP, accompanied by a European tax on the multinational companies established in Europe.

A European industrial policy should have as its goal the promotion of a general increase in productivity, reaching at least the levels of investment of the US and Japan and a balanced reindustrialization of the single market respecting the social rights of workers. The right of information and control for trade unions, the repayment of aid received and the treatment of industrial areas receiving subsidies as public terrains should be used as a brake on delocalization.

The new European Constitution should introduce a whole series of articles which guarantee the rights of citizens - a universal basic income, an inter-professional minimum wage adapted to the cost of living and the productivity of each member state, the universal right to decent housing, health, public education and a pensions system guaranteed after 35 years of work, a 35 hour working week, universal access to quality public services and trade union rights of representation, negotiation and collective action.

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[1] For an analysis of this trade union resistance country by country see the report of the European International Relations Observatory (EIRO), "Developments in Industrial Action 1998-2002", www.eiro.eurofound.ie.

[2] See Robert Brenner, "The Boom and the Bubble: the US in the World Economy", Verso Press, 2002. Brenner presented a synopsis of his theses in an article written for IV in July/August 2002, "After the boom".

[3] For a critique of the draft constitution see G. Buster, "At the crossroads", IV 354, November 2003.

[4] Having boycotted the mobilizations during the European summit in Amsterdam in 1995, the ETUC called for trade union demonstrations during the European Councils at Luxemburg, Nice, Genoa, Barcelona, Seville, Thessaloniki and Brussels, within its own framework but parallel to the mobilizations of the movement against neoliberal globalization. The day of mobilizations on April 3, 2004 was particularly important in Germany as a response to the "Agenda 2010" put forward by social democratic chancellor Schröder, which is simply the German adaptation of the Lisbon Strategy. There were 250,000 demonstrators in Berlin, 100,000 in Stuttgart and 150,000 in Cologne. In Italy 500,000 people demonstrated against Berlusconi's pensions reform. Smaller demonstrations took place in Paris, Marseille, Madrid and Brussels. Despite this resistance the ETUC has come out for a "critical yes" to the draft European Constitution that transforms the Lisbon Strategy into law.

[5] Communication of the Commission to the Council and European Parliament on Financial Perspectives, 2007-2013. Thus, whereas the amount destined to infrastructures and development increased by 212%, the Common Agricultural Policy (CAP) suffered a reduction of 38%.

[6] The Commission's confrontation with Germany and France, whose budget deficit exceeded 3% of GDP, put an end to the dossier rejected by ECOFIN (the Economic and Financial Affairs Council) and the unprecedented decision of the Commission to go to the European Tribunal of Justice. In its report presented in March 2004 before ECOFIN, the Commission also proposed to open the dossiers of Holland, Italy and Britain. While agreeing to put off the realization of the Stability Pact until 2005, the Commission and the member states postponed any debate on the modification of this Pact - characterized by Prodi himself as "stupid" - partly to avoid any threat to the stability of the euro or the Lisbon Strategy.

[7] Inter-imperialist competition, in its economic aspect - the geostrategic aspect is another affair - is primarily focused on market shares in the US and the EU, more than in other zones of the international economy. See Joseph P. Quinlan, "Drifting Apart or Growing Together? The Primacy of the Transatlantic Economy", Center for Transatlantic Relations, John Hopkins University, 2003.

[8] Robert J. Gordon, "Exploding Productivity Growth: Context, Causes and Implications", Brooking Papers on Economic Activity, 2003.

[9] See Doug Henwood's excellent "After the New Economy", The New Press, NY 2003 which essentially puts forward this explanation.

[10] Ed Crooks and Tony Major, "Hopes are rising that the euro zone economy is at a turning point. But can it ever catch up with America?" "Financial Times", September 1, 2003.

[11] Poverty is defined as an income lower than 60% of average income per inhabitant in each member state.

[12] See the data and conclusions of the Commission's report, "The Social situation of the European Union 2003". The final optimism of this report on the compatibility of the "European social model" and the Lisbon Strategy amounts to an act of faith in the light of the statistics presented.

[13] Although the Lisbon Strategy does not devote much space to the problem of wages, except in relation to productivity, since 1994 the

Commission has put out an opinion on the “appropriate development of wages”. This assessment serves as guidance for the member states and employers' organizations in collective negotiations affecting between 70% and 90% of workers in the EU-15. The annual gross average growth of wages over the period 2000-2003 was thus 3.5%, or 0.8% taking account of inflation. However, if we factor into the figures the “distributive margin” recommended by the ETUC (inflation + productivity - wage growth), the result is a fall of 0.7% on annual average, or in other words a transfer of 0.7% from the incomes of wage earners to profits. See EIRO, “Pay developments 2002”, www.eiro.eurofund.ie.

[14] European Commission, “Some Key Issues in Europe's Competitiveness - Towards an Integrated Approach” COM (2003) 704.

[15] See Ricardo Martinez de Retuerto, “Avec l'élargissement, les délocalisations vers l'Est se multiplient” (“Le Monde”, March 28, 2004) which quotes the worried reaction of Walter Cerfeda, the ETUC's figure responsible for industrial relations: “We are at the crossroads. The countries of central and eastern Europe prefer the Anglo-American social model to the traditional European model of cohesion and social protection, already threatened after the reforms adopted in Italy, which led to huge demonstrations in that country, as in Portugal and Spain” The European Parliament has proposed measures limiting the mobility of companies who have received European subsidies in its resolution “Closure of undertakings after receiving EU AID financial”, P5_TA(2003)0106.

[16] The European alternative left has until now shown timidity to building alternatives for fear of peddling illusions in reform of the capitalist system. It has limited itself to an economist critique and a resistance without perspective that runs counter to the experience accumulated by workers in recent struggles.