

SOCIALIST RENEWAL

CRISIS East and West

Must it be
Global Barbarism?

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Crisis East and West: Must it be Global Barbarism?

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Introduction

A number of terms used here may need clarification.

I use the term 'neo-liberalism' in what is perhaps an idiosyncratically narrow sense to mean a *programme* for an alternative form of state to the West European Social Democratic Welfare State. It thus refers to the domestic arrangements within states. The programme has been carried furthest in the United Kingdom; there is strong resistance to it elsewhere in Western Europe, but there too important advances have been made by the supporters of neo-liberalism. I will return to this concept later in more detail.

The term globalisation here means the radical opening of the institutional orders of states to Western economic operators. It is achieved through the legislative action of governments.

The term mercantilism refers to the attempt by states to use political leverage to discriminate in favour of their own economic operators against those of other states.

Part 1: Current Policy Dynamics

1. Problems in East Central and Eastern Europe

A split is opening up between two groups of countries: the Visegrad Four (Poland, Hungary, the Czech and Slovak Republics) and Slovenia on one side and the Confederation of Independent States and Balkan states on the other. The Baltic States and Romania may fall into the first group, while Bulgaria falls into the second.

For short we will call the first group East Central Europe and the second group East and South East Europe. In the second group of

countries, the great bulk of the populations are living through the completion of the fifth, or in some cases the seventh, year of economic and social devastation, without precedent in peacetime Europe. (Of course, the populations of former Yugoslavia have also been ravaged by war).

Terrible economic hardships, health crises and ecological threats to the populations are combined with threats to physical security from criminal activities. In much of this region, what might be described as gangster capitalism has a powerful influence over the state. This is most blatant in Russia. These forms of gangster capitalism were partly directly fostered by Western governments – Anglo-American policy-makers urged Russian leaders to foster ‘bandit capitalism’ in the style of 19th Century America – and partly encouraged indirectly via ‘systemic transformation’ programmes. We will return to these below. But the important point to stress here is that the crisis of everyday life for the mass of the population in this region is still deepening, has catastrophic dimensions in many regions, and could threaten European stability in the medium and long-term. This crisis is also not being addressed by West European policy-makers to a significant degree.

In the first region – the Visegrad Countries, Slovenia and perhaps Romania and the Baltic States – there are signs of emergence from the transition crisis. In Poland, the Czech and Slovak republics there has been a return to significant growth. In Hungary growth remains very slight. But in most of these countries, the previously strong industrial regions have been crippled and what manufacturing industry is reviving is largely confined to low-skill, low value-added, labour intensive sectors. There is widespread impoverishment, especially in the formerly strong industrial centres where there is often great suffering and poverty combined with serious health problems. In addition agriculture remains in a deep crisis in both Poland and Hungary and has been very gravely weakened during the 1990s.

This downward restructuring and weakening of the East Central European economies is especially striking in the collapse of Research and Development networks, the crisis in education and health systems, the collapse or near collapse of social security systems, and so on.

The forms of capitalism within this region are not yet fixed. But the general pattern seems to be towards semi-peripheral status for most of the region, although the Czech Republic and Slovenia may be able to move into the West European core quite quickly and other East Central Europe states may follow in the medium term.

The split between these two regions has by no means been caused only by domestic factors. The states of the Western alliance have picked out the East Central Europe states for more favourable treatment, largely for geopolitical reasons.

2. West European Policies towards the Two Regions

The main West European states have worn three hats in their activities towards the former Soviet Bloc: one hat has been that of the International Monetary Fund/World Bank in which countries like the Federal Republic of Germany, France and Britain play an important role along with the United States of America; a second hat has been that of the European Union; and the third has been that of NATO. To understand the policies of these states towards the former Soviet Bloc we must see them at work when wearing all three hats.

Probably the single most important feature of the processes since 1989 within the former Soviet Bloc has been its division into the two regions described above or, to put the same point in a different way, the shattering of the Comecon economic region. This destroyed the economic basis of much of the more advanced industrial activity in East Central Europe and the continuing deep crisis in East and South East Europe continues to constrain economic activity in East Central Europe in very important ways. The East Central Europe countries have thus been faced with no alternative but to re-orient their economies towards the European Union and this remains the case.

At the same time, the split between East Central Europe and East and South East Europe corresponds to the foreign policy requirements of the Federal Republic of Germany. Germany has sought to anchor the Visegrad countries to itself in order to secure its own Eastern flank. But it has also been concerned to achieve this goal as far as possible through the symbolic and institutional frameworks of the European

Union (as well as the so-called Weimar Triangle of Germany, France and Poland) and also, with NATO enlargement, through that body.

Other European Union states have had far less interest in the East Central Europe region as such, but have rather approached it in the light of other concerns, notably of economic and political relations in Western Europe. Important here has been the concern that the opening of East Central Europe will lead to a further strengthening of Germany economically and politically.

Another important feature of Western policy during the 1990s has been the role of the United States of America. It has sought to preserve its dominance over Western policy both towards the Confederation of Independent States (in this context, Russia and Ukraine) and towards former Yugoslavia and Albania. It has largely succeeded in both objectives. Thus, the European Union has actually played a secondary role in seeking to shape developments in those regions. At the same time, the Clinton Administration has been concerned to ensure that political and security developments in relations between Western Europe and East Central Europe remain firmly under its leadership and this has been an important reason for its desire to expand NATO Eastwards, especially into Poland.

3. Neo-liberalism, Globalisation and Neo-mercantilism

The institutions which have played a central role in the internal restructuring of East Central Europe and East and South East Europe have been the International Monetary Fund/World Bank. They have been given authority by Western governments to act as gate-keepers between the region's states and the world economy. The states concerned have had to turn to these bodies insofar as they have needed access to Western credits, since without International Monetary Fund approval Western public and private credits were blocked.

The International Monetary Fund/World Bank programmes have been geared, under the guise of introducing capitalism, to globalising these states and structuring them internally as neo-liberal orders.

The globalisation drive: dismantling barriers to imports; opening the property regime maximally to foreign purchase of domestic economic

assets; creating fully convertible currencies and ending restrictions on the flow of all forms of capital into and out of the country; enabling Western financial capital to work freely inside the country; preventing governments from developing national industrial strategies geared to defending particular sectors of their economies during the transition to capitalism or to defending research and technological capacities.

The mechanisms for this globalisation drive were:

1. The more or less extreme need on the part of target states for Western credits.
2. The social link between potential capitalists and capitalist professionals within the target countries and the institutions of Western capitalism.
3. The ideological linkage between post-communist intellectuals enthusiastic about radical marketisation and the neoclassical economic ideologies of the International Monetary Fund/World Bank.
4. The initial belief among large parts of the populations of the region that opening their economies to the West would produce rising living standards.

The neo-liberal drive: this has concerned the maximum effort to reduce the social power of labour within these states and creating barriers to using public policy for the redistribution of resources from the rich to the poor. It does not mean ending all social protection (which would ultimately be politically destabilising) but it entails what the World Bank likes to call a 'social safety net': a bare minimum subsistence for the destitute. Alongside this there would be the development of private health care and education, a trend towards privatising pensions with a subsistence minimum for those not covered by private schemes, and a 'flexible' labour market without significant trade union rights.

The mechanisms for achieving these goals have involved a generalised assault on the social protection regimes of state socialism: the creation of domestic slumps (via the fragmentation of the Comecon region and domestic demand-reduction shocks) thereby creating a crisis of state finance, then using the fiscal crisis to dismantle welfare provision, to erode educational, health, social security and pensions budgets. The

objective has been to shift such provision as far as possible into the private sector; encouraging bankruptcies, driving down wages, weakening trade unions, allowing large industrial regions within countries to face economic devastation, offering as a solution to poverty the creation of micro-companies (of one or two persons), encouraging the formation of new capitalist classes out of very narrow layers of cash-rich people who were usually the most corrupt elements of the former *nomenklatura* and favouring a capitalist class of the Latin American type – small groups of super-rich property owners, often linked to foreign capital in joint privatisation ventures.

The neo-mercantilist drive: This has been a very strong theme in the policies of West European states wearing their European Union hats. By neo-mercantilism we mean states using political leverage to strengthen their economic operators at the expense of target states (in order, ultimately, to strengthen the position of their state in the international division of labour).

These neo-mercantilist policies have taken both direct and indirect forms. Direct policies are those which try to influence market outcomes on behalf of particular economic operators or industries; indirect policies are those which seek to design markets and regulatory or funding systems in ways that will tend to favour the state's economic operators.

Direct mercantilism has included the following:

1. Export credits and export credit guarantees: These are, in effect, state aids to exporting companies though they are presented by European Union member states as aid to the exporters' target country. These instruments have been used massively by West European states to help their exporters gain market share in East Central Europe and East and South East Europe in the 1990s.
2. Agricultural export subsidies for Common Agricultural Policy exports: these have enabled agricultural dumping in both East Central Europe and East and South East Europe, enabling European Union agribusiness to capture markets from local producers. 'Humanitarian aid' from the European Union in the form of cheap or free agricultural products often acts as an initial destabiliser of markets for local producers in East Central Europe

and East and South East Europe.

3. Protection of European Union producer sectors through Non-Tariff Barriers: price setting agreements (eg steel), the Common Agricultural Policy, textiles barriers, Voluntary Export Restrictions etc.

Indirect mercantilism has included the following:

1. Market design rules of a 'free market' sort which favour European Union oligopolies able to benefit from large positive externalities: eg much stronger (state supplied) regional infrastructures and access to much cheaper credit, while compensating state aids on the weaker side are banned by single market competition rules.
2. Imposition of common rules on state aids without equal resources for such aids: thus, within the European Union itself, 79% of the actual resources devoted by states to aiding industry were allocated by the Federal Republic of Germany, France, Italy and the United Kingdom.
3. Imposition of common rules in one field while denying common rules in linked fields: eg granting rights of establishment of enterprises in the European Union on the part of East Central Europe enterprises but not granting free movement of labour and thus in effect making rights of establishment null.
4. Imposing free market rules in conditions where Western economic operators can dominate market outcomes: this seems to operate in some stock markets in East Central Europe. The big western companies can determine price fluctuations and rig the markets.
5. Rules of origin: these are major ways in which West European businesses (and United States multinational corporations operating in the European Union) are given protection in East Central Europe against entry by Russian or Asian multinational corporations.
6. Powerful general trade protection instruments, especially anti-dumping instruments which can be used widely against cheaper East Central Europe and East and South East Europe products.

The dove-tailing of International Monetary Fund/ World Bank and European Union policies: The International Monetary Fund/World Bank policies have greatly facilitated the European Union neo-mercantilist drive, especially

by favouring the capture of large shares of domestic product markets and by favouring buy-outs at low prices of East Central Europe enterprises. The policies should thus be seen as an integrated whole. The International Monetary Fund stabilisation and restructuring drive was legitimated as a drive for export-led growth in conditions where the Western states had no intention of throwing open their markets to products from East Central Europe. When growth finally returned to East Central Europe it came not from exports but from a revival of domestic demand in the teeth of efforts by the International Monetary Fund to depress such domestic demand.

The most important mechanisms for furthering the neo-mercantilist projects have been the legal regimes established by the European Union through the Europe Agreements with East Central Europe countries, the Partnership and Co-operation Agreements with Confederation of Independent States countries and other bilateral agreements between Member States and the Eastern countries. Currently the countries associated with the European Union through the Europe Agreements are being further restructured through the so-called 'harmonisation' process whereby their state/economic structures are being brought into line with arrangements in the Single Market.

The European Union and European Union Member State Policy Goals

The dominant economic policy goal behind these various activities would seem to be a mercantilist one, especially to attempt to maximise market share for West European multinational corporations and financial capital, while minimising the capacity of the East Central Europe and East and South East Europe countries to acquire significant shares of European Union markets in agriculture or high value-added manufacturing.

At the same time, there have been significant variations in approaches on the part of European Union member states and business interests. We can distinguish three strands:

1. The German government: there is some evidence that the German government has been concerned to provide the Visegrad countries with adequate exporting opportunities to prevent balance of

payments and financial crises in these countries. Nevertheless, these efforts have resulted only in export structures geared to labour-intensive, low value-added sectors gaining competitive advantage through very low wages.

2. There has been a strong element of what might be called 'social mercantilism' in the main European Union and European Union member state approaches. In other words state action has been geared not only to extending the global reach of multinational corporations but also to protecting jobs in the weaker domestic economic sectors from import penetration.
3. The British approach has been close to that of the American government in seeking to use East Central Europe strategically to strengthen the neo-liberal drive in Western Europe. This approach involves using very low East Central Europe and East and South East Europe wages and very weak welfare provision to stimulate labour seeking foreign direct investment in East Central Europe. The result would be a large scale relocation of German industry Eastward, thus undermining the German domestic model of class socio-political relations.

The Impact in East Central and East and South Eastern Europe

The effects of these policies in East and South East Europe has been largely to maintain the exclusion of these economies from the world economy, to strengthen the development of gangster capitalism and to deepen the economic and social crisis for the great majority of the populations there. In large parts of the area the main form of transition has been towards pre-capitalist social relations: petty commodity production and petty trade as well as the very substantial growth of a natural economy – without any form of market exchange.

In East Central Europe, the effects of these policies are to favour a very narrow social bloc: the new services in the capital cities ancillary to capitalism and to multinational corporations, the managerial and white collar personnel working for western multinational corporations, import capitalists and workers, some parts of the tourist industry, and luxury retailers, and the owners of exporting businesses.

The majority of the populations of all these countries have lost economically from the transformation and the new capitalist social regime lacks legitimacy for very large parts of the population. Protests and counter-perspectives were first sought in voting for the post-Communist Socialist Parties in Poland and Hungary, for combinations of nationalists and ex-Communists in Slovakia; only in the Czech republic has the governing right-wing party managed to maintain political support. Strong disaffection is present among farmers in Poland and Hungary.

The Socio-Political Bases of the Policies within the European Union

In order to construct an alternative policy strategy with any chance of success, we must appreciate the roots of the current policy within the European Union states. We will suggest some of these:

1. Structural stagnation and financial sector instability: the long-term macro-economic stagnation since the late 1970s continues in the European Union and deepens in the 1990s. This is the result in the first place of structural overproduction (mature or saturated markets) in the main post-war growth sectors – cars, consumer durables, armaments. The new sectors in information technology and communications are too feeble to restore growth. This basic economic problem is exacerbated by the destruction of the Bretton Woods system and the feverish speculative activity in currency and financial markets, fuelled by the lack of dynamic investment opportunities in the productive economy as well as by the instability in international currency relations and the inability of the main states to co-operate effectively in international economic management.

2. The success and failure of the globalising and neo-liberal responses of Atlantic Capitalism and its state executives, led by the United States and followed by the European Union: The twin processes of globalisation and neo-liberalism are essentially policy responses to the long-term stagnation, designed to reduce inter-capitalist tensions and restore profitability in a stagnationist context. Globalisation is an attempt at a contemporary form of

international Open Door policy to open product markets and productive assets to Atlantic multinational corporations and to open capital markets to financial capital. This restores profitability through expanded market share and unit cost reductions (via scale economies) and also offers higher returns for the newly expanding rentier groups through higher returns on portfolio investments in 'emerging' markets.

Neo-liberalism offers the same prospect of profit restoration, but this time within the domestic state structures: flexibilised labour markets reduce wage costs; welfare spending cuts do the same or enable tax reductions on capital, privatisation offers new, often monopolistic fields of profit, higher unemployment reduces the bargaining power of labour, liberalised capital markets strengthen the bargaining power of capital by threatening exit, privatising pensions and health care offer fantastic boosts for financial capital, etc, etc.

The consequences of these policies have been simultaneously to deepen the macro-economic stagnation within the European Union *and* to boost the profitability of big capital and rentier profits. The immediate interests of very powerful sectors of capital thus become attached to the continuation of macro-economic stagnation since the stagnation strengthens the social power of capital *vis-à-vis* labour. And although the changing social structure of effective demand through downward pressure on wages ultimately creates serious problems for realising profits in mass markets, there is still a long distance to travel in much of the European Union towards a fully Americanised or 1930s-style British neo-liberal socio-economic and political order.

3. The impact of the European Union single market programme and the monetary union drive: The single market programme has not produced new European multinationals and European Union-wide reorganisation of industrial sectors. Instead it seems to have legitimated a strong push towards national concentration into larger monopolies seeking monopoly rents. This trend, combined with 'downsizing', can only increase the tendencies noted above. At the same time, the single market programme has created powerful European Union legal/institutional barriers to Left-wing reform projects. The monetary union drive has again furthered the stagnation tendencies.

But the effects of all these trends have been to strengthen rather than weaken the globalising and neo-liberal commitments on the part of big capital and rentier interests. These groups have effectively seized upon the consequences of stagnation – the fiscal crisis and rising unemployment to deepen state aid for capital: cutting welfare spending, further flexibilising labour markets and spending larger sums on providing skilled labour and other infrastructures for capital.

4. *The neo-liberal capitalist consensus and the social democratic parties:* The social democratic parties supported the Delors project in the mistaken belief that it would restore social democratic development on a European Union level. This turned out to be a profoundly mistaken belief. But in response the social democratic parties have sought to limit the impact of stagnation and neo-liberalism on its skilled labour constituencies, working within multinational corporations and advanced technology sectors. They have similarly tried to slow down the drive to cut welfare spending in those fields where their core constituencies are most affected.

But at the same time the social democratic parties have been easily co-opted to projects for exporting the consequences of European Union stagnation abroad. They have thus been open to maintaining and strengthening a **social mercantilist** project towards East Central Europe and East and South East Europe.

5. *State executive interests and European Union Commission interests:* In general, the core executives of member states are committed to the neo-liberal and globalisation agendas of big capital, because what strengthens their capital strengthens their states in international competition. In addition, the strengthening of the coercive capacities of the capitalist labour market over labour strengthen the control capacities of states and increase their autonomy from labour pressures. At the same time, core executives have to be cautious in case the neo-liberal drive provokes an unmanageable backlash, particularly since popular opinion remains strongly hostile to the neo-liberal agenda.

But globalisation and neo-mercantilism against the East and the South produces no such worries among state executives, except in the case of

Germany where the stability of East Central Europe remains an important political objective.

As far as the European Union Commission is concerned, its legitimisation problems – its lack of democratic authority – create strong pressures on the Commission to double its efforts to build support in capitalist constituencies within the member states. The single market programme has also enhanced Commission prerogatives and thus given it a powerful stake in the neo-liberal project. As for the neo-mercantilist drive, this has been a basic structural interest of the Commission as one of the main ways in which it strengthens cohesion amongst Member States: its trade policy prerogatives are thus used to demonstrate the mercantilist advantages of the European Union for economic operators and member states.

It is important to note the political absence which is a central obstacle to a reorientation of European Union policies: the absence of a democratically authoritative executive at the European Union level. Such a democratic leadership, emerging from the European Parliament elections, would have a direct stake in tackling the social and economic problems of European Union citizens and in providing a coherent international strategy for the European Union. In the absence of such a democratic executive authority, European Union policy is a lowest common denominator of member state protective interests. The Franco-German axis is not an adequate substitute in this field because French and German interests do not coincide in this field.

6. The spontaneous momentum of events to the right: The current drift of events is likely to generate a rightward political shift, undermining the political strength of labour across Europe. Enlargement on a neo-liberal basis is likely to generate pressures for the relocation of industry eastward – these pressures are beginning to become evident in Germany. In East Central Europe and East and South East Europe the current strength of post-Communist parties of the centre left is likely to give way to a nationalist populist right in a several countries. The impact of neo-liberal policies at a European Union level and of the implication of Socialist Parties in these policies is producing strong nationalist-populist pressures on the right in some countries.

Social and Economic Destabilisation and the New NATO Political/Security Project

The failure of the Western states to offer a plan for effective reconstruction and sustainable development is creating grave strains on the social and political frameworks of many of the countries of the region. These strains create the most serious threats to peace and security for Europe in the medium term. In answer to the potential political consequences of these strains, the Western states are offering the concept of a Western capacity to send their military forces into the region, if needed for 'humanitarian', peace keeping and peace enforcement activities. Some West European states have had ambitions for the West European Union to take charge of such functions. But the United States government is concerned to maintain its dominance in European political/security affairs and it has successfully ensured that NATO will be the key instrument for this role. The West European states in any case lack the political unity and budgetary commitment to achieve military autonomy from United States military infrastructures (especially in the context of economic and monetary union criteria and domestic economic stagnation). NATO ascendancy was asserted during the Yugoslav war and the next stage in NATO revival is due to be NATO expansion Eastwards to take in Poland and other smaller states of the region.

The exact nature of this NATO enlargement is still not clarified, but possible motives and consequences can be envisaged. A key United States motive is a purely political one directed at Western Europe: a determination to ensure that the main West European states do not develop an independent capacity to project their power Eastwards independently of the USA and an equal determination to ensure that the USA remains the gate keeper of political relations between Germany and Russia. Russian policy-makers also fear, with some justification, that the eastward expansion could be used in the future to exert military pressure on Russia in the latter's relations with other republics within the Confederation of Independent States region (notably Ukraine). But the effect of this NATO enlargement will also, inevitably, be to create new security threats to Europe in the future. It will do this by effectively excluding Russia from the politics of Central and Western Europe and

by repolarising the continent between Moscow and Washington. The opportunity for a genuine collective security system for the whole continent will be destroyed.

Part 2: The Search for Alternatives

I will suggest three possible alternatives to the current policy dynamics:

1. A quantitative policy adjustment for a bloc of multinational corporations, rentiers and labour.
2. A policy based on efforts to return to classic post-war Social Democracy, attacking the rentier sector and neo-liberalism.
3. A policy based upon changing social relations in a socialist direction.

1. A Quantitative Shift

Here we are talking about changes in the mix of policies for East Central Europe and East and South East Europe which would not challenge the general policy dynamics within the European Union and its member states or the neo-liberal coalition promoting them, but would make significant breaks in this localised policy area.

A. Policy towards East Central Europe

1. A recognition that the Associated countries in East Central Europe should not be expected to meet the White Book requirements for harmonisation with the Single Market programme until their gross domestic product (GDP) per capita had reached the average GDP per head of Greece, Spain and Portugal.
2. As in previous enlargements, Eastward enlargement of the European Union would be combined with a new, major policy instrument of the European Union: in this case a **development policy**, for countries (not just regions) with a GDP per capita less than three quarters of the European Union average.
3. This development policy would involve some transfer of funds, but it would above all concern derogations from the Single Market programme on the following issues: state aid, competition policy and public enterprise policy. It should allow state *dirigisme* in all these

- areas. It would also allow these countries to impose tariff increases of a generalised kind in order to sustain their balance of payments while removing European Union tariff barriers.
4. At the same time, as part of the development policy, the governments of the region would have to make major commitments to:
 - a. upgrading environmental protection rules;
 - b. adopting strong regimes of protection of labour rights;
 - c. passing the bulk of the benefits of productivity gains on to workers in the form of higher wages.
 5. European Union member governments would pledge themselves to write down the debt obligations of heavily indebted associated states on the road to accession.
 6. Just as Greece was allowed derogations from the economic and monetary union programme, the countries qualifying for the development policy would be able to derogate from the commitment to free movement of capital and the convergence criteria for economic and monetary union. The Commission and member states would be committed to assisting the countries concerned to police capital flight.

B. Policy towards East and South East Europe

1. The Countries with ratified Partnership and Co-operation Agreements would rapidly be granted free trade regimes with the European Union as conditionally offered in the Partnership and Co-operation Agreement with Russia and Ukraine.
2. The European Union should redirect the policy of the European Bank for Reconstruction and Development towards public sector investments geared to increasing trade between the Associated Countries and the Partnership and Co-operation Agreement countries.
3. The European Union should provide major co-operation against illegal capital flight and against gangster capitalism in these countries.
4. The European Union should drop its pressure for the opening of product and capital markets in these countries.
5. The European Union should require minimum labour rights and wage protection for workers in these countries.

The justifications of these policy amendments:

1. The need for emergency measures for the East and South East Europe countries to avoid the costs of state breakdowns there in the future.
2. The need to deepen the markets in East and South East Europe and East Central Europe countries to strengthen the export growth of European Union operators.
3. The need to put the European Union gains from trade above the ideology of free market capitalism.
4. The need for the European Union to stabilise East Central Europe and East and South East Europe and strengthen the security and integration of the two halves of Europe in order to avoid future Bosnian-style wars.

2. A Classical Social Democracy Strategy

This strategy would be geared towards breaking the social power of the rentier sector and re-establishing the alliance between big capital and labour on a dynamically expansive basis that would involve rapid growth and a decline in unemployment.

A. European Union Policies for the European Union

1. A sharp reduction in the length of the working week without loss of pay, cutting unemployment and easing the fiscal strains within states.
2. A relaxation of monetary policy and more expansionist macro-economic policy across the European Union.
3. A reimposition of capital controls through the taxation of short-term capital flows.
4. A replacement of flexibilised labour markets with re-centralised labour markets and neo-corporatist planning.

B. Policies for East Central Europe

1. The expansionist context within the European Union would enable it to absorb the costs of domestic restructuring to enable the East Central Europe states to achieve a more favourable integration into the European Union division of labour. This could be achieved through direct negotiations in the style of the European Coal and

- Steel Community on sectors where East Central Europe states could be encouraged to expand their production and trade with the European Union, on the basis of potential productivity advantages.
2. The payments barrier to trade expansion would be tackled through the original Bretton Woods scheme, whereby balance of payments surplus zones – in this case the European Union – would be obliged to transfer resources to the deficit countries to facilitate continued expansion.
 3. The East Central Europe countries would be encouraged to avoid free movement of capital and full currency convertibility to ensure the marginalisation of speculative and rentier capital.
 4. All the measures proposed above would be adopted.

C. Policies towards East and South East Europe

All the policies proposed above would be adopted. But in addition, the following policies would be adopted:

1. European Unity Bonds, underwritten by the European Union budget, would be issued to raise very large amounts of capital for a Marshall Plan style aid programme for East and South East Europe.
2. Participation in the aid programme would be open only to governments respecting the principles of the European model of welfare state liberal democratic capitalism. Commitments on labour and environmental rights would be central to the conditionality of participation.

3. A Socialist Policy Strategy

This would combine all the above dimensions of policy with a strong macro-efficiency criterion for public policy towards private enterprise and with an orientation towards public rather than private planning of the new pan-European international division of labour.

1. It would combine what Keynes referred to as the euthanasia for the rentier sector with the development of European public enterprise in banking, public utilities and transport and monopolised sectors with the possibilities of large scale economies. In the case of banking this would not be such a major departure given that in 1992 only 40 of the top 100 European Union banks were private.

2. It would provide large powers for regional and local public enterprise and co-operative enterprise development.
3. It would use the tax and banking system to develop East Central Europe and East and South East Europe regions in co-operation with both public enterprises and the private sector.
4. Agriculture would, as at present, be planned, but not through the current system of price supports, but rather in the context of a new negotiated world strategy for agriculture.
5. A major public effort of restructuring would be undertaken to tackle the private automobile crisis in Europe. A European framework plan would be combined with large degrees of local and regional autonomy on ways of meeting the framework targets.
6. A constitutional right to work would be implemented, combined with a radical reduction in working time and in retirement age and with an expansion of local public services.
7. These programmes would be combined with the development of a fully-fledge federal democratic state as a multinational state, though initially this state would probably not include the European Union 15 because of political resistance from some European Union states.
8. European security frameworks would be restructured in a genuine collective security direction.
9. The new federation would champion a programme for combining world development with measures to combat the global ecological crisis and this task would be combined with a public policy in Europe involving a radical reduction in environmental pollution.

Obstacles and Conditions for these Strategies

All three strategies face formidable obstacles deriving from the following:

1. The strong unity of European capital behind the neo-liberal/globalising/neo-mercantilist agenda.
2. The continuing capacities of the proponents of these nostrums to pull strategic constituencies behind them.
3. The formidable legal/institutional barriers to the development of any left alternative which now exist within the European Union because of the preservation of a decision-making mechanism geared to blocking left initiatives; the proposed flexibility clause in

Maastricht 2 could, in principle, offer a partial escape route though it would not allow a socialist break with the *acquis* of the Single Market.

The chief condition, therefore for implementing any of these strategies would be an endogenous socio-political shock within the European Union zone itself, a shock in the form of a left-oriented social revolt against the currently dominant programme. It would be a mistake to assume that an economic shock could, in itself, generate a leftward re-orientation: the socio-political structures of the European Union in the current neo-liberal conditions make populist-xenophobic right-wing revolts the most 'organic' form of protest at the present time (eg the Freedom Party in Austria/Le Pen in France) – parties of national neo-liberalism combined with international neo-mercantilism.

The Need for a New Collective Security Order

Reversing the trend towards the peripheralisation of most of the former Soviet Bloc needs to be combined with a replacement of a security order based upon the dominance of one state (the USA) and the exclusion of another (Russia). This requires the building of a genuine collective security regime for the whole continent and one which includes strong agreements for denuclearising military establishments and placing tight controls on conventional forces, building upon the Conventional Forces in Europe Treaty.

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