European Union and Trade Unions: Costs, Benefits and Policy

A Report for the Fire Brigades Union

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Summary

This report concludes that continued membership in the European Union is in the interest of British working people and their trade unions. The Fire Brigades Union should support continued UK membership in the European Union and oppose joining the euro zone for the following reasons:

1. **Links among national trade union movements strengthens solidarity and political influence across Europe. This is especially the case for the FBU.**
2. **The Social Charter of the European Union serves as an important guarantor of social and economic rights, which explains why the Conservative government seeks to "opt out" of its provisions.**
3. **Many British workers have found well-paying employment on the continent as a result of the rules on free movement of labour.**
4. **EU market rules and environmental standards limit the success of the Conservative government to reduce consumer protection through a caveat emptor deregulation.**

We reach this conclusion despite the substantial flaws in the EU governance structure and the current dominance of policy making by neoliberal ideology. The FBU and the UK labour movement should support the following reforms for the European Union:

1. **The fiscal rules of the European Union including the famous Maastricht Criteria conflict with social democratic policies and should be changed. Current emphasis on austerity is derivative from these rules.**
2. **The third "bailout" forced upon the Greek government demonstrates the lack of democracy in decision making during the entire crisis of the euro zone. The "democratic deficit" is as great for the entire EU membership, only less obvious. The FBU and the British trade union movement should support fundamental reform of EU governance.**
3. **The supposedly "independent" European Central Bank is in fact under the strong influence of an undemocratic grouping of political elites and must be subordinated to genuine democratic control, especially after its actions during the recent Greek crisis demonstrated its vulnerability to political pressures.**
4. **The EU, designed to prevent any country from again seeking to control Europe, has become the vehicle for German economic domination of the continent. Reversing this, perhaps through greater powers for the European Parliament, is essential to a sustainable Union.**

1 Background to Union

Summary

Since the way institutions work and the purposes they serve reflect social conflicts and compromises it would be wrong to think that the European Union plays a fixed and unchanging role. There can be no doubt that the present EU is committed to neo-liberal economic strategies. However, the character of the European integration project has undergone very great changes in the past and it can change again in the future to become a progressive force and one which enhances the well-being of European peoples.

The Coal and Steel Community

In the early years of European integration, political rather than economic motives were to the fore. The European movement, largely confined to elite groups, attempted to build federal European institutions, in the belief that nationalism had been responsible for the Second World War. European federalists were strongly sponsored by the US, partly in order to reconstruct the European economy, but increasingly as a move in the cold war against Soviet Russia.

Two initiatives, the Council of Europe and the Organisation for European Economic Cooperation (OEEC), linked to Marshall Aid, failed to give rise to genuinely federal institutions because of British resistance – both Labour and the Conservatives refused to concede national sovereignty in the way that federal structures would require.
The US administration then turned to the French government, the only other plausible leaders of the integration drive. The Schuman Plan, a French government response to a US government invitation to launch an initiative, gave rise in 1951 to the European Coal and Steel Community, the direct ancestor of today's EU.

The immediate problem was German heavy industry, centred on the Ruhr, which was under the control of the war-time allies but principally the US government through the International Ruhr Authority (IRA). Determined to rearm Germany as a bulwark against the Soviets, the US government made it clear that the IRA would be wound up and the coal and steel industries returned to German control. The French government regarded this as a problem both from the economic and the military point of view. They countered with Schuman's plan to put Europe's heavy industry as a whole under supranational control.

The German government accepted this, as a way of starting to move back towards a regular place in international diplomacy and to escape from pariah status. When chancellor Adenauer was asked how many countries were needed to make the Plan work he answered, “two” – meaning France and Germany and so we can see here the origin of the Franco-German axis which for many decades exercised political hegemony over the integration process. In fact there were six members of the ECSC – France, Germany, Italy, Belgium, Netherlands and Luxembourg. The British government refused to participate, once again because of the issue of sovereignty, and the Scandinavian countries were reluctant to join in Britain’s absence.

But the “little Europe” of the ECSC was very successful, because there was a rapidly expanding demand for steel, first from the Korean War, then from the rapid economic growth of the member states.

The ECSC did not involve the narrow and dogmatic commitment to free markets which characterises the EU today. The High Authority, forefather of today’s Commission, which administered the Community was given strong powers to intervene in price formation and levels of production – some of these powers were actually used in the recession of the late 1970s. There was a strong social dimension – a Social Fund was established to compensate those adversely affected by integration – and it did indeed give decent compensation and retraining opportunities to workers in firms which could not compete in the integrated market, in the event mostly Belgian coalminers. On the other hand, heavy industry magnates such as Alfried Krupp, deeply implicated in the Nazi regime, were permitted to regain control of their old companies. One historian sees in the ECSC a resurrection of the Franco-German steel cartels of the past.

The next step in European construction proved abortive. As it became clear that the US government would insist on full German rearmament, a proposal was put forward by the French Prime Minister, René Pleven, to establish a common defence force along the same lines as the ECSC, that is a re-established German army was to be avoided by moving to a European army. The European Defence Community (EDC) was in fact agreed by the same six countries and the treaty signed, but ratification was blocked by the French national assembly, with the centrists in support but both right and left deeply hostile to the project.

The Rome Treaty

Given the failure of directly political initiatives and the economic success of the ECSC the next move was to widen economic cooperation from heavy industry to the economy as a whole. This was done by the Treaty of Rome in 1956, which established a common market for all products and resources. This again had a supranational element in that the common market, or European Economic Community, was to be a customs union and not simply a free trade area. The difference is that a customs union involves a common policy towards non-member countries, with a single tariff being levied on imports from outside, no matter which member state they enter.

For this reason, a customs union, unlike a free trade area, does not need "rules of origin"; that is, it does not need to police internal trade to ensure that the commercial policies of individual member states are enforced. For example, although there is free trade between the US and Mexico, the US government will still monitor imports from Mexico, to determine whether the goods in question are indeed Mexican, rather than, say, Chinese. This is because the US and Mexico may have separate trade policies concerning China.

In a customs union this is not permitted – there is only one policy towards China or any other outside country and this policy is determined centrally by the union as a whole. It is this supranational dimension which allows controls to be lifted at internal frontiers in the EU; a product is either entitled to be in the EU or not; if it is permitted in France it is permitted in Germany and throughout the EU.

The EEC, although it did not attempt to compensate everyone who lost out from integration, also had a relatively ambitious social dimension. The aim of an upward convergence in living standards and social provision was written into the treaty. Equal treatment for women workers was another significant principle. In practice the Common Agricultural Policy was perhaps the most important social initiative linked to the EEC. Agriculture on the European continent was being rapidly transformed as large-scale agribusiness displaced peasant farmers. The CAP, by setting minimum prices for the main agricultural products, slowed down the elimination process and limited the social distress that the transition would otherwise have caused. The CAP admittedly became increasingly dysfunctional but it did permit a controlled transition to less labour-intensive agriculture.

It was its supranational dimension which, once again, led Britain to stand aside from the EEC. Although this concern for sovereignty is a continuing thread in Britain's relations with Europe, the concern has less and less substance because the increasing number and density of external relations sets tighter and tighter limits to Britain's freedom of action. When the post-war Labour government rejected the Coal and Steel Community Britain was still an imperial power, with the only large economy in

Europe to escape massive destruction, and with a currency second only to the dollar in international exchange.

By the time of the EEC, Britain's relative position was already much weaker, because of the rapid growth processes in continental Europe, the decay of the sterling area and the stagnation of trade with many former colonies. On the continent, on the other hand, rapid urbanisation of rural labour made for high profits, high rates of investment and a comprehensive renewal of industrial systems.

In a defensive move Britain attempted to counterbalance the EEC, by establishing a rival organisation, the European Free Trade Area. This, however, had little impact because all the other member states were very small and Britain's own economic malaise held the whole project back.

Shortly after the Rome Treaty, the character of European institutions changed radically because De Gaulle came to power in France. De Gaulle was an enthusiastic supporter of Franco-German cooperation in particular and Europe-wide cooperation in general but his vision was of *l'Europe des patries*, Europe of the fatherlands, informally led by France, rather than of any federal or supranational institutions.

Thus, although trade and investment flows between member states grew rapidly, institutional development was blocked until De Gaulle left the scene in 1969. There was even a reassertion of member state power against EEC institutions: De Gaulle secured in the "Luxembourg compromise", a practical agreement that a member state which invoked its essential national interests could exercise a veto in the EEC's Council of ministers even when the Rome treaty specified that majority decision-taking was required. Although the legality of the compromise was always questioned it only gradually fell into desuetude – when the British tried to make use of the veto in the early 1980s they found that it had vanished.

British Accession

The British position towards Europe altered in the early 1960s. Both the Macmillan and then the Wilson governments applied for membership of the EEC. They were prevented from joining by De Gaulle, who thought, probably accurately, that Britain would be a Trojan horse in a reassertion of US political and economic influence within the EEC.

After De Gaulle's departure the French government line softened and Britain was admitted into the EEC in 1973, together with two of its EFTA partners, Denmark and Ireland. As far as economic growth was concerned Britain had missed the party – 1973/4 saw the first general recession in Europe since the Second World War and recovery everywhere was slow and partial as unemployment rates rose. Most governments and the EEC itself persisted in interventionist policies, on a national rather than a European basis, but these seemed to have lost some of their effectiveness and persistent economic malaise opened an opportunity for the social and economic reaction pioneered by Thatcher in Britain.

In fact, the EEC and the other member states did not immediately follow the fundamentalist reassertion of “free market” forces in Britain. In 1981 there was a serious experiment with radical Keynesian policies in France, involving the nationalisation of the financial sector and several of the biggest industrial corporations. In the EEC, the vice-president of the Commission, Etienne Davignon, attempted an interventionist strategy to deal with the excess capacity which had emerged in several sectors.

However, the drastic tightening of monetary policy in the US, which began in the autumn of 1979, made Keynesian interventionism in Europe extremely difficult. The French government abandoned its expansionist policies and the EEC increasingly turned to a purely market-based integration strategy. Many European governments were ready to endorse this switch because of the apparent failure of interventionism and the acute financial problems posed by the resurgence of the US dollar.

The Big Market

Thus in the 1980s the integration project started to be tied to market fundamentalism, a relationship which has only become tighter and more dogmatic in the decades since. In fact this turn took place under Jacques Delors, a French socialist, as Commission president. Delors claimed that European social policies would be developed in parallel with the “big market” which was the aim of the economic strategy. This promise was not kept. The official discourse of EU documents refers constantly to the “social dimension”, the “social dialogue”, the “social partners” and so on.

However, there is very little substance behind this rhetoric. Apart from some useful measures of labour market regulation and the expenditures of the “structural funds,” which are far too small to have an impact on the social situation in Europe, actual social policy has remained at member state level while, in the recent crisis, the Commission and the dominant member state governments have actively promoted the degradation and destruction of the social models of the weaker countries.

Nevertheless, Delors succeeded in winning support from much of the British trade union movement, which had been for the most part very hostile to the European project in the previous decades. The basic reason for this policy reversal was the drastic series of defeats suffered by the trade unions under the Thatcher government, culminating in the defeat of the miners in 1985. In the seventies trade unionists had looked forward to radical change in a socialist direction, By the mid-eighties they were reeling under the impact of unemployment and de-industrialisation and anxious to cultivate potential allies in Europe.

In fact the turn to intensified competition and the attenuation of controls over economic life was led by an English Commissioner, Arthur Cockfield, who formulated the "1992 programme" for the elimination of non-tariff barriers to trade and investment in the EC. This made for much deeper economic integration by attacking any and every regulation, subsidy, tax measure or pattern of government spending which might give an advantage to a member state's own producers over those from other members. Prior to the programme, integration concerned above all manufactured and agricultural goods and left open a wide range of protectionist possibilities even in these sectors.

Now, cross-border competition was sharply intensified and extended to most service sectors while the Commission policed economic measures in all member states to enforce the competition rules and a "level playing field." It must be noted that free access to member state markets was granted not only to European corporations but also to those from Japan, the US and elsewhere because the government of Germany and other states insisted, against French government reluctance, on a completely open economic system. Here we can see the weakening of French leadership in what was about to be renamed the European Union (EU).

Maastricht

The market-oriented strategies and restrictive macroeconomic policies adopted in the 1980s led to massive unemployment across the EU, from which there has never been a complete recovery. Nevertheless the successful completion of the 1992 legislative programme and a further enlargement to embrace three southern member states – Greece, Spain and Portugal – gave a certain momentum to the integration project and this was reflected in the Maastricht Treaty of 1992 which gave much of the market-opening legislation Treaty status (making it much harder to alter in the future) and adopted the goal of monetary union.

The political circumstances of the time influenced the plans for a single currency. The government of the Federal Republic of Germany (West Germany) wished to absorb the whole of the former German Democratic Republic into a single state. This prospect alarmed many in other countries because the new Germany would be by far the most populous member state with by far the strongest economy. In order to ease French government concerns the German government agreed on a rapid move to monetary union.

Monetary union, originally a French government project, was not at first part of the market fundamentalist agenda. Rather it was seen in France as a geo-political move, as a challenge to the supreme role of the American dollar, which De Gaulle had characterised as an "exorbitant privilege" for the US. The German government had consistently rejected this approach and argued that monetary union should come about only after a very lengthy process of convergence, as the "coronation" of a fully achieved integration strategy.

In the context of reunification, the German government now accepted a rapid move to the single currency but they continued to reject all the complementary structures and institutions, the "European economic government," which had been part of the French government scheme and which were meant to coordinate all economic policies across the participating countries. Although the German government's refusal to accommodate the interests of other countries had led to the breakdown of the previous monetary arrangement, the European Monetary System (EMS), the German government now designed a structure for the single currency which was even more constraining and disciplinarian.

The European Central Bank (ECB) is constitutionally independent. This is a unique situation – there are many countries, now including Britain, where the central bank enjoys *operational* independence, that is, it is free to decide *how* to pursue its political mandate. But only in the euro zone does no political instance – Parliament, Commission or Council of Ministers – have any say in the objectives of monetary policy or any right to change those objectives. The mandate of the ECB, written into the Maastricht Treaty, gives absolute priority to the control of inflation, to which all other objectives are subordinated. Further, unlike all other central banks which have a duty to provide emergency finance to their governments, the ECB is explicitly prohibited from doing so.

There are no complementary institutions. Abundant theoretical, empirical and historical evidence exists to show that in a monetary union among economies with divergent structures and different levels of development, it is necessary to have effective fiscal transfers from the stronger to the weaker participants. The EU leadership has consistently refused to establish any mechanism for such transfers. In an attempt to forestall any need for transfers across countries the members of the euro zone are subjected to tight limits on government debt and government borrowing in the Stability Pact. This is a severe limitation on the use of budgetary policies – public spending and taxation – to compensate for the loss of all control over monetary policies.

However, the problems arising from the design faults of the monetary union lay dormant for nearly ten years and the euro was successfully launched in 1999. The collapse of the Soviet Union led to two more waves of enlargement. Three Western countries where membership had previously been considered incompatible with their neutral status now acceded – Sweden, Austria and Finland. Subsequently a large number of former Soviet satellites together with states emerging from the breakup of Yugoslavia joined the Union, together with Malta and Cyprus, carrying the number of member states to 28.

The Lisbon Agenda

In the first decade of the present century the market fundamentalism of the EU leaders was carried even further. From the late 1980s the previously rapid convergence of European productivity levels towards US levels came to a halt and the US producers even seemed to be pulling further ahead. It is not clear whether the statistical data in this field are reliable, but they gave rise to something approaching moral panic in EU leaderships.

Ignoring the social and institutional factors in US development EU policy attempted to close the presumed gap and build a "knowledge-based economy" by means of thoroughgoing deregulation. In the Lisbon Agenda, supposed to cover the period 2000-2010, social policy was explicitly subordinated to a free-market economic strategy. In the notorious words of the Commission's report to the Stockholm Council in 2002 Europe was to become "the easiest and cheapest place to do business in the world." As subsequent events made clear, cheap and easy business is not always good business.

Under the gung-ho Commissioners for the internal market, Frits Bolkestein and then Charlie McCreevy, a wide-ranging assault on national regulation was launched. In two cases, however, this was defeated by widespread opposition centred on the labour movement. The Commission attempted a complete deregulation of hostile takeovers, outlawing any protection of workers', suppliers' or taxpayers' interests in order to maximise returns to the shareholders of targeted companies. This proposal was defeated in a dramatic tied vote in the European Parliament. The Bolkestein directive on services would have allowed all service providers to choose which member state they registered in and to opt for that state's regulatory rules in any member state where they were active. This was simply a recipe for comprehensive deregulation.

The draft directive was countered by a massive trade union campaign and was only passed in the parliament in a very much weakened, albeit still dangerous, form.

In the sphere of finance, the Lisbon agenda attempted to integrate capital markets by dismantling national regulatory regimes, including regulations protecting households in their dealings with banks and financial corporations. When Alexandre Lamfalussy, former head of the Bank for International Settlements, warned of the dangers to stability, he "was politely told to drop the subject." In the denouement, the global financial crisis made it clear that EU banks were even more exposed to the subprime crisis than those in the US, that leverage had reached much higher levels and that European banks were guilty of even more criminal violations that their US counterparts. Meanwhile the Lisbon strategy was revealed as a total failure as the early increases in employment – concentrated in Italy, Spain and Greece – were reversed and unemployment soared to new heights.

Disaster in Greece

No single issue has cause more anti-EU feeling among progressives than the austerity policies forces upon Greek governments and the Greek people by the so-called Troika made up on the euro zone finance ministers ("euro group"), the European Central Bank and the International Monetary Fund during 2011-2015. The next section documents the extreme contract of the Greek economy caused by these policies.

The Greek collapse demonstrates and epitomizes the fundamental flaws in relationship among the EU member states, and the cavernous depth of the democratic deficit in EU governance. In 2011 the Troika presented a set of austerity policies of unprecedented severity, beyond any implemented willingly or unwillingly by a European government; indeed, almost unprecedented globally. The Greek Prime Minister George Papandreou announced that his government would hold a referendum in November 2011 to provide the public with the opportunity to accept or reject the policies demanded by the Troika. The euro group, led by the German government, demanded that Papandreou cancel this attempt at democratic decision making, which he did (Smith & Gow 2011).

A little over four years later in January 2015 the Greek electorate voted into power an anti-austerity government led by the Syriza Party. After six months of fruitless negotiations with the Troika the Syriza government found itself being pressed to accept austerity policies unchanged in essence from the original ones. In response the Greek prime minister again called for a democratic referendum, this time refusing to yield to pressure to cancel it. Just over sixty percent of the Greek electorate rejected the austerity package. The response of the Troika to this democratic manifestation of public opinion was to demand that the Greek government implement policies even more extreme than the ones rejected by the referendum vote.

The central message from the EU leadership was clear. For a member of the euro zone there exists no democratic process through which policies demanded by Brussels could be amended much less rejected. A corollary to that message is that euro zone policies, and to only a slightly less extent EU policies, cannot deviate from the priorities of the German government.

2 EU Economic Performance since 2000

Summary
Since the introduction of the common currency, growth rates in the euro zone have remained consistently below rates for other EU countries and lower than for non-EU countries. Prior to the financial crash of 2008 the slower rates resulted from national demand-depressing policies to meet criteria for adopting the common currency.

After 2008 the severe austerity policies across the euro zone were the cause of very slow recovery, with several national economies yet to regain their previous peak. The "home grown" austerity policies of the Coalition government had the same effect in Britain.

Introduction
The treaty that transformed and renamed the European Common Market into the European Union seemed on the surface to represent a shift of emphasis from narrow economic goals to broader political objectives. In practice the post-treaty years involved an increasing focus on economic rules and regulations in anticipation of the creation of a currency union.

The previous major treaty changes involved agreement and participation of all members. By contrast a decision was made to build the currency union piecemeal, which created a *de facto* division between those inside and those outside the "euro zone". From the outside this division had a major impact on policy options of governments, because those using the euro surrendered national control over monetary policy to the European Central Bank.

In order to "qualify" to join the euro zone a government had to meet several economic criteria, on inflation, the overall fiscal deficit and the public debt. For several governments this required the adoption of growth-depressing policies, especially to meet the inflation target.

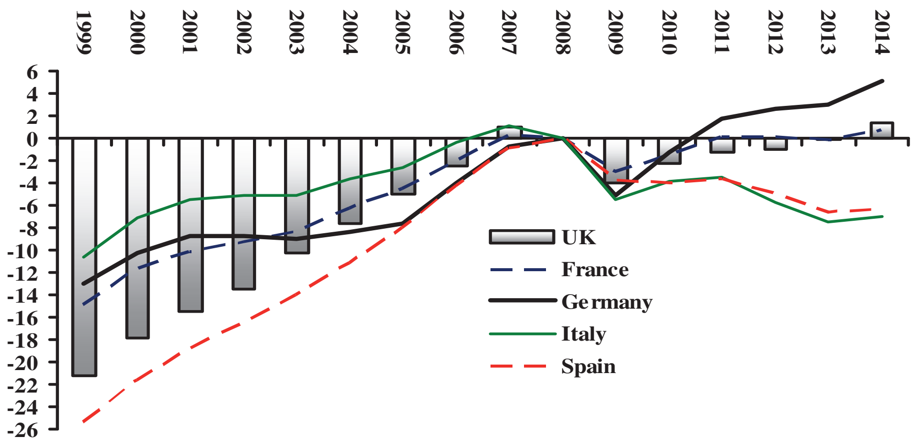
Growth Performance since 2000
Chart 1 shows the growth performance of the UK and the four major countries of the euro zone, France, Germany, Italy and Spain. From the introduction of the euro in 1999 until the financial crash in 2008, only Spain had a faster rate of economic expansion than Britain, with GDP increasing by 25% over the nine years compared to the UK increase of 21%. France, Germany and Italy all grew by less than 15%.

Since the crash the German economy recovered to 6% above its 2008 peak, though this was achieved by "beggar-thy-neighbour" export policies, discussed below. Because of the Coalition government's demand-depressing austerity policies, British GDP did not rise above its 2008 level until 2014, six years of stagnation that Chancellor Osborne describes as "recovery". This performance was closely matched by the French economy, with Italy and Spain far below their peak values.

The outcomes for the major euro countries strongly suggest that had the Coalition continued the fiscal stimulus that Gordon Brown began in 2009 rather than copying euro zone austerity, the UK economy would have outpaced Germany's. A comparison to seven medium sized euro zone countries reinforces this conclusion. Of the seven only two, Austria and Belgium, recovered more than the UK, and only marginally so.

While the UK economy performed better than most of the euro zone countries after 2008, this result is a clear case of "damning with faint praise". The "better" outcome for the UK suggests that Coalition austerity imposed less fiscal contraction than in most of the euro zone countries.

Chart 1: GDP for the UK & the Major Euro Zone Countries, 1999-2014, percentage differences from 2008



Sources: Charts 1-8 use statistics form the Organization of European Cooperation and Development (OECD), www.oecd/statistics. We use this source rather than the EU data based Eurostat in order to include non-EU countries on a consistent basis.

Chart 2: GDP for the UK & 7 Euro Zone Countries, 1999-2014, percentages differences from 2008

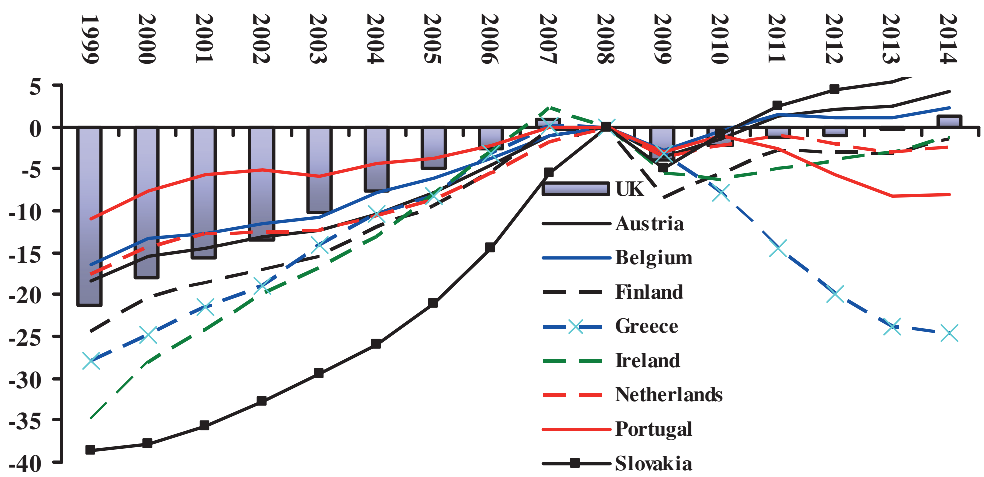
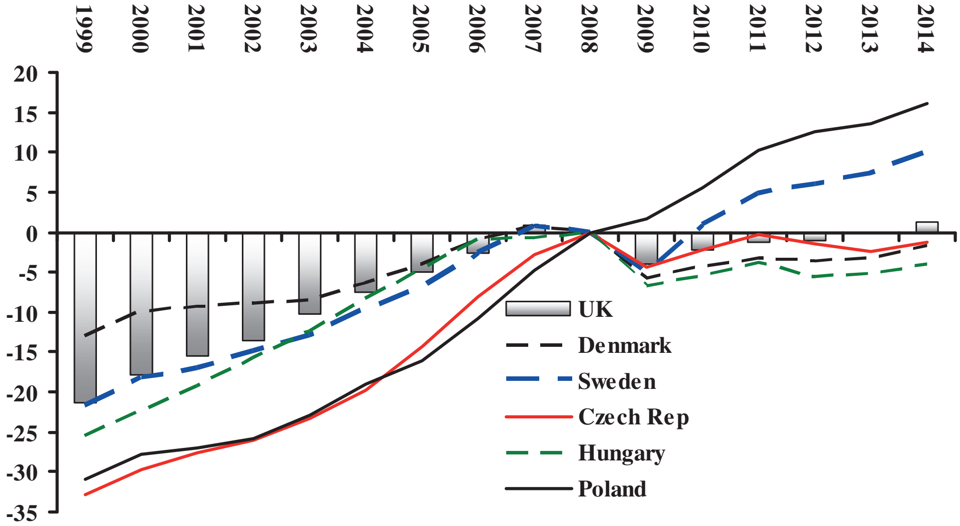


Chart 3: GDP for the UK & 6 EU, non-Euro Zone Countries, 1999-2014
percentage differences from 2008



Non-EU Economies Since 2000

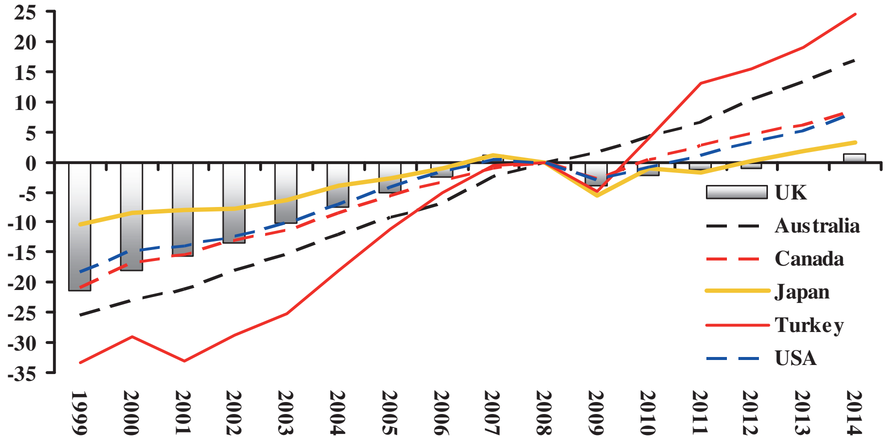
The poor performance of the UK economy and the growth depressing effect of euro zone policies become more obvious on inspection of countries outside the currency union. Chart 3 includes the UK with six other EU members that have not adopted the euro. In this group of seven countries the UK growth rate since 2008 ranked in the middle, above three but below the same number. The cross country average for these seven non-euro members of the European Union is well above the average for the four major euro members and also above that for the seven smaller economies reported in Chart 2.

When we inspect non-EU countries the poor performance of countries using the euro and of the UK is quite clear (Chart 4). All five of the non-EU countries, Australia, Canada, Japan, Turkey and the United States grew more after 2008 than Britain, and more than every euro zone country except Austria and Germany. Unlike the UK, by 2012 each of the non-EU countries had exceeded its 2008 level of output by 2012, yet more evidence for the depressing effect of austerity policies.

The weak but still stronger recovery of the 5 non-EU countries compared to both the euro zone members and Britain demonstrates the debilitating effect of austerity policies. None of the non-EU governments implemented vigorous countercyclical policies during the global contraction, However, none embarked on severe fiscal contraction like the Coalition government in Britain or the even more contractionary euro zone austerity regime.

The results of these decidedly tepid recovery programmes outside the EU demonstrate clearly that "fiscal consolidation" does not stimulate recovery. On the contrary, it provokes decline and stagnation. The likelihood of the leadership or the European Union recognising the failure of its economic strategy remains extremely low.

Chart 4: GDP for the UK & 4 non-EU countries, 1999-2014
percentage differences from 2008



3 Unique Position of Britain

Summary

The United Kingdom 1) does not have a "written constitution" and Parliament is supreme; and 2) has its own currency and no political party of influence supports adopting the euro in place of the pound sterling. These two fundamental characteristics imply that with intelligent leadership from government the benefits of EU membership outweigh the costs. In addition, EU employment regulation has tended to have a positive impact in Britain because its own labour market regulation was very inadequate.

Introduction

Since 2008 the countries of the euro zone have without exception experienced a dismal economic performance, considerably worse that the EU countries that have maintained national currencies (see Section 3). This difference results from the dysfunctional institutional arrangements linked to the common currency and the disproportionate influence of the German government in euro zone economic policy.

The prolonged stagnation and in some cases decline of the euro zone economies is not an outcome inherent in membership in common currency. It is a conjunctural outcome linked to specific policies, rules and regulations. Were those changed the common currency would serve as source of strong economic growth and structural transformation.

However, the present and foreseeable political environment across the euro zone countries makes reform of the common currency institutions in the near future extremely unlikely. As unfortunate as this political reality is, it constitutes a reason for Britain to delay adopting the common currency, not a reason to withdraw from the European Union.

Importance of a National Currency

The European common currency system was poorly designed. In the 1990s the governments of several countries pursued unsound policies to meet the guidelines for membership. The EU-wide institutions intended to govern the operation of the currency system were inadequately designed. Relatively rapid expansion of the global economy during the 1990s and 2000s disguised these design flaws, though numerous commentators warned of their problematic nature, most presciently the chief economist of Deutsche Bank (Mayer 2012, Chapters 4 & 5).

When countries with different currencies trade, they require a means to clear the deficits and surpluses across the various countries' trade and current accounts (the latter includes certain income flows as well as trade). This is achieved through the accumulation and depletion of reserves of an internationally accepted currency (the most used being the US dollar). The change in "hard" currency reserves need have no impact on the amount of domestic currency in circulation, because the national central bank can manages the supply of the currency in such a way as to “sterilise” such changes.

Thus, a country with its own currency need not suffer inflationary pressures when its foreign currency reserves increase or deflation when they decline. In contrast, in the euro zone the European Central Bank manages the common currency. This has several consequences.

First, trade balances among euro zone countries are quite large, but the national governments cannot make exchange rate adjustments. As a result, governments of trade deficit countries must either deflate the economy to drive down prices and wages (a process now referred to as “internal devaluation”), or must borrow from the trade surplus countries. This limited choice for managing intra-euro imbalances explains much of the national debt accumulation before 2008.

Second, while the euro could be managed in response to imbalances in extra-euro trade, this cannot be done at the national level. It has been the case for over a decade that a large country, Germany, has an extra-euro trade surplus and most of other countries have deficits. Within present policy rules of the EU no mechanism exists to resolve this simultaneous persistence of external surpluses and deficits across countries.

Third, and pointed out above, national central banks cannot stimulate the national economy through monetary policy. Equally, they cannot implement a deflationary policy. Thus, should a national government decide to seek export competitiveness through depressing wages, it must do so through a primitive and politically explosive policy of directly reducing minimum wages and preventing collective bargaining, as in Greece for the last five years, rather than by allowing the prices of imported goods to rise.

Because Britain has a national currency, the Bank of England can affect trade competitiveness through exchange rate movements. Given the openness of the UK economy and the strength of financial interests, the Bank of England has rarely exercised this policy option. In principle it could do so at any time. More important is indirectly influencing the pound exchange rate through "quantitative easing".

In summary, the United Kingdom has a central bank that can implement a relatively independent national monetary policy including setting interest rates, which the euro zone governments cannot. The government of Germany is the exception that proves the rule. While its central bank operates under the same rule as all the others, the disproportionate political influence, "proportionate" some might say, of the German government ensures that the ECB will not implement policies contrary to its national interests.

Sovereignty of Parliament

The governments of the euro zone countries operate under formally strict rules for fiscal policy (discussed in Section 5). The most famous of these are the "Maastricht Criteria", that specify the permissible size of national fiscal deficits and the ratio of the public debt to national income (60% of gross national product or GDP). Originally meant only to cover the transition to the single currency these rules were subsequently perpetuated as the “Stability Pact”

These two long standing deficit and debt rules are technically unsound. The deficit rule, that the overall fiscal balance should not exceed 3% of GDP, is contrary to IMF guidelines for fiscal management, which specify the "primary" balance as the appropriate measure of sound policy (the overall balance less interest on the public debt, IMF, https://www.imf.org/external/pubs/ft/pam/pam49/pam4902.htm).

Equally flawed is the Maastricht specification of the gross public debt for the debt-GDP ratio. The UK government through the Treasury, like the vast majority of national governments, measures public indebtedness as the net debt, total outstanding debt minus public sector liquid assets. For most countries the difference is substantial. For example, the UK gross debt to GDP ratio at the end of 2014 stood at about 110%, while the net debt was only 80% of GDP.

These technical flaws seemed of little importance prior to 2008 because of what might politely be called their "flexible" application by Brussels (during 2001-2005 the German overall fiscal deficit exceeded 3% every year but the German government suffered no penalty). After 2008 this flexibility disappeared. Along with a more rigid interpretation of the 3% and 60% rules, new fiscal constraints came into effect (discussed in Section 5).

Relevant for Britain is that the new and stricter fiscal rules have been incorporated into the constitutions of most of the national governments; i.e., not just for those of the euro zone. This creates extreme inflexibility in fiscal policy by specifying balanced budgets. When applied strictly the balanced budget constitutional provisions make public expenditure dependent on taxation. When an economy enters recession, revenues fall, requiring expenditure reduction that reinforces the recessionary tendencies.

Because Britain has no written constitution, any budgetary rule would have the status of other acts of Parliament. It could be repealed or cancelled by a subsequent parliamentary vote. Therefore, rather than merely promising deficit elimination, had the Coalition government passed an act mandating a balanced budget, a subsequent government could cancel it. The same applies if rules are part of a treaty, though the nullification might require abrogating the treaty as a whole. However, even in this case the treaty may be sufficiently vague on an operational level to allow for avoidance in practice.

Therefore, the dysfunctional fiscal rules that burden countries in the rest of the EU would carry no "constitutional" weight in Britain. With its own currency and legislative control over fiscal rules, the United Kingdom avoids the most serious negatives of EU membership.

Impact of EU Employment Law in Britain

It should be noted firstly that EU employment law, although it has certainly had a beneficial effect for British workers, has had almost no effect on employment conditions in France, Germany, Belgium, the Netherlands or Scandinavia. This is because the EU rules place fewer constraints on employers than does national legislation in these countries. In Britain, however, where labour market regulation was underdeveloped, regulations promulgated at European level could improve the position of workers. The main areas concerned are:

- **Gender Equality:** At the time of the Rome Treaty (1956) the French insisted on a strong gender equality clause because they were concerned about competition from Germany where women workers' wages were very low. On this basis there have been a number of directives against gender discrimination. Note, however, that the most important gender equality legislation in Britain, Barbara Castle's Equal Pay Act, was a wholly British development, owing nothing to European institutions.

- **Health and Safety:** The Single European Act, driving forward market-based integration, did concede that countries should not seek competitiveness by risking the health of their workers. This gives clear competence to the EU in this sphere so that legislation can be based on a qualified majority in the Council and the agreement of the European Parliament. A significant body of legislation has developed concerning such issues as handling hazardous substances, the use of visual display equipment and the safe management of construction projects. However, the most important example of Health and Safety legislation is certainly –

- **The Working Time Directive:** Also in the context of the Single Act, when it was seen as important to present European integration as socially positive, this legislation was pushed through as a Health and Safety measure because the EU would not have had competence if it had been viewed as an employment measure. As a concession to Britain the directive permits derogation from the stated maximum working time (an average of 48 hours over a reference period of about 17 weeks) if this is "negotiated". Only Britain made use of this option in transposing the directive into national law. At this point, the fact that trade unionism has disappeared from most of the British private sector became decisive: few British employees were ready to insist on a maximum of 48 hours in the context of individual negotiations with their employer and, outside the public sector, the directive simply ceased to be a constraint on employers' practice. The Working Time Directive also illustrates another problem with EU labour market regulation – that of enforcement. In some sectors of British industry, particularly the construction industry characterised by mass pseudo-self-employment, the provisions of the directive on holiday pay are more honoured in the breach than the observance.

- **The Social Chapter:** This is a provision, in the name of "Social Europe," attached to the Maastricht Treaty as a protocol because the Conservative government of the time refused to sign it. However, the Blair government did so and it now has Treaty status. It gives the EU competence in certain fields of employment law: the information and consultation of workers; working conditions; and certain types of intervention in favour of excluded groups. Thus legislation here can be decided on majority votes in Council and Parliament. At the same time the chapter requires unanimity for legislation on social security; employment protection; representation of workers (including co-determination); the employment rights of non-EU workers; and certain types of "active Employment measure". The chapter specifically excludes EU legislation, even based on unanimity, on wages and strikes. However this has not prevented the Troika, where the Commission acts as a creditor, interfering in these issues in the debtor countries of the eurozone; nor has it stopped the German government eliciting "voluntary" concessions in the same areas as part of its pact for the euro or of the fiscal compact.

- **Atypical Contracts:** In response to the drive for labour market and employment "flexibility", the EU has legislated on several types of "flexible" employment contract: part-time workers; temporary workers; agency labour and so on. The aim has been to establish equal rights for workers on "standard" and "flexible" contracts or at least to limit the disadvantages of the second group. This has been to the advantage of some employees (part-time firefighters may be a case in point). However, even "standard" employment contracts in Britain confer very few rights in comparison with the labour codes of France or Germany and so the impact of the legislation is limited here. Legislation proposed by the Conservatives would weaken employment protection for specific groups – younger workers and those in small enterprises – but such moves do not seem to be inhibited by EU law.

- **Employee Voice Systems:** Two important directives here establish European Works Councils for MNCs and require information and consultation of workers in enterprises with more than 50 employees. Unlike the German co-determination model, which perhaps inspired these exercises in "social partnership," they are part of labour law, not company law. From the point of view of British employees, who had no such rights previously, they have to be regarded as small but positive steps.

Overall, the impact of EU legislation in Britain has been positive and significant, although enforcement of legal provisions in the absence of strong trade unions is always problematic. In other countries the impact may be more ambivalent – the atypical employment agenda can be seen as working to legitimise the use of "flexible" contracts in countries where standard contracts carried very important rights. In any case the related legislative programme is now exhausted. Recent moves by the Commission have been towards the dilution of employee rights, notably through the promotion of "flexicurity" which comes down to promoting the dilution of the employee rights under standard contracts. The EU cannot do this directly because employment contracts as such are within the competence of member states, but it can push the member states to weaken national employment rights and this has now taken place across most of the EU.

In spite of the limitations and qualifications discussed above, EU employment law does indicate the potential, in a changed political and institutional context, for a progressive legislative programme at EU level.

4 Trade Unions and Employees in the EU

Summary

The behaviour of real earnings since the introduction of the common currency has been similar to that for GPD, only more prone to stagnation and decline. With only one exception (Hungary), the largest falls in real earnings have been in euro zone countries *and Britain*. Even in light of its meagre recovery from the global crash in 2008, UK earnings performance has been dismal. Indeed, the UK gap between recovery of GDP and real earnings is close to the largest among European countries.

The GDP and earnings statistics suggest that while the austerity-depressed euro zone has been an unfavourable environment for working people, Britain has been as bad, and worse than many countries.

EU Trade Union Membership

The global contraction during 2008-2010 coincided with declining union membership in a majority of countries for which there are the statistics for reliable measurement. In many cases this continued an earlier trend, notably in Britain and the United States where aggressively anti-union governments took power in the 1980s.

Table 1 suggests the negative impact of the global contraction on union membership in 21 EU and non-EU countries and Britain. In only two countries, Belgium and Spain was a larger share of the work force in trade unions in 2012 than in the initial euro year 1999. Of the other 17 EU countries, seven had higher trade union density, placing UK membership close to the average across these member states.

The decline in UK density of 15.4% was well below the EU average, Even if we exclude the former Eastern bloc countries with their dramatic collapses in union membership, the British decline is still below average. There can be little doubt that the legal and political framework for trade unions is unfavourable in Britain. Nonetheless, trade union density has fallen less than for most countries on the continent.

Perhaps most surprising is the decline in Germany, almost 35%. Much of this decline occurred before the global contraction, with density falling from over 25% in 1999 to barely 19% in 2008. The pre-crisis decline is partly due to the failure to integrate fully the former East Germany into the West German employment relations system but may also in part be the result of the pact between the trade union leadership and the Social Democratic government in the late 1990s that included a real wage freeze and a formalized dual labour market.

In its early decades the European integration project had solid trade union support and it maintained this support through progressive social policies, including for the labour market. By time of the creation of the euro, that era was over, replaced by a steady more towards a neoliberal model of labour relations and the labour market.

Table 1: Trade Union Density in 22 Countries, 1999-2012

Countries	1999	2012	% change
UK	30.1	25.8	-15.4
4 Major euro	21.4	19.8	-8.1
France	8.1	7.7	-4.0
Germany	25.3	17.9	-34.9
Italy	35.4	36.3	2.4
Spain	16.8	17.5	4.2
7 Other euro	**40.1**	**34.5**	**-18.1**
Austria	37.4	27.4	-31.0
Belgium	54.3	55.0	1.4
Finland	76.3	68.6	-10.6
Greece	26.8	21.3	-23.1
Ireland	38.7	31.2	-21.5
Netherlands	24.7	17.7	-33.3
Portugal	22.5	20.5	-9.0
6 EU non-euro	**43.8**	**31.3**	**-51.6**
Denmark	74.0	67.2	-9.7
Sweden	80.6	67.5	-17.8
Czech Republic	29.0	13.4	-77.3
Hungary	24.5	10.6	-84.4
Poland	20.5	12.5	-49.3
Slovak Republic	34.2	16.8	-71.2
4 EU non-euro	**22.2**	**18.7**	**-18.8**
Australia	25.4	18.2	-33.4
Canada	28.0	27.5	-2.0
Japan	22.2	18.0	-21.0
USA	13.4	11.1	-18.8

Source: OECD.org
Definition: Trade union membership divided by total employed.

As a practical matter the rights of trade unions and their members is to an overwhelming extent determined by national-level legislation. However, the conditionalities associated with the so-called bailout packages have included that national governments enact laws limiting the ability of workers to organize and negotiate. The most extreme example is the loan condition that specified elimination of the national collective bargaining framework in Greece. Moves by the Syriza government to re-instate collective bargaining have been judged by the IMF and EU leaders to be inconsistent with further disbursements.

Employee Compensation

Slow economic growth in the euro zone has been associated with stagnation and decline in real wages. While differences across countries demonstrate the importance of non-economic factors, the most important being union-supported wage freezes and general weakening of trade union influence, in none of the euro zone countries are wages more than marginally above their level of 2008, and most are well below.

Wage changes in Britain compared unfavourably to the rather dismal euro zone performance, as Chart 5 demonstrates. Real earnings in Britain remain significantly below the level in 2008, while in both France and Germany by 2014 they were well above. Through 2013 the UK decline matched that of austerity-ravaged Spanish workers and was hardly better than Italian real earnings.

Comparison to the eight smaller EU countries proves equally unflattering for UK wage performance (Chart 6). With sole exception of Greece, whose economy collapsed by over 25% after 2008, none had wage declines worse than in Britain, and three could "boast" of real wage stagnation,, a considerable improvement on the UK decline, where the 2014 value was almost 6% below 2008.

Wages in the five EU countries outside the euro zone performed considerably better than euro zone wages (Chart 7), making the UK decline all the more dismal and by implication unnecessary. In only one of these five did real wages fall (Hungary), with substantial increases in three of the other four. The story for the four non-EU countries is the same (Chart 8), increases for three (Australia, Canada and the United States), and less decline than in the UK for the fourth, Japan.

The most important conclusion coming from this survey of wage movements across 22 countries including Britain is austerity policies depress wages. From 2008 to 2014 of the ten countries with the worst outcomes for real wages, seven were in the euro zone, two EU members with national currencies, and one from outside the European Union (Japan at number 10, the "best of the worst"). British real earnings, depressed by home-grown fiscal cuts, performed worse than all but the most austerity affected euro zone countries (Greece, Italy and Spain), and Hungary.

Austerity depresses wages, but this is not an infection coming from the continent. On the contrary, it derives from UK domestic policies.

Chart 5: Cost of Living Deflated Employee Compensation, the UK & the Major Euro Zone Countries, 1999-2014, percent differences from 2008

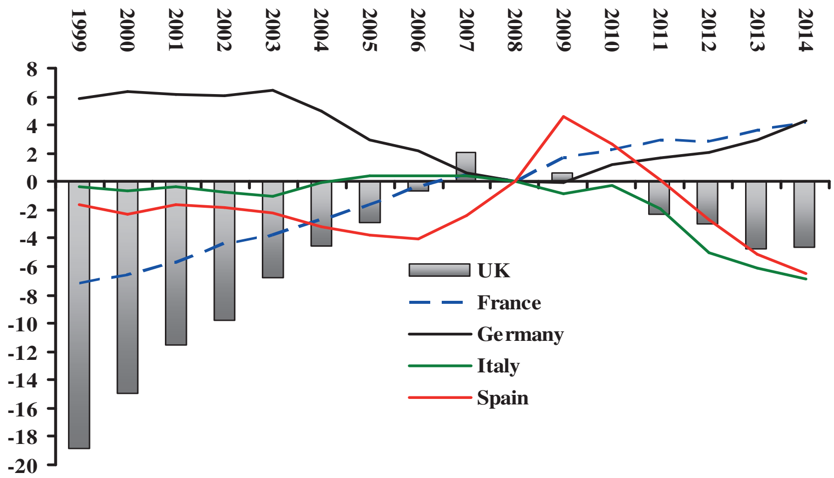


Chart 6: Cost of Living Deflated Employee Compensation, the UK & 8 Euro Zone Countries, 1999-2014, percentage differences from 2008

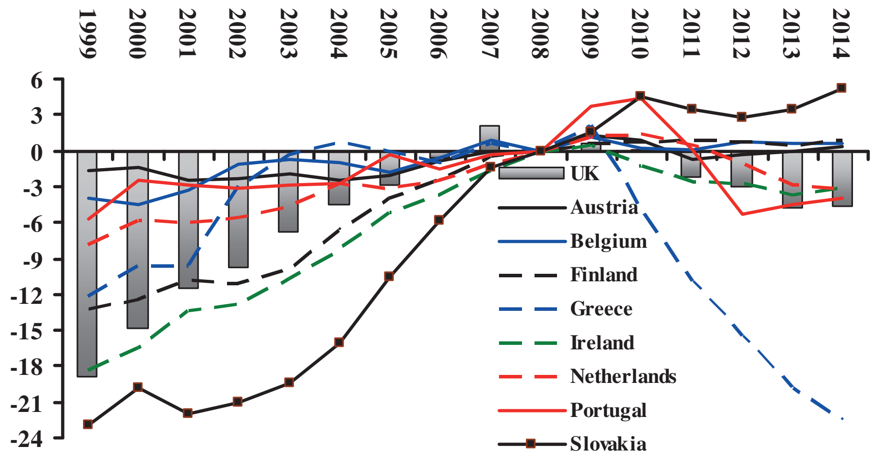


Chart 7: Cost of Living Deflated Employee Compensation, the UK & 5 non-Euro Zone Countries, 1999-2014, percentage differences from 2008

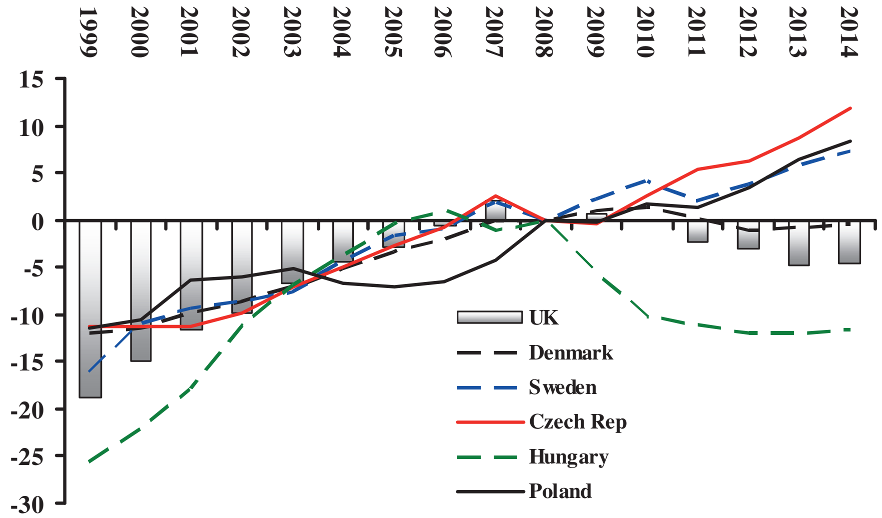
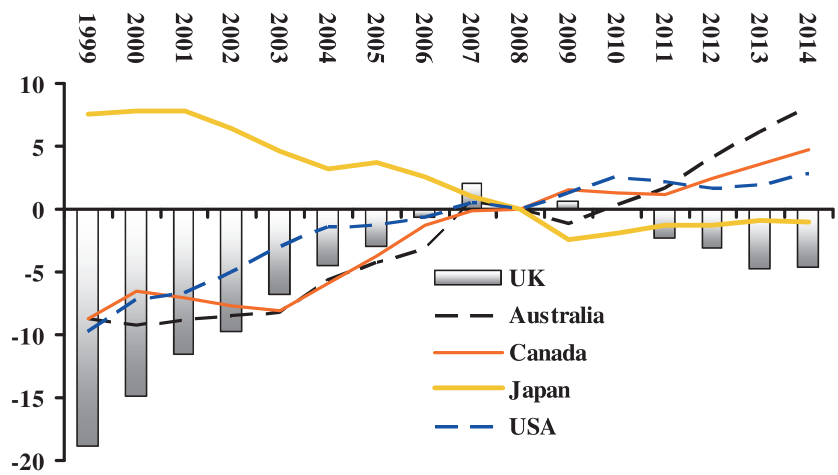


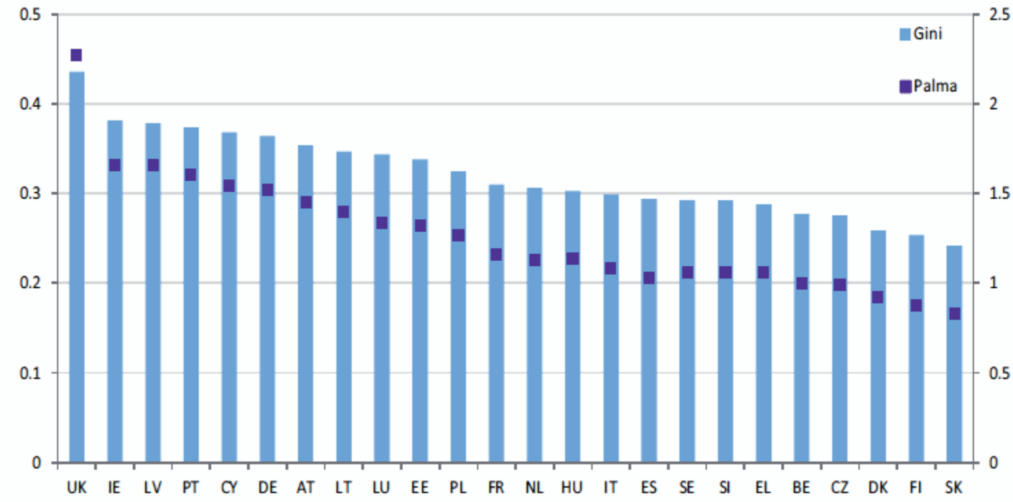
Chart 8: Cost of Living Deflated Employee Compensation, the UK & 4 non-European Countries, 1999-2014, percentage differences from 2008



In addition to absolutely and relatively slow recovery of real wages since the global crisis, statistics indicate that inequality among wage and salary earners is higher in Britain than any other EU country. Chart 9, reproduced from a 2015 study by Eurofound, indicates that the measured inequality among UK earnings is what is called in statistics an "outlier", an extreme value compared to the others.

For the Gini coefficient, perhaps the most commonly used measure, 23 of the 24 countries have values between .25 and .38, and the statistic for the 24th, Britain, is almost .45. Other statistical measures, such as the Palma index shown in the chart, produce the same result -- UK earnings inequality is extreme compared to the rest of Europe.

Chart 9: Inequality Measures for Earnings across 24 EU Countries, 2011



Source: Eurofound 2015, p 48.
The Palma index (right axis) is the ratio of the income of the top decile to the lowest 4 deciles. A value for the Gini coefficient (left axis) of zero indicates perfect inequality, and a value of one implies total concentration in the highest category.

5 Migration Policy, Internal and External

Summary

Considerable misrepresentation and myth prevent rational discussion the impact of intra-EU migration on Britain and British workers. The facts are that Britain received a large inflow of EU workers in the mid-2000s. This is unlikely to be repeated in the foreseeable future. From a trade union perspective, the immediate concerns are the impact of EU migration on wages and employment. There is little likelihood of the present level of EU migration increasing substantially.

Therefore, the problems of low pay and unemployment should be addressed directly rather than indirectly through attempting to limit migration. Were it possible to substantially reduce inflows of workers the impact on wages would be small. Total migration is less than one percent of the labour force. Were it possible to reduce migration by half, which only the most xenophobic politician would consider possible, the result for total UK labour supply would be trivial.

It may be that EU migrants have had a depressing effect on pay in specific sectors. The effective way to solve this problem is raising the minimum wage, which would also help lowly paid UK nationals.

Foreign workers from the EU or elsewhere have little impact on unemployment levels. In any case, the solution to unemployment, both overt and hidden, is an active fiscal policy as Labour pursued under Gordon Brown (as chancellor and prime minister).

Context of Intra-EU Migration

The 1951 Treaty of Paris and the Treaty of Rome in 1957 established the principle of unrestricted mobility of labour in pursuit of employment among member countries. Notwithstanding that this principle goes back over 60 years, major concern by both governments and the public about the impact of intra-EU migration is relatively recent.

The absence of a "migration problem" might have two explanations. First, during the Cold War the countries of the European Union enjoyed strong economic growth and low unemployment. Second, while differences in earnings by sector and skill level varied across countries, there variations were much less than would be the case after 2000.

In 2004 the European Union expanded to include ten more countries, all but two from the former "Soviet Bloc": Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Shortly thereafter in 2007 two more were added Bulgaria and Romania, then Croatia in 2013. It would appear that leaders in Brussels devoted relatively little planning to deal with the political and social problems of such a rapid expansion. Further, the addition of countries was not accompanied by any substantial change in the EU decision making process.

This extraordinary expansion, a near-doubling of members in less than ten years reflected political and ideological motivations. Expansion into the former East Bloc served the purpose of ensuring that what had been considered in the West the new Russian empire would never be re-constructed. The expansion also reflected the new ideological orientation of the European Union, that it was primarily an economic project that required supra-national governance.

Within this ideology of the European Union as a continental economic project free migration of labour seemed non-problematical, and member governments did not expect nor did they plan for substantial increases in labour flows from the new members. The reality provide quite different, as summarised in a report from the European Trade Union Confederation,

> The UK government massively underestimated the number of accession country workers who would look for work in the UK. A study commissioned by the UK Home Office ...predicted annual inflows of [Central European] migrants between 5,000 and 13,000 up to 2010. These assumptions were based largely on previous flows ...to the UK [from these countries]. In fact, more than 700,000...have applied for registration since enlargement in 2004 and a considerable additional number have taken up work without registering. The year 2005 may have seen the largest ever labour immigration recorded in the UK, most of it from Eastern Europe. (Galgóczi, Laschke & Watt 2011, page 18)

The rapid increase in labour migration to Britain during the 2000s and prior to the global collapse of 2008 resulted from an obvious cause: wage levels in the new EU member countries were far less than in any old member and unemployment rates higher (Galgóczi, Laschke & Watt 2011, page 12).

Posted Workers

One way in which migrant workers could be used to undermine established pay and conditions for indigenous workers is by the use of temporarily "posted" workers whose employment contracts are with an employer in one member state but who are sent by that employer for a period to carry out work in another. The posted workers directive, supported by the trade unions, attempted to close that loophole by requiring that such workers receive host country pay and conditions in a number of respects. Recent decisions in the ECJ have weakened this protection of national employment regimes, permitting for example the substitution of much cheaper labour from the Baltic republics for Swedish workers. It is important to reinforce the posted worker legislation so as to safeguard national employment conditions in the way that was originally intended.

Post-Crisis Migration

The collapse of the European economies during 2008-2010 provoked considerable intra-EU migration. The overall effect on the United Kingdom was to sharply reduce labour inflows in 2008, falling to a net value near zero in 2009 (ONS 2010). Since 2010 the number of migrants from the European Union seeking work in Britain has levelled off. From the last quarter of 2013 to the same quarter in 2014 employment of EU nationals increased by 269,000, or slightly less than one percent of the labour force (ONS 2015, page 1).

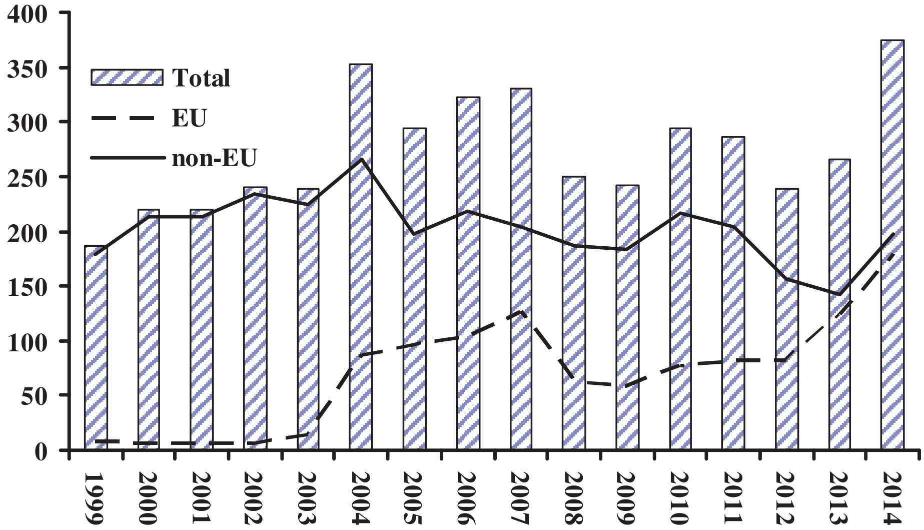
Chart 10 shows migration levels since the introduction of the euro. Before 2004 when the European Union enlarged by ten countries, migration into Britain consisted almost entirely of non-EU citizens. The dramatic EU increase, from 15 to 87 thousand for 2003-2004, reached its peak in 2007, then rose again in 2013-2014 (the last year not shown in the chart because annual data have not been released).

Perhaps more important, rising migration from the European Union coincided with falling numbers from non-EU countries. As a result, total long-term migration in 2013 was well below its peak in 2004, as well as substantially below the immediately pre-crisis value in 2007. Expansion allowed a dramatic increase in EU migration, which quickly levelled off due to the dampening effect of workers returning to their countries.

The accession of Bulgaria and Romania is unlikely to result in a second surge of the same size. However, the large increase in both EU and non-EU migrants from 2013 to 2014 strongly suggests that the British government should prepare for future increases. This preparation should include additional public resources to health and education, which is unlikely under the current UK government. Again it is important to note that "rest of the world" migrants still out-number those from the EU

The right of free movement throughout the EU is of course possessed also by British workers. (Construction workers in particular have made considerable use of it.) It is a valuable resource for all working people and it would be wrong to call for its abolition. However, in recognition of the social pressures sometimes associated with big migratory flows two policy responses are appropriate. Migrants are very heavily concentrated in the low-income areas of our major cities, which have suffered severe declines in social provision. These areas should receive the support to which they are entitled. At EU level, the “push” factors behind migration have been aggravated by the widening gaps in economic performance between the periphery in the East and the South and the Northern European core. Convergence of the weaker economies should again become a priority for the EU, a priority which presupposes an end to austerity policies.

Chart 10: Long-Term Net Migration by citizenship, 1999-2014



Source: ONS 2015.

6 Fiscal Rules and their Impact

Summary

A bias towards rigid and inflexible macroeconomic policies was written in to the monetary union from the start. This bias has been greatly intensified by additional legislation and tighter treaty obligations in the eurozone. Such measures rest on a complete over-estimation of market processes and on a deep fear of democracy. Britain, outside the eurozone, is ideally placed to call this macroeconomic regime into question and to demonstrate the possibilities of a more constructive and pragmatic response to the crisis. Such a response, however, would mean discarding Britain's own version of restrictive austerity policies.

Introduction

The economic regime of the EU consists of competition and market access rules, a common trading and investment policy towards non-member countries and a set of rules and constraints on macroeconomic policy. Only the first two of these apply to Britain because the third – the macroeconomic regime – only covers the euro zone.

Britain's macroeconomic policies are scrutinised by the Commission in an annual cycle, just as are those of all other member states, and the Commission can issue recommendations and warnings if it decides that the policy stance is contrary to EU regulations. There is no obligation on the British government to follow such recommendations and no penalties or sanctions if they are rejected.

Apart from Britain, Denmark and Sweden, all members of the EU either are already in the euro zone or are under a Treaty obligation to join it when their economies meet the criteria of low inflation, stable exchange rates and near-balanced public finances. Britain and Denmark have explicit opt-outs from this obligation. Sweden, however, has none and meets the criteria of the monetary union. In practice it cannot be required to adopt the euro while its Danish neighbour rejects it. This is an example of how political realities can prevail over EU legalism.

Can Britain Stay outside the Euro?

The crisis of the euro has hardened British opposition to entering the monetary union, which is now perhaps the only question on which UK economists of all tendencies agree. However, it cannot be taken for granted that Britain will be able to maintain a separate currency indefinitely. Textbook accounts of monetary policy suggest that economies open to international capital flows can exercise an autonomous monetary policy by floating their exchange rates. Reality is quite different: only countries with strong currencies and abundant resources can afford to let the exchange rate take all the strain of fluctuating national and international conditions. For weaker economies, a depreciation of the currency always threatens to become a catastrophic collapse. Internal monetary policy always has to have concern for external constraints and cannot be fully independent.

In recognition of this reality central bank interest rates in Britain are usually kept higher than those in both the US and Germany (since 1999, both the US and the euro zone). Occasionally they lie between American and German/European rates. At no time since the lifting of foreign exchange controls in 1979 have British rates been lower than those in both Germany and the US. Allowing such an outcome would invite a massive sell-off of sterling. Current discussions of when the Bank of England's interest rates ought to move back towards more normal levels are somewhat unrealistic. If the Federal Reserve in the US and the ECB both tighten, Britain will ***have*** to do the same.

The external position of the British economy is chronically weak. Britain has not posted a single current account surplus since the deep recession of the early 1980s and the deficits have been rising inexorably to stand now at about 5% of GDP. Correspondingly massive inflows of foreign capital make such a deficit possible. Britain is not, or not yet, a net debtor. External assets and external liabilities both come to about £10 trillion, but any shock to investor confidence could provoke a massive withdrawal and sell-off of the £10 trillion invested here. Unless a radical rebalancing of the British economy towards exports of goods and services takes place, this fragility will mean excessively tight macro policies and a fear of any measure which might upset foreign wealth-holders.

In 1990 the British government faced a sharp sell-off of sterling and reluctantly joined the European Monetary System (EMS), which meant tying the pound to the D-mark. Not to have done so would have meant either an increase in inflation, thereby discrediting the Thatcher government's claims to have conquered inflation, or drastically high interest rates to defend the pound. Similar circumstances might well occur in the future and, indeed, will be all but inevitable unless a thorough restructuring of the British economy takes place.

The rules of the EMS, essentially dictated by Germany, proved to be totally unsuitable for Britain. Britain's original refusal to participate meant that it had no influence on these rules. Eventually the Major government, having got the 1992 general election out of the way, opted for a big depreciation and quit the system.

It is most unlikely that Britain will face such a dilemma in the near future because austerity policies in the euro zone have drastically weakened the euro and removed any short-run threat to sterling. In the longer-run, should there be a recovery of the euro zone and democratic reform of the ECB, the British adoption of the euro could again become a political and economic possibility. This would give the British government an option which might be very valuable if the economy weakens.

However, at present Britain is free of the constraints on monetary and fiscal policies imposed on euro zone members. The macroeconomic policy stance of the British government is misguided and damaging, but these are errors made in Britain, not Frankfurt. As pointed out above, the situation for the euro zone as a whole, and especially for its weaker participants, is substantially worse.

The Fiscal Straitjacket

Since the birth of industrial capitalism there have been recurrent attempts to fix exact, quantitative limits both to monetary policy and to government deficits (and thus fiscal policy). These experiments rest on a twofold error. On the one hand there is an overestimation of the self-stabilising potential of market economies. It is thought, for example, that the economy will tend to find the same equilibrium pattern of outputs and relative prices regardless of the money supply. In reality, capitalism only functions with an elastic supply of credit and to remove that supply leads to recession and rising unemployment. On the other hand there is a deep distrust of democracy. The same limits are seen as a way of tying the hands of governments and legislatures and depriving elected representatives of the power to carry out active economic policies. The positive potential of a democratic consensus on economic change to reduce uncertainties and orient private investment is denied.

The statutory limits to the indebtedness of the Federal government in the US are a striking contemporary example of a dysfunctional budgetary rule. In recent years, every time one such maximum is approached the functioning of the government and the public sector has been disrupted as right-wing legislators demand the cancellation of public services and other programmes, and threaten to push the government into default. The lessons of such examples are lost on the German government, which has enacted its own budgetary limit, the *Schuldenbremse* or debt-brake, and imposed a battery of new constraints on the members of the euro zone.

Until the crisis the key constraints in the EU were those of the Stability Pact, which required government debt to be less than 60% of GDP and the government deficit, that is, its new borrowing, to be under 3% of GDP in any year. Only the second constraint was actively pursued by the Commission, which launched “excessive deficit procedures” against non-compliant member states. However, none of these procedures has yet reached the point where sanctions are imposed, perhaps because both France and Germany had frequently breached the limits.

In response to the financial crisis of 2008, all EU governments relaxed their budgetary policies. This was partly a matter of maintaining economic activity and employment by sustaining current expenditures, both private and public, and partly a matter of huge capital transfers to crisis-hit banks to avoid their collapse. However, as early as 2009 the Commission began to demand a swift consolidation of the public finances across all member states. This led to a second, policy-induced, recession in the euro zone at a time when countries with less extreme economic policies, such as the US, were recovering.

Led by the German government there followed a series of “reforms” designed to reduce the scope for discretionary economic policies in the euro zone. The “six-pack” of regulations and directives established comprehensive surveillance of member state budgets. The key measures were:

- Sanctions (first compulsory deposits then fines) on non-compliant states were now to apply not only to “excessive” (3%+) deficits but also to “excessive” debt (60%+); excessive debt has to be reduced by one twentieth every year;

- Judicial proceedings against states in violation become more automatic, requiring a qualified majority in the Council of ministers to block them rather than to initiate them;
- The Commission was empowered to investigate and demand changes to the administrative and statistical procedures used to formulate budgetary policy in member states;
- In partial recognition that the crisis did not result from budget deficits, but that the deficits resulted from the crisis, a wide range of other excessive imbalances (embodied in a "scorecard" of indicators) was listed. For all of these corrective procedures and ultimately sanctions could be imposed; most of them relate to external competitiveness and thus come close to breaching the existing Treaty provision that wage-setting is a matter for member states.

There followed the "two-pack":

- Governments are required to submit their draft budgets to the Commission before they are presented to national parliaments; Parliaments are said to remain "fully sovereign" but the Commission may "require amendments" to counteract "imbalances";
- For those governments which have accepted emergency finance from the "Troika" (Commission, ECB, International Monetary Fund), there is an even more intrusive surveillance regime on a quarterly basis; failure to comply with the "Stability" measures required by the Commission could lead to the cancellation of assistance.

Such legislation tended to exceed the powers given to the EU in the basic treaties. The "Merkel method" adopted by the German chancellor avoids this limitation by encouraging member state governments to concede "voluntarily" more than could be legally required of them. One example was the "Pact for the Euro" signed by governments of 23 countries (not including the British) in 2011. This committed the signatories to fiscal consolidation and reinforced "competitiveness", the latter including the abolition of wage indexation.

A second, more comprehensive, example of the Merkel method in operation was the "Fiscal Compact" or Treaty on Stabilisation, Coordination and Governance signed by governments of nearly all member states, but not Britain, in 2014. This further tightened the limits on government deficits which are now to be no more than 0.5% of GDP on a cyclically adjusted basis. Member states are required to give legal, and if possible, constitutional status to this rule.

Repeatedly and ever more insistently EU leaderships have sought to connect these macro policy constraints to so-called "structural reforms". These consist of privatisations, labour market deregulations and reductions in the provision of public services. Governments of member states accused of excessive deficits and involved in corrective procedures (at present twelve states) can only apply for an extension of the time-limits involved if they accept Commission recommendations on such "reforms."

For those governments unfortunate enough to need financial assistance from the Troika, the recommendations are replaced by mandatory requirements.

For example, the last (2012) 'Memorandum of Understanding' between Greece and the Troika does not merely specify the overall scale of public spending reductions to take place. It gives minute details about which items are to be cut and by how much, about how many and which public sector employees are to be dismissed, about reorganisations of public administration, about the privatisation of state assets and much more.

It was pointed out above that the restrictive macroeconomic policies imposed on the euro zone have deeply damaged the countries and peoples subjected to them. An equally negative feature of these policies has been the attempt to use EU legislation, international treaties and constitutional changes to perpetuate them, lock them into the workings of EU and member state institutions, and render any alternative strategies exceedingly difficult.

However, this structure of restrictions and rules is potentially undermined by the two great weaknesses mentioned above. It is economically dysfunctional because it presupposes that market systems have a capacity for stabilisation and equilibration which they do not in reality possess. It is illegitimate because its political meaning is the suppression of effective democracy. By 2015 both these potential weaknesses became actual threats to the current leadership of the EU and to the strategies they were pursuing.

7 Conclusion

Throughout this report the view taken of the EU today has been very critical. Social objectives are subordinated to economic ones and the economic strategies themselves are dysfunctional. However, our conclusion is that it is in the interests of working people for Britain to remain in the EU and that trade unionists should support British membership in the coming referendum. The main reasons for this recommendation are:

- Britain already has a relatively advantageous position in that it is outside the monetary union and therefore is not subject to all the associated restrictions and limits on macroeconomic policy. Britain's current budgetary policies are certainly very damaging but this is the consequence of the British government's policies, not those of Brussels or Frankfurt.

- The economies of the EU are already highly integrated and interdependent and this integration cannot be reversed without damage to existing productive structures and thus to the interests of European populations. More than 50% of Britain's trade is with EU members. Although British departure in itself would not necessarily endanger this trade, Britain would no longer be able to influence the legal and regulatory structures governing, in particular, the trade in services where Britain has considerable strength. On the other hand, if British exit were followed by that of other members and by a general break-up, serious damage to production and employment would be hard to avoid.

- In today's world there are a large number of economic questions over which a medium sized state such as Britain has limited power: for example, corporate taxation, multinational investment flows and environmental protection. The big multinational companies can and do threaten to go elsewhere if their activities are challenged. The scale and wealth of the EU as a whole mean that it is ***potentially*** strong enough to exercise effective control over the MNCs.

- In spite of its long-standing commitment to market fundamentalism, the EU does not have a fixed and unchanging character. Very big changes in the meaning and direction of European construction have taken place in the past and can again in the future. In particular, in the past there have been significant social policy initiatives to accompany the economic integration process and the pressure to restore a meaningful social dimension to the EU is growing.

- There is growing political opposition to the present strategies of EU leaders. This includes not only Syriza and Podemos in Greece and Spain, but changing views within European Social-Democratic parties which are now much less inclined to endorse the austerity policies of the right. European trade unions are now, of necessity, having to distance themselves very clearly from measures which can only do harm to the interests of working people.

- EU leaderships are increasingly anxious about the political and economic consequences of their own decisions. They are confronted now with the likelihood of persistent economic stagnation and the continuing erosion of the legitimacy of European institutions. Not all the critics and opponents of the existing strategies are demanding a change in the direction of the EU – there is also an alarming growth of right-wing nationalist forces fundamentally hostile to the EU as such. Recent initiatives of the Commission – attempts in particular to promote investment and growth – are quite inadequate but they may signal a dawning realisation that austerity is a road to nowhere.

We conclude our report by stressing that we do not regard the struggle for a different EU as a substitute for fundamental change in Britain. The forces for change here and in the rest of the EU can reinforce each other and, in our view, the labour movement should be active on both fronts.

Appendix: Britain & the EU, Frequently Asked Questions

The economy

Q. The EU is just a bosses club, a tool of multinationals and part of neoliberal globalisation. Why should workers want to be part of it?

A. There is no doubt that the multinationals gain enormously from the EU: they are the main beneficiaries of the "four freedoms" which allow them to move money, labour, goods and production processes smoothly across frontiers; their abundantly financed lobbying gives them privileged influence over EU legislation. (Workers of course also tend to benefit from the high levels of production which have been achieved.) The key issue is whether the labour movement and other democratic forces would be in a stronger position to challenge the multinationals if Britain were to leave the EU. The MNCs go in for regime shopping (choosing the locations which offer them the lowest taxes, the cheapest and least protected workers, and the lightest regulations). The consequence of regime shopping is regime competition as individual countries attempt to attract investment and employment onto their own territories by making concessions to big business. There is no sign whatever that British exit from the EU would put an end to regime competition in Britain: on the contrary, one of the main goals of the anti-EU movement is to offer the MNCs a location where even the inadequate rules and regulations of the EU can be undercut.

Q. EU directives have helped the government privatise the railways, Royal Mail and other services. Getting out will stop that?

A. The privatisation drive began in Britain and the Single Market programme of the 1980s which began the attempt to subject public services to the EU's competition rules was largely a British initiative. Public ownership as such has always been permitted in the EU and its predecessors and this remains the case: Article 345 of the TFEU states that "The Treaties shall in no way prejudice the rules in Member States governing the system of property ownership." Thus the issue has become the scope of the competition rules and the rules against government subsidies – if a publicly owned enterprise or a public service is subjected to open competition from the private sector then it has in effect been privatised. Trade unions and progressive forces have fought in the EU to restrict the scope of the competition rules and to exclude important networks, public goods and essential services. There have been important victories as when health care was excluded from the Bolkestein directive on services. This is a fight which should continue on both levels – to reinforce public services and public provision in Britain and, with allies elsewhere in Europe, to rebuild a public sector across the EU as a whole.

Q. EU law stops essential industries from being renationalised. Leaving the EU will mean industries can be brought back into public ownership?

A. As pointed out in the previous answer, EU law does not prevent nationalisation; the issue is one of competition rules and rules against "state aids" which would prevent publicly owned enterprises from serving the public interest. These rules need to be changed – especially because the Commission has been given exclusive authority to decide when state aids are permitted (ironically one of the clearest and most comprehensive exceptions in the Treaties is for state aid to former East Germany). Challenges to this regime should not wait for legislative reform at EU level. Member states, including Britain, should be prepared to defy EU law when there are strong social reasons for doing so and to demand that any resulting conflicts with EU institutions are resolved politically, not in the courts. Governments backed up by strong public opinion in their own countries are able to do this (Sweden, for example, although it is legally committed to adopt the euro, simply cannot be required to do so against the nearly unanimous opinion of its citizens).

Q. TTIP shows what the EU is all about – privatisation the NHS, the fire and rescue service and other industries. Leaving the EU will stop TTIP in its tracks?

A. The thinking behind TTIP is similar to that behind the debt brake in Germany and elsewhere and behind the stability pact. The hands of elected governments are tied because of the fear that democratic forces might call the existing economic regime into question. This fear of democracy is usually associated with an exaggerated belief in the capacity of market forces to adapt to change – in the case of the TTIP, the belief that unrestricted trade and investment flows across the Atlantic will make a big contribution to economic development. However, the same type of thinking is very obvious in Britain – for instance in George Osborne's proposed law against tax increases and in the use of the Office for Budget Responsibility to prevent Keynesian policies being adopted. If, as seems likely, the TTIP goes beyond the competence of the EU for purely trade-related matters, unanimity in the Council will be needed to adopt it. Britain in the EU can and should veto the TTIP. Outside the EU it could do nothing to prevent it.

Q. The UK hands over £10bn a year in subsidies to the EU. That money could be better spent on services and benefits for workers living here?

A. There is a lot of money which could be better spent, starting with the absurd salaries in the financial sector (Britain has opposed even the very mild attempt of the EP to rein back financial salaries). Ten billion is much less than one percent of GDP and of no major significance for welfare benefits or income distribution.

Q. Only 15% of British GDP is accounted for by our exports to the EU. We export around £150bn worth of goods and services to the EU, but import £220bn. So leaving won't have that much impact?

A. Probably not in the short run – it is in neither the EU's nor Britain's interest to cut off this trade. But with Britain outside, EU policies could gradually disadvantage Britain. One clear possibility is an attempt to undermine the financial role of the City of London and move all that business into the eurozone. Another is that, without the guarantee of the four freedoms, MNC investment in Britain will fall off. If political developments in Britain offered clear and radical alternatives then neither of these developments need constitute a threat – but the issue is not a choice between actual policies in Britain or in the EU: both are reactionary. The issue is whether British exit would promote the possibility of radical change.

Q. Membership of the euro is a vice that has caused unemployment and a massive reduction of living standards. Who would want to join the euro now?

A. Some of the former Eastern bloc states in the Baltic and former Yugoslavia have been enthusiastic to join, but it is true that in more advanced economies there is a very justified reluctance to participate. Britain (and Sweden) should rule out participation unless there are root and branch changes to the monetary union: redistributive transfers to the weaker economies and an employment-oriented macro policy with democratic control of the ECB.

Migration

Q. The free movement of labour is just a device to allow bosses to exploit a vast pool of cheap labour. Getting out will stop that?

A. Freedom of movement is indeed used by bosses to cheapen labour; it is used by working people to better their condition. There is no vast pool of cheap labour within the EU because, with the exception of Poland, all the recent adhesion states have very small populations. The adhesion of Turkey or of the Ukraine and Belarus would alter that situation but neither is currently envisaged and Britain has a veto over the admission of new members. It should always be borne in mind that bosses have an alternative to migration – the export of capital, which can be much more damaging to workers: offshoring and outsourcing have had much more devastating consequences for employees than has immigration. Many immigrants are keen to join trade unions and to improve wages and working conditions in their host countries. The four freedoms should certainly be called into question, but free capital movement and free movement of goods and services should be the main targets.

Q. Studies show that immigration drives down wages for some workers already here?

A. No studies indicate a major impact on wages, which are much more dependent on macroeconomic policy and performance. Many studies report a positive impact of immigration on economic growth, which is one key factor in the determination of wages.

Q. Studies show that immigration drives up unemployment for some workers already here?

A. Clearly this can happen if migration intensifies competition among workers, especially among less qualified workers. An appropriate response would be policies to mitigate such competition – higher minimum wages and publicly sponsored employment schemes together with stronger unions, able to limit competition among individual workers.

Q. Immigration may not have big effects overall, but it does affect some localities and places. Leaving the EU can help fix that?

A. Migrants are heavily concentrated in a few low-income areas of our major cities; in general policies to assist such areas would not run counter to EU policies – on the contrary, such territorial imbalances are still recognised and even supported by the EU although certain types of intervention might run foul of the competition rules. British policy has in fact moved recently in the wrong direction, cutting support for low-income localities. This was a decision of the coalition government, not of the EU.

Q. Migrants will inevitably reduce housing, schools, health and other services available to local people?

A. Firstly, it should be remembered that migrant workers are indispensable in the provision of all these services. Secondly, immigrant groups add to the pressure for better services – in general they support Labour local governments, which give a high priority to public services.

Q. Surely migrant workers take more in benefits than they pay in taxes?

A. For EU migrants the reverse is the case: because they are mostly of working age and have a higher rate of employment than the indigenous population they are net contributors to the public finances.

Q. Doesn't the posted workers directive allow bosses to import cheap labour and undermine hard-won conditions?

A. The aim of the posted workers' directive, an initiative of trade unionists and social-democrats in Europe, was the reverse – to insulate national employment regimes from competitive pressures by preventing the undercutting of collective agreements and statutory employment rules through the use of temporarily posted workers. Recent decisions in the Court of Justice have weakened the impact of the directive which certainly needs to be reinforced. In the British case the absence of effective collective bargaining in most sectors and the absence of strong employment regulation mean the directive had little significance even before it was weakened, because there was no clear set of generally applied employment rules to be undercut.

Politics

Q. The EU is anti-working class and anti-socialist. Why on earth would the labour movement support it?

A. The Conservative governments which have predominated in Britain over more than a century have also been anti-working class and anti-socialist. Intermittent Labour administrations have, for the most part, only mounted a very limited challenge to the economic and social policies of the right and in the case of New Labour have even reinforced them. The argument that the labour movement should fight on both national and European terrain does not depend on an idealisation of the EU, but on an assessment of how prevailing strategies and ideologies can best be challenged.

Q. The goal of the EU is “ever-closer union” towards a European super-state. Why should workers in Britain want to be part of that?

A. Workers in Britain should certainly reject the authoritarian “German Europe” of austerity and inequality that has been promoted in recent years. They stand to gain from a re-foundation of the European project which would establish clear prioritities for social objectives and subordinate the big corporations to these objectives. A progressive British government could press effectively for such a change of direction. Outside, it would have less influence but would still be in practice constrained by the existing EU regimes.

Q. The EU is grossly undemocratic. The European parliament is not sovereign and has little power; the real power lies with unelected institutions such as the Council of Ministers and the European Central Bank. There is little prospect of reforming these institutions?

A. Treaty change would certainly be necessary to bring about a fundamental change of direction (although the possibility of smaller changes should not be neglected). However, the German government has succeeded in promoting negative Treaty changes in recent years. A progressive Britain, with allies in the peripheries, Scandinavia and elsewhere could build a hegemonic bloc for positive Treaty changes.

Q. The EU is anti-democratic. Power and sovereignty should be brought back to Britain?

A.The EU is anti-democratic. Power and sovereignty should be shared between democratic member states and, for problems requiring solutions at an international level, democratically transformed EU institutions.

Q. Half of all UK laws come from Brussels. Why should the British government have to follow those regulations?

A. In many cases it makes perfect sense to harmonise laws and regulations. Not to do so invites corporations to regime shop and choose the laxest regulatory environment. But Britain should be ready to defy EU law where it runs counter to the clear will of the British people on important questions.

Q. Norway manages all right outside the EU. Why can’t Britain?

A. Norway has benefited from many decades of progress under genuinely social-democratic governments. In contrast to Britain, where North Sea oil revenues were squandered by the Thatcher governments, Norway has used its oil revenues to build up a massive sovereign wealth fund which makes every Norwegian citizen a krone millionaire. The British state, on the other hand, has few assets left, only colossal liabilities – debts which the citizens will have to service for a long time to come. A key motive behind the Norwegian refusal of EU membership is the determination to protect their farmers, who enjoy higher subsidies than those of the EU. Another motive is to safeguard its extremely advanced welfare state.

Q. Switzerland manages all right outside the EU. Why can't Britain?

A. It would be quite wrong to assert that Britain could not "manage" outside the EU; it is important to avoid alarmist formulations in the debate. The issue is whether British departure would promote economic and social progress. Switzerland is an extremely prosperous but very conservative country. Its wealth derives largely from the massive use of migrant labour in the postwar decades. Unlike Irish and commonwealth migrants into Britain, the Italian, Yugoslav, Greek and Turkish migrants into Switzerland were not accorded citizenship rights, and, when the European economies went into recession in the 1970s, many thousands did not have their contracts renewed. Unemployment was exported on a massive scale. The geographic position of Switzerland, surrounded by France, Germany, Austria and the high income regions of northern Italy mean that it can hardly fail to benefit from the economic strength of the core EU economies. The contrast between the Swiss and British economies can be seen in the recent forced revaluation of the Swiss franc – as chronically strong as the pound is chronically weak. The recent referendum on whether the construction of minarets should be banned gives an indication of the social attitudes of many Swiss people.

Q. Leaving the EU means workers can win more rights on working hours, holidays and maternity/paternity leave?

A. There are no maximum levels of social protection in the EU, only certain minimum levels (although the Troika have not respected these minima in dealing with crisis-struck countries). Thus, if British workers are strong enough to win better rights at work, membership of the EU would not be a barrier to their implementation. In Scandinavia levels of social protection and social service provision are much higher than elsewhere in the EU – this is completely compatible with EU law.

Q. Leaving the EU is the "North Korean" option: out in the cold with few friends, no influence and little new trade and investment?

A. There is no basis for such a catastrophic assessment – there are major commercial, industrial and financial interests involved in Britain's relations with the EU and these would continue. However, a loss of influence certainly seems likely. If Britain were to pull out under the present government or under one with similar policies, there would be an attempt to attract investment to Britain with low taxes on corporations and the wealthy, continuing labour market deregulation and the dismantling of social restrictions on economic behaviour. This is already happening in Britain. An exit strategy could only be justified if it accompanied a complete and radical change in

British policies and, at the same time, there were no such changes elsewhere in Europe. Political developments in Britain and in the EU provide no basis for such expectations.

Q. Doesn't the treatment of the Syriza government in Greece demonstrate that the EU is utterly undemocratic and incapable of reform and that its institutions prevent the building of any viable alternative?

A. Yes, the arrogant and disgraceful crushing of the Greek protest does indeed justify these conclusions, although a progressive British government, condemning the treatment of Greece and mobilising other governments in opposition to it, could have affected the outcome. Only a re-foundation of European institutions offers a real hope of a progressive alternative. At the same time the Greek case illustrates the difficulties of challenging austerity within a single country. Britain is of course much stronger than Greece, but it does have clear vulnerabilities which would be exploited if it mounted a unilateral challenge to the existing regime.

Campaigns

Q. It is possible to run an effective, left-wing and independent campaign calling for leaving the EU without falling into nationalism and xenophobia?

A. There is no doubt that the left and the labour movement will be divided on the continuation of British membership. And there will be unpleasant groupings on the right in both camps – xenophobes and little Englanders for pulling out; Atlanticists and corporate apologists for staying in; ultra-liberals on both sides. It is important that progressives debate the issues in an exemplary way, asserting the values on which they agree and clearly demarcating themselves from free-market dogmas and petty nationalism.

Q. What reforms should the labour movement advocate to improve the EU?

A. Reforms are important: any softening of the rules on competition and subsidies would be advantageous; but the priority given to "free market" economic policies over social objectives is now so deep-rooted that what is needed is a re-foundation of the EU, as proposed by the core values commission of the German SPD. The rule needs to be established that neither member states nor EU institutions can sacrifice social objectives to economic ones.

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