

NEW VERSION

COVER NOTE

from : Secretariat
to : Convention

Subject : Contribution from Ms Sylvia-Yvonne Kaufmann, member of the Convention:
A constitutional treaty for a social Europe

The Secretary-General of the Convention has received the contribution annexed hereto from Ms Sylvia-Yvonne Kaufmann, member of the Convention.

A Constitutional Treaty for a Social Europe

The European Union is at a crossroads in its history: either it wins popular endorsement and backing, or it is doomed to failure in the long run. For some time now, the Community is experiencing a complex crisis of confidence, which has become more and more persistent since the Nice Summit. There are a variety of reasons for this development. One of them is the EU's democratic deficit and the lack of transparency in decision-making. In addition, social cohesion in the EU has been in dramatic decline, while economic and monetary integration has been pushed through.

Since European Union policy is largely market-orientated, large swathes of the population have the impression that the interests of the multinationals, the stock markets and banks prevail. In the public perception, the European Union is responsible above all for a programme of unreasonable demands in the social sphere. Securing international competitiveness, liberalising the European Single Market, flexibilising and deregulating working conditions and labour markets have created a climate of social insecurity. The public are disappointed that the Community is doing too little to shape globalisation in a socially and environmentally sustainable way, to achieve a fairer distribution of the wealth globalisation generates and to reduce distributional inequality. They miss energetic initiatives, which are successfully designed to provide renewed political scope for achieving full employment, social justice and conservation of the natural bases of life via the European integration process.

These challenges are all the tougher because of the forthcoming enlargement of the Union to as many as 28 Member States. There is a huge prosperity gap between the potential new members and the current EU Member States. Social welfare systems and public services in the applicant states are poorly developed, while competitive pressures in the European Single Market are high. An enlargement process mainly shaped by the imperatives of the market could bring mass unemployment, poverty and social exclusion and thus place a severe burden on the whole of the Union. That is why, for many people in the Union, the forthcoming enlargement is mainly a source of concern about social decline.

In this context and parallel with a rat race for enhanced economic competitiveness of one's own nation state, the calls for 'less Europe' and for renationalisation are articulated more thoroughly. As the current debate on the division of competences between the EU, the Member States and their regional structures shows, they are permeating even the European political activities of individual EU Member States and established political parties. Eventually, throughout Europe, extreme right and right-wing populist parties and movements have gained support, advocating xenophobic and openly anti-European positions. They benefit greatly from the widespread disillusion with Europe. The need for social protection and a secure standard of living is being channelled into nationalistic and authoritarian attitudes against foreigners and the poor. If that process continues, the crisis of European integration will aggravate.

European unification still is not irreversible. There is the euro as the EU's single currency but no European Political Union. There is the European Single Market, the Economic and Monetary Union but no Employment Union and no Social or Environmental Union. It is, therefore, insufficient just simply to reform the European institutions. The EU's social foundations must also be reinforced. In an enlarged Union, the European social model must be fleshed out, taking account of the different forms and historical traditions inscribed to the welfare state of the Member States. The creation of a Social Europe is an essential prerequisite to turn the Constitutional Treaty for the European Union into a sustainable foundation for the process of European integration.

1. Laying the Foundations for a Social Europe

The market and competition are the main foundations underpinning the European Community as it emerged from the 1957 Treaty of Rome with its Common Market. 'Public goods' as an essential element of economic life, their protection and the democratic participation of everyone in their sustainable use barely figure in the concept of the Common Market. In the ECT in its existing format, Community policy is essentially market policy. Monetary, competition and economic policy take precedence as 'matters of common concern', whereas both social and employment policy, environment and consumer protection are conceived as lesser 'secondary policies', with differences in status and different degrees of compulsory nature. Their common feature, however, is that they at best correct or modify market policy. The EU's present concept of 'an area without internal borders' and the EMU cannot produce a balanced economic and social development, because it is hierarchically structured and one-sidedly favours market and business interests.

Nonetheless, Article 2 TEU (common provisions) provides a positive point of reference for the project of a Social Europe. In that Article, the Union sets itself as an objective 'to promote economic and social progress and a high level of employment and to achieve balanced and sustainable development, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and through the establishment of Economic and Monetary Union'. The three objectives of economic and social progress, economic and social cohesion and sustainable development are closely interrelated. Consequently, the European Union as an "area without internal frontiers" needs a *holistic* economic and social development model to meet these three objectives.

In constructing a Social Europe, we have first and foremost to support sustainable development in western and eastern Europe in its three aspects: economic, social and ecological. In this context, the main tasks of economic, industrial, employment, environmental and social policy are as follows: to shape economic structural change along social and environmental needs; to secure sustainable changes in patterns of consumption; to bring about full employment with quality of work, a high level of social protection and a living wage; equality of women and men; a high level and high quality of social protection and a fair distribution of wealth. Societal needs – the development of social infrastructure, education and culture, the creation of equal living conditions and the conservation and rehabilitation of the environment – are essential areas for investment and productive activity. The short-termist orientation to increase the shareholder value must give way to socially and environmentally sustainable economic development. Strengthening mass income and social protection, both at work and outside the workplace, can no longer be viewed as costs to be minimised. They are in fact positive aims and a

precondition for economic development.

The concept of a Social Europe invigorates the European traditions of social protection and the welfare state in an emancipatory manner and turns them into foundations of its economic development model. Economic life needs to be organised in a way that associates the priority which must be given to improving people's quality of life and safeguarding the social and environmental integrity of their standard of living with economic efficiency, high value products and services and environmentally friendly innovation. This also means strengthening and renewing the system of services of general interest so that fundamental economic, social and cultural rights become a material reality for people living in the European Union.

2. Fundamental Rights and general Objectives of a future European Constitutional Treaty

The European Constitutional Treaty should abandon the current pillar structure of the European Union Treaty and divide it into two sections. The first – constitutional – section should principally contain the general objectives of the Union, the fundamental rights, the provisions on institutional structure and the bodies of the European Union. The second section should contain the policies of the European Union and the procedures to be applied in relation to them.

This European Constitutional Treaty should clearly and unequivocally state that the European Union is founded on the basic principle of the European social model, reinforcing social protection, the welfare state and redistributive social security systems based on solidarity.

To achieve that, the European Charter of Fundamental Rights, containing essential fundamental social rights, must be made legally binding by including it in the constitutional section of the new treaty. All citizens would then have legally binding fundamental social rights in relation to the European Union and could enforce those rights on an individual basis before the European Court of Justice. Furthermore, all the institutions of the European Union would be required to guarantee and respect those fundamental rights in all their areas of responsibility and in all their policy decisions. Anchoring the Charter of Fundamental Rights in the Constitutional Treaty would also make it incumbent on the European Union and the Member States to implement appropriate policies and programmes to ensure its provisions were actually guaranteed.

Once the Charter of Fundamental Rights has been legally enforceable for an appropriate period, it will be necessary to identify any gaps in the protection of individual rights. The Constitutional Treaty should therefore contain a clause making it possible to develop further and update fundamental rights. Only a convention should be able to undertake any future revision of the Charter.

The structures of the system of services of general interest, especially solidarity-based social security systems have a key role to play in positively guaranteeing social, economic and cultural fundamental rights. Only they can ensure that everyone enjoys non-discriminatory access to the sustainable use of public goods. The Member States must therefore be guaranteed a margin of discretion in the way they define and structure services of general interest.

Accordingly, the new Constitutional Treaty must place the emphasis on protecting public goods and the systems of services of general interest, on promoting economic and social services of general interest and revitalizing social protection as an EU objective and responsibility. Where services of general interest are commercially provided, the obligation to provide a comprehensive and high quality universal service must be clearly stated. Competition law must therefore be amended to exempt services provided by public service providers from the competition rules, and to make clear that environmental, social or employment policy conditions attaching to services of general interest cannot be penalised on the grounds that they distort competition.

The objectives (Article 2), activities (Article 3) and the aims and tasks of economic policy (Article 4) contained in the existing EC Treaty need to be fundamentally reformed to make the concept of a Social Europe achievable.

The key elements of the European social model must be taken up in the Constitutional Treaty. One implication of this is that the treaty principle of an 'open market economy with free competition' (currently eg Article 4 ECT) will have to be set aside.

The following EU objectives must above all be enshrined in the first section of the Constitutional Treaty: full employment with quality of work; the equality of women and men; promoting the European social model with reinforced social protection, welfare states and redistributive social security systems based on solidarity; the eradication of poverty and social exclusion; the protection of public goods and the guarantee of non-discriminatory access to them via systems of services of general interest; the improvement of living and working conditions; a high level of environmental protection and quality; economic and social cohesion; an efficient and productive economy and convergence of economic performance; and solidarity between the Member States and the regions.

The EU's areas of activity must be reformed so as to ensure at least that economic, employment, social and environmental policy enjoy the same status as "policies of common concern" and can be integratively bundled together within a Community strategy for sustainability. 'Economic policy' in its current form would be replaced by a more broadly based process of 'European socio-economic governance'. Its goal is to create an Economic and Monetary Union based on solidarity and a Social, Employment and Environmental Union.

Demands on a future European Constitutional Treaty

Fundamental Rights

- Inclusion of the Charter of Fundamental Rights in the constitutional section of the European Constitutional Treaty and the right of individuals to bring an action before the Court.
- Inclusion of a review clause which makes it possible for fundamental rights to be developed further by a convention.

Objectives

- Reference to the key elements of the European social model.
- Inclusion of the new goals: full employment with quality of work; eradicating poverty and social exclusion; protecting public goods and systems of services of general interest. The objective of a 'high degree of competitiveness' should be replaced by 'a high degree of economic efficiency' (currently: Article 2 ECT).

Activities

- Promoting coordination of Member States' policies to combat poverty and social exclusion and contributing to the protection of public goods should be included in the European Constitutional Treaty as Community activities (currently: Article 3 ECT).

Systems of Services of general Interest

- The discretion of the Member States and their regional bodies to define and organise the system of services of general interest should be enshrined in the treaty.
- A clear statement that competition law and law on state aids do not apply to services of general interest and that economic and social services of general interest may be made available outside the scope of competition law, provided they are furnished directly by the regional body responsible (or by an association of regional bodies) or by its own undertakings (see, *inter alia*, the current Articles 16, 86 and 87 ECT).

3. European socio-economic Governance for Sustainability and Solidarity

The main features of the EU's socio-economic development model are the largely completed European Single Market and the creation of an Economic and Monetary Union. This model is framed by: the Treaty provisions (eg free movement of persons, services and capital, agriculture, Economic and Monetary Union, employment, social policy, environment, consumer protection, common commercial policy and so on); subsequent EU legislation (eg provisions on the Internal Market); or action programmes, as well as a variety of coordination instruments for sectoral policies.

Monetary policy is determined autonomously by the European Central Bank (ECB) and the European System of Central Banks (ESCB), with price stability as the essential criterion. Without prejudice to the objective of price stability, the ECB and ESCB must also support the general economic policies in the Community (Article 105 ECT) and 'take into consideration' the goal of a high level of employment (Article 127(2) ECT).

According to Article 4(3) ECT, economic policy should be based on the guiding principles of: 'stable prices, sound public finances and monetary conditions and a sustainable balance of payments'. Together with the Growth and Stability Pact, the Protocol on the excessive debt procedure and the provisions of the EC Treaty (Article 104 ECT), these provide a firm regulatory framework for coordinating Member States' budgetary policies. Member States are to keep their budget deficits at below 3 per cent of their gross domestic product (GDP), and overall public debt should not exceed 60 per cent of a Member State's GDP. Taking that considerably further, the Member States have pledged to achieve balanced budgets or even budget surpluses by 2004.

The result is that, based on the current regulatory framework under the Treaty, a 'negative' coordination of economic policies prevails – excessive debt is to be avoided but, in other respects, the economic, financial and budgetary policies remain a national responsibility of the Member States.

3.1. The existing Structures stand in the Way of a Strategy for Sustainability and Solidarity

The instrument for the coordination of the Member States' economic policies in that limited sense are the annual 'broad economic policy guidelines' (BEPG). They contain recommendations for the economic policy of the European Union and for each individual Member State as well as a multilateral procedure for monitoring implementation of those recommendations. In recent years, the emphasis on price stability and budgetary consolidation has been accompanied by recommendations on structural reform of the goods and capital markets (liberalisation policy) and on increased labour market flexibility.

A coordinated European Union strategy for employment with annual European guidelines has been developed – the so-called Luxembourg Process (1997) – on the basis of Title VIII of the EC Treaty (employment). The Member States implement the guidelines in the form of national action plans. The guidelines are not particularly binding and are subordinated to the economic policy aims set in the BEPGs. In addition, Article 125 ECT basically restricts the content of 'employment policy' to labour market policy and labour market reforms geared to greater labour market flexibility.

Other European coordination processes have been developed alongside these European economic and employment policy coordination procedures based on primary EU law:

- The **Cardiff Process** (1998) focuses on so-called structural reforms in the European Single Market. The goals are: increased flexibility in the goods and capital markets; integration of the European financial markets; coordination of labour market and financial reforms; combating state aids; preventing unfair tax competition; and comprehensive liberalisation programmes. Services that used predominantly to be organised by the public sector are opened up to competition from private service-providers and public companies are privatised. The targets here were: electricity and gas supplies, telecommunications, the railways, postal services, air transport, public procurement, distance-selling of financial services, the creation of an EU internal market for services, e-commerce, regional and local transport services, and the provision of services of general interest at local level.
- The **Cologne Process** (1999) concerns the macro-economic dialogue between the governments of the Member States, the European Commission, the European Central Bank and the social partners. This involves exchanging views and experiences to coordinate the Member States' economic and fiscal policy with the ECB's monetary policy and the wage policy of trade unions and employers, without binding decisions. The central idea is that stimulating non-inflationary economic growth will help boost employment.
- The **Lisbon Strategy** (2000) was a first attempt to bundle together the existing coordination processes. The central idea is to create an 'equilateral triangle' comprising economic, social and employment policy, which should be interlinked and mutually supportive. The primary objective is to make the European Union 'the most competitive and dynamic knowledge-based economy in the world', with 'full employment by 2010', 'more and better jobs', quality of employment, greater social cohesion and an increased quality of social policy. The subsequent European Union summits in Nice (2000), Stockholm and Göteborg (2001) devised additional coordination processes based on the 'new open method of coordination'. This is a process of intergovernmental cooperation in which the views of civil society organisations and NGO's can be expressed in a mutual dialogue. The aim is to improve levels of knowledge, to enable exchanges of experience and to compare best practice on the basis of European-wide comparable indicators. In the social policy field, the Member States were required to draw up biannual national action plans to combat poverty and social exclusion and to report back on results. In addition, open method of coordination procedures on pensions policy and on health care were introduced. The 'environmental dimension of the Community' was to be reinforced by a 'sustainability strategy' with a view to climate change, transport, public health and natural resources. Compared with the coordination of employment policies, the European Parliament's right of participation in these processes is much weaker.

The main aim of coordinating pension and health care reform is to prevent increased expenditure and thus contain pressures on the Member States' budgets. Coordination here favours part-privatisation of social insurance systems and is intended to secure a capital inflow from those sectors (occupational pensions schemes, pension funds, supplementary health insurance) to stimulate European financial markets.

European economic policy is therefore essentially a market-driven policy. The various

coordination processes are fragmented, and both their timing and content are not very much interlinked. There is no arena in which conflicting objectives of economic, employment, environmental and social policy can be properly addressed and resolved on the basis of appropriate integrated concepts. Distributional issues are being ignored in most of the coordination processes.

3.2. A Strategy for Sustainability and Solidarity is possible

The European Union has great scope for implementing a policy for sustainability and solidarity because of the Internal Market and Economic and Monetary Union. As a vast common economic area, it provides better opportunities for shaping economic and social policy than the individual Member States. While the 'openness' (foreign trade dependency) of the Member States national economies varies between 25 and more than 50%, the figure is only 10% for the European Union economic area as a whole. That means that 90% of trade takes place within the European Union. Back in 1999, the ECB unequivocally reported that development of the Internal Market would have a far greater impact than external factors within the eurozone. That trend will be reinforced in an enlarged Union. Consequently, the competitive pressure of the 'forces of globalisation' will be significantly weaker within the economic space of an enlarged Union. That being so, the emphasis on 'competitiveness' as an objective in many articles of the EC Treaty is neither economically sound nor can it be a primary aim of European economic policy. If the European Internal Market is shaped in the interest of social and ecological sustainability and sustainable regional development is reinforced, the European Union will be able to escape the globalisation trap and, at the same time, provide an attractive development model for other world regions.

Coordinated tax and finance policies that enable the social welfare responsibilities of the Member States to be funded on a sound and properly distributive basis; coordinated budgetary policies for increased public investment in social infrastructure and ecological structural change; and coordinated monetary, budgetary and wage policies to strengthen the internal economy and revive internal demand in an environmentally friendly manner – all these can contribute to achieve full employment, bearing in mind that all partners in cooperation can benefit from the increased 'multiplier effects' of a large Internal Market. Every euro reasonably well invested, as part of an Internal Market strategy, would bring with it investment and demand of up to three euros. That would produce increased tax revenue, reduce expenditure on unemployment and ease the burden on national budgets.

3.3. European socio-economic Governance – shaping the Process

The potential for shaping the Internal Market and Economic and Monetary Union must be exploited to the full. The Lisbon strategy's 'equilateral triangle' should be extended to include the environmental aspect and thus form a political square. That would more properly take account of the goal of sustainable development. Within a Community strategy for sustainability, the institutional and substantive threads of economic, social, employment and environmental policy must be intertwined, enabling the Union to fulfil the task it has set itself of promoting sustainable development. An integrated strategy for sustainability will make it easier to deal with the interaction between, and conflicting objectives of, policy fields previously viewed in isolation. 'Economic policy' must therefore be geared to the objective of full employment, promote the European social model and frame environmental structural change. As well as covering labour market policy in the narrow sense, 'employment policy' acquires a macroeconomic dimension and must bring

in social policy objectives such as quality of employment, equal treatment for men and women, and the provision of a healthy working environment. Without prejudice to its own tasks, 'environmental policy' must ensure that environmental structural change helps boost employment and quality of employment, and avoids social exclusion. In an integrated strategy, the objectives would have equal weight and the way they interact be specifically taken into account, thereby perceptibly optimising European policy outcomes.

I therefore suggest that the coordination processes for economic, employment and social policy be reformed and combined with the 'Community's environmental dimension' to form a single integrated process, the **Community strategy for sustainability**. As in the past, this involves coordinating the policies of the Member States in accordance with mutually agreed European guidelines. On the basis of 'European Union guidelines for sustainable economic and social development', binding objectives for European Union and Member State policy could be formulated and their implementation organised and evaluated using a multilateral monitoring procedure – as currently applied to the broad economic policy guidelines. That would enable the European Union to devise a process of 'European socio-economic governance for sustainability and solidarity'. To secure improved monitoring and better democratic participation of all relevant players, the guidelines could be designed for a period of two and a half years.

The power of initiative for a guideline proposal would lie with the European Commission. The social partners and NGOs could express their views in a transparent consultation process. The Member States should undertake to discuss the Commission's proposal at a hearing in the national (and where appropriate regional) parliaments. The European Parliament should take part in the decision on the guidelines on an equal footing and with the same rights as the Council. The actual decision-making process would depend on the general shape of institutional reform. If, for instance, proposals to transform the Council into a European Union 'Chamber of States' and to have a corresponding co-legislative procedure with the European Parliament were adopted, the decision-making process on the guidelines could take the same form. If not, the European Parliament would have to have the same rights in regard to the guidelines as it has in the existing co-decision procedure within the EU's legislative process. In addition, at the annual spring meetings of the Council, the Commission would present a 'report on the economic and social situation of the Union on the path to sustainability'. That report would include an assessment of progress in implementing the guidelines on the basis of structural indicators (after the first 12 months, an interim report and, after the second year, a final report). Subsequently, proposed guidelines for the next period would be drawn up on the basis of joint discussion of the final report by the Council and the European Parliament.

An extended macroeconomic dialogue (between the social partners, NGOs, the ECB, the Commission, Council and the European Parliament) could improve implementation of the guidelines by coordinating monetary policy, wage policy (with collective bargaining autonomy preserved in full) and the other elements of the policy for sustainable economic and social development. In all relevant policy areas (eg research policy, regional policy and so on) the guidelines should also be accompanied by action programmes as well as European legislation.

Demands on a future European Constitutional Treaty

- Inclusion in the new European Constitutional Treaty of a Title on 'European socio-economic governance', combining the coordination of economic and employment policy previously provided for in the EC Treaty, the open method of coordination to combat poverty and social exclusion and the Gothenburg strategy for sustainable development'.
- Giving definite form to 'socio-economic governance' for a European Union strategy on sustainability, by attaching the same weight to economic, employment, social and environmental policy objectives, put into effect by coordinating Member States' policies on the basis of 'European Union guidelines for sustainable economic and social development'.
- The European Commission to have the right to propose the guidelines; decisions to be taken by the Council and the European Parliament in a co-decision procedure; evaluation and multilateral monitoring procedure similar to that used for the current 'broad economic policy guidelines'.
- In addition, economic, employment, social and environmental policy to be defined as 'policies of common concern' with equal standing.
- Ideologically motivated references to objectives like 'competitiveness' (currently: Articles 2, 3(m), 27, 131, 136, 157 and 163 ECT) and the 'principle of an open market economy with free competition' (currently: Articles 4 and 105 ECT) to be deleted when the Treaty is overhauled.

4. The four Pillars of an integrated European Union Strategy for Sustainability and how to anchor them in the European Constitutional Treaty

An integrated EU sustainability strategy must be based on the principle of public welfare, the generation of environmentally friendly prosperity for all and the requirement of a fair distribution of wealth. In many instances, the EU's existing 'structural reforms' for the liberalisation and deregulation of capital, goods and labour markets have failed to meet expectations – greater economic efficiency, more transparent competition, more jobs, a qualitative improvement in the provision of services. Instead of doggedly pursuing this course, we should therefore evaluate past experience with so called 'structural reforms' and change policies where developments have gone awry. There is an urgent need for action to reform the Treaty to achieve an Economic and Monetary Union founded on solidarity and to create an Employment, Social and Environmental Union.

4.1. Macroeconomic Policy

Monetary Policy

European monetary policy must assume responsibility for price stability, the creation of full employment and sustainable development. The primary objective of monetary policy to be pursued by the ECB and ESCB must therefore be appropriately extended in the new treaty (currently: Article 105 ECT).

The ECB must be required to incorporate the objectives of the 'guidelines for sustainable economic and social development' into its monetary policy strategy and to explain its strategy in detail by a public statement. Monetary policy will therefore have to be embedded into macroeconomic cooperation at European level. Under the new treaty, the provision that the ECB and ESCB must not to accept instructions from European Union bodies or Member State governments must, of course, remain in force. However, the unclear wording in the current Article 108 ECT, according to which members of the decision-making bodies of the ECB and ESCB may not be 'influenced' when carrying out their tasks and duties, must be dropped from the new treaty, to facilitate cooperation. There should, however, be specific mention of the macroeconomic dialogue as an arena of cooperation between the ECB, the Commission, the Council, the European Parliament and the European social partners.

The Statute of the ECB should be transferred to the area of EU secondary law. In order to achieve greater transparency in monetary policy, the ECB must be required to publish the votes, minutes of the meetings and a summary of the various views expressed in its Governing Council.

Within the existing European Union of 15, Economic and Monetary Union is largely complete. Denmark, the United Kingdom and Sweden yet have not joined Monetary Union, but can change their minds at any time. The situation will change with the accession of between 10 and 13 new Member States. Almost half the Member States in an enlarged Union will not be part of Monetary Union. The new Member States will first have to qualify to be accepted, under the Maastricht convergence criteria. But those criteria were linked to specific conditions (participation in the exchange rate mechanism of the EMS, gearing to the average rate of inflation of the three best-performing Member States and so on) which

no longer pertain now that we have Monetary Union and the euro.

The transitional provisions concerning the second and third stages of Economic and Monetary Union (above all the current Articles 116 *et seq* and Article 121 to 124 ECT) are thus obsolete now that Monetary Union has been successfully established. They must be deleted from the new treaty. On the other hand, the criteria governing new Member States' access to the eurozone must be redefined. Given the economic strength of the eurozone and in comparison the low economic weight of the applicant states, these criteria should largely be based on 'real economy' indicators.

For the moment, the new Member States need room to manoeuvre in relation to economic and competition policy, to allow them to consolidate their own economies, create jobs and manage structural change geared towards socially and environmentally sustainable development in the industrial and service sectors. Only if that process is successful will they be able to survive the process of joining Monetary Union without serious economic and social strain. It does not therefore appear sensible for them to rush into joining the eurozone.

In any event, the new Member States urgently need to be integrated into monetary policy, within a sound European Monetary System (EMS), with the euro as the lynchpin of stability. Under the common umbrella of an EMS, the applicant states would be able to coordinate their monetary policy with the ECB (definition of specific margins of fluctuation for the various national currencies against the euro; ECB intervention to support exchange rates or a coordinated approach should devaluation become necessary). In that way, even in an enlarged European Union, it would be possible to establish monetary policy stability for all Member States that wish it. An enlarged EU must be capable of combining reinforced economic policy cooperation in the eurozone – under the auspices of a eurozone Council – and mutually supportive monetary policy cooperation in the EMS with the new Member States.

The EU must make an active contribution to the democratic control and regulation of the international financial markets and a globally coordinated exchange rate policy. That requires common EU external representation, in the guise of eurozone/EMS, in international economic and financial fora.

Budgetary and Finance Policy

Member States' budgetary policy needs to be coordinated at a European level to encourage public investment and thus revive the internal economy. Investment should be made in the social and environmental spheres so as to achieve progress in transforming Europe into a Social and Environmental Union. Coordination of public investment can make an important contribution to creating new forms of regular employment. Since the European Union is not particularly dependent on external trade, and given the high multiplier effects of a large Internal Market, even credit-financed public investments are self-financing in the long term. A coordinated and active budgetary policy designed to increase public investment will not therefore lead to increased levels of national indebtedness.

Excessive government deficits, it is true, will also have to be avoided for the future. The new treaty should, however, facilitate investment-oriented indebtedness. Deficits should be reduced primarily during economic upswings, and structural deficits prevented. That

approach could be put into effect by requiring a debt ratio that may be variable in the short term (business cycle) but is stable in the long term. The current rules on deficits (at present: Article 104 ECT and the Protocol on the excessive debt procedure) and the Growth and Stability Pact would have to be appropriately amended and clarified.

The introduction of the euro has intensified competition between the Member States. To avoid more tax dumping, in particular, measures to harmonise fiscal policy are needed. Those measures would, at the same time, permit a reform of EU revenue policy.

It ought to be possible, for example, to apply within the EU the principle of Europe-wide progressive taxation. That includes measures to harmonise company taxation and the taxation of capital income and, in consequence, destroy the allure of tax havens. A first step in this direction could be a moratorium prohibiting, with immediate effect, any reduction in company taxation and the taxation of capital income. Harmonising taxation in this area would help to make the owners of capital, property and assets contribute to financing public tasks according to their relative wealth. The additional revenue would enable states to renew the welfare state and finance public services at a level close to citizens. That would also be a step towards achieving fairer distribution.

Alongside the coordination of national fiscal policies, the EU budget also needs attention here. Currently, the budget is limited to 1.27 per cent of EU-GDP, and not even that small amount is used in full. In the context of enlargement and the increased demands on the development of Community policies, but also in the light of the increase in regional disparities and development cooperation responsibilities, there will be an urgent need for additional resources.

That necessitates an increase in the European Union's own resource base. As a first step an European Union-wide tax on primary energy and a tax on aircraft fuel could be introduced. In addition, within the European Union a stock exchange turnover tax and a tax on foreign exchange transactions (Tobin tax) should be introduced. The Tobin tax could help counter the increasing instability on the international financial markets.

At an institutional level, the current Articles 93 and 94 ECT, which apply to fiscal matters, should be amended by introducing predominantly qualified majority voting in the Council of Ministers. Article 93 should not only refer to the Internal Market, but as well to the Common Market. The European Parliament must naturally exercise full budgetary powers in the future.

Solidaristic Wage Policy

As a result of strict monetary and fiscal policy requirements, wage policy in Europe is subject to restrictions, because fluctuations of the business cycle can be offset at national level only through wage adjustments. There has also been pressure, not least from the EU, to keep wage increases below the rate of productivity growth, to safeguard price stability and reduce labour costs.

But because wage increases are directly linked to internal demand, that kind of policy has a negative macroeconomic impact. EU economic policy should therefore encourage wage increases that at least balance productivity growth and inflation, to stimulate internal demand and improve the situation on the labour markets. There also has to be a redistributive element to reverse the trend towards a decline in the wage and salary ratio

we are currently experiencing in the Member States.

Autonomy in collective bargaining must be comprehensively guaranteed across-the-board in an enlarged Union.

Furthermore, trade unions and employers should be given the opportunity to enter into such agreements at a European level also. In addition, the new treaty must include an EU competence to adopt minimum requirements for pay, the right of association, the right to strike and the right to impose lock-outs.

4.2. Employment Union

The reform of the treaty must be directed towards a new model of full employment. The objective of full employment must encompass criteria such as quality of employment, a healthy working environment, jobs that provide guaranteed social protection and living wages, adequate income levels, equality of men and women and reconciliation of work and personal life. The European Union should be given the power to produce a programme of employment policy measures in cooperation with the Member States and to supplement their own activities.

The narrow definition of employment policy as labour market policy (currently: Article 125 ECT) must be abandoned in the new treaty and in the context of the 'EU Guidelines for sustainable economic and social development'. Employment policy is above all a macropolicy. In future therefore, economic, financial, education, research and environmental policy should also be geared to making a contribution to resolving employment problems.

The following areas of responsibility should be defined as part of the 'EU Guidelines for sustainable economic and social development':

- Shorter working hours; quality of employment and new ways of reconciling work and personal life
- A skills offensive for the knowledge-based society, for environmental restructuring and for environmentally-efficient and people-centred services; developing lifelong learning
- Creating new jobs by renewing public service provision and services of general interest, boosting small and medium-sized enterprises (SMEs), a publicly supported employment and social economy and by introducing environmental structural changes into the economy
- Equality of men and women

4.3. A Social Union

Starting from the principle that everyone has the right to live an independent life in dignity (Article 1 of the European Union Charter of Fundamental Rights), the Union's social policy provisions must be fundamentally overhauled when the EU Treaty is revised, with a view to a European Social Constitution. For all permanent residents of Europe, that implies a guaranteed and unconditional right to a basic income, social protection and welfare and democratic participation.

The essential features of the European social model (as set out in section 2 above) must be included in the Constitutional Treaty. As far as fundamental social rights are concerned, the new treaty should make explicit reference to the revised European Social Charter of 1996. The areas of social policy defined in the current Title XI ECT should be covered by qualified majority voting in the Council and co-decision with the European Parliament.

In the context of the 'EU guidelines for sustainable economic and social development', the Union could set qualitative and quantitative targets, e.g. to improve health care, to secure a minimum level for a basic income (as a proportion of per capita GDP), for a European minimum wage standard (as a proportion of the national average wage), for reducing and eradicating poverty – particularly child poverty – homelessness and illiteracy. It will be necessary to oblige the Member States to commit to specific programmes of measures as part of that process. European cooperation in the field of pensions policy and health care provision must reinvigorate public pension systems and sickness insurance based on solidarity.

For Europe to develop into a Social Union, the new treaty should include a social stability pact. EU Member States should no longer be able to cut social benefits to gain competitive advantage. That can be done by agreeing on social bands. The criterion here could be social protection ratios in the Member States relative to GDP. The ratios are very different, so (initially at least) there would have to be three or four bands, to cover countries with similar levels of social protection. If initial values were not achieved, the countries concerned would have to undergo a consultation process and, possibly, be subject to penalties. Initial values could, however, be topped at any time and this would result in the bands being raised. That procedure could encourage other countries involved to increase their own social protection ratios. If Europe is to progress socially, Member States must also be required to increase social protection ratios – at least in line with growth in GDP – so that they do not fall below initial values. That way, social development would be linked to economic development.

That idea has the merit of leaving it to the Member States to decide how social expenditure is to be made up and how social protection systems are to be structured. There would be no need to harmonise at EU level the historically determined and differently framed social insurance and social welfare systems.

4.4. An Environmental Union

In the current Article 174 ECT, the Community commits itself to a high level of environmental protection, following a policy of preventive action and the precautionary principle. In addition, the current Article 6 ECT contains a horizontal clause, according to which environmental protection requirements must be integrated into the definition and implementation of the Community policies and activities listed in Article 3 ECT, in particular with a view to the promotion of 'sustainable development'. The scope of that horizontal clause does not in fact encompass the Economic and Monetary Union referred to in Article 4, however. It is also unclear what exactly is meant by the expression 'sustainable development'.

Under the existing horizontal clause on the environment, proposals in relation to transport or trans-european networks, for example, would always have to be analysed in detail as singular projects. That could, for instance, result in the imposition of conditions on noise levels or the route of rail or road construction proposals. Although environmental issues would be taken into account in that way, the overall number of proposals could result in an expansion of traffic. But that is not compatible with genuinely sustainable development. It is therefore necessary to begin by clearly defining and clarifying the principle of sustainable development in a horizontal clause in the new treaty. And it should also apply to Economic and Monetary Union issues.

Subsidies designed to promote integrated environmental protection have to be considered compatible with the Common Market (requiring an amendment to the current Article 87 ECT). The Euratom Treaty must be rescinded.

In the 'EU guidelines for sustainable economic and social development', targets based on structural indicators – eg for the reduction of energy consumption and CO₂ emissions, for increasing the proportion of renewable energies, for reducing material flows and introducing closed systems (eg water use in industry, waste, waste management and conditioning and so on) - could be adopted to reverse the trend towards surface sealing and traffic growth.

Demands on a future European Constitutional Treaty

Monetary Policy

- Changes to primary objectives and basic tasks of the ESCB: price stability, full employment and sustainable economic development have to be established as equivalent aims of monetary policy (currently: Article 105 ECT).
- Statute of the ECB to be transferred to the area of secondary EU law; minutes of meetings and voting on the ECB's Governing Council to be published.
- Transitional provisions on the second and third stages of Monetary Union (currently: Article 116 *et seq* and Articles 121 to 124 ECT) to be rescinded and the criteria governing the accession of more Member States to the EMU to be redefined.

Budgetary and Finance Policy

- Amendment of the current Article 104 ECT, of the Protocol on the excessive debt procedure and the Growth and Stability Pact, to permit indebtedness for investment purposes and prevent structural deficits.
- Introduction of predominantly qualified majority voting in the Council of Ministers and co-decision for the European Parliament in fiscal matters (currently: Articles 93 and 94 ECT).
- Full budgetary powers for the European Parliament.

Employment and Social Union

- The principle of the welfare state with the aim of full employment to be anchored in the constitutional section of the new treaty.
- Deletion of exclusion of the competence to adopt directives concerning pay, the right of association, the right to strike and the right to impose lock-outs (currently: Article 137 (6) ECT).
- Overhaul of the social policy provisions (currently: Title XI ECT) to provide a European Social Constitution and reference to the revised 1996 European Social Charter.
- European Parliament to have the right of co-decision in all areas of social policy.
- A social stability pact to be anchored in the European Constitutional Treaty.

Environmental Union

- Principle of sustainable development to be rooted in all relevant Community policies (clearer definition of the horizontal clause on the environment).
- Amendment of the law on state aid to provide that subsidies to promote integrated environmental protection are compatible with the Internal Market (currently: Article 87 ECT).
- Euratom Treaty to be rescinded.