European Economists for an Alternative Economic Policy in Europe

– EuroMemo Group –

Caught between the Covid-19 crisis and the war in Ukraine: the EU in 2022

– EuroMemorandum 2022 –

18 March 2022

This EuroMemorandum draws on discussions and papers presented at the 27th Workshop on Alternative Economic Policy in Europe, organized by the EuroMemo Group, from 14 to 24 September 2021 (online). The chapter on Ukraine conflict has been written in March 2022.

SUMMARY

1. Introduction

The Covid-19 pandemic defined the year 2021, as it did the previous year. The world has already been through three major Covid-19 infection waves, and at the time of writing this year's EuroMemorandum, a fourth infection wave caused by the new Omicron variant with recently discovered subvariants is raging through Europe. Covid-19 has had a profound impact on global living conditions and the European economy. While EU GDP contracted by 5.9% in 2020, in 2021 the macroeconomic context improved somewhat with all member states returning to positive GDP growth rates. Nevertheless, employment and real wages lagged behind the developments in output. Unemployment peaked at 8.6% in September 2020, up from 7.4% in September 2019, but started a downward trend since then. While the widespread use of job retention schemes and similar measures had a dampening effect on unemployment, the resulting income losses were nevertheless significant. In 2020, the loss of median employment income at EU level was estimated at -7.2%, with large variations among countries and unequal effects on vulnerable groups. This finding confirms the general pattern that the pandemic has hit different regions and sectors with varying force, creating or intensifying existing divergences across the EU.

The EU has failed dramatically in seeking multilateral cooperation for the Covid-19 pandemic. Leading industrialized states, including the EU, have instead prioritized supplying their own populations with vaccines. The EUR 1 billion EU support announced by Ursula von der Leyen in June 2021 to build vaccine production capacity in Africa is largely symbolic. The failure of effective multilateral cooperation is not limited to the Corona pandemic, however, but extends to other key areas, not least the all-important climate issue. The Conference of the Parties to the Framework Convention on Climate Change (COP 26 from October 31 to November 11, 2021 in Glasgow) produced modest results. The latest IPPC report, published at the end of February 2022 stresses that, should countries not significantly scale up their measures to fight the climate crisis within the next few years, it will be impossible to meet the key target of limiting global warming to 1.5° Celsius by 2100. What is more, greenwashing of important measures such as the recent European Commission (EC) proposal to classify natural gas and nuclear energy as green bridging technologies, is threatening to impair any substantial progress.

Russia's invasion of Ukraine, which started on February 24 2022, marks a dramatic turning point for the international system itself and in particular for the political and economic development of the EU. The harsh economic sanctions imposed upon Russia, as well as the massive military support by the US, the EU and others extended to Ukraine might appear justified by the Russian government's flagrant breach of international law. Nevertheless, these measures might contribute to an escalation of the war and exacerbate the risk of an all-out military conflict involving NATO countries. To avoid such a scenario from materializing, it is urgent to reconsider the approach to sanctions and, above all, to intensify diplomatic efforts to de-escalate the conflict.

More generally, the EU should rethink its strategic orientation and resist the impetus for rearmament and militarization. Against a constellation of multiple crises and the climate emergency, the EU and indeed the international community at large, need to focus its political and economic capital on promoting effective international cooperation and peace-building.

2. Transitioning to a post-pandemic economy – The macro context

In February 2020, the European Commission initiated the review of EU economic governance as set out in the Stability and Growth Pact (SGP) and its extensive revisions. Due to the pandemic, the process was frozen until October 2021, when it was relaunched. The existing EU economic governance model has prevailed for more than 20 years and it has been shown to be largely irrelevant. A shift in paradigm is urgently needed, recognizing the fact that social, economic and ecological issues are intrinsically interrelated and that market-based solutions do more harm than good.

Certain broad directions in which the suggested EU economic governance paradigm should move include the following:

1. *Integrating the social in the economic* – The European Pillar of Social Rights and its Action Plan, endorsed by the Porto Declaration on 7 May 2021 should be integrated in the architecture of the economic governance of the EU. This should be based on full employment with high quality jobs and a just transition to a socially and environmentally sustainable economy, while non-GDP indicators should be employed to measure the well-being of societies. The specific socio-economic and environmental challenges faced by different member states must be taken into account.
2. *Reinstating public services* – After years of budgetary restrictions, public services have been weakened, as well as shrunk in size. The lessons of the pandemic need to be learnt and the role of public services be re-enhanced, linking it to the needs of society.
3. *Fiscal and monetary policy should be coordinated so that money and credit are re-embedded in public policy pursuits*. This is particularly applicable to the present climate and health challenges and the need for greatly increased public investment. Thus, a coordinated system of credit allocation and budget financing is necessary, encompassing the issuance of bonds by the European Commission on behalf of the EU.
4. *The new governance architecture must be made fairer and more sustainable.* The EU's difficulties in achieving a common approach to *taxation* remain a critical obstacle to building a strong foundation. While the EU has accepted the OECD's recommendation of a 15% minimum rate for Corporation Tax, it has done nothing to counteract the widespread practices of tax avoidance and money-laundering.
5. *The sovereign debt accumulated as a response to the Covid-19 crisis must be dealt with at the European level*. Some of the largest eurozone economies, such as Italy, Spain and France, are experiencing large debt increases, as are countries entering the crisis with an already high public debt, such as Greece. In all cases, the risk of a bond market panic cannot be discarded. To head off such a risk, the ECB needs to buy government bonds *in primary markets*. In this way, the threat of a bondholder panic is averted, while there is no permanent legacy of unsustainable levels of government debt.
6. *The entire policy formulation and implementation process of the EU needs to be democratized*. The European Parliament should participate in the decision-making process regarding the setting of macro-objectives and policies, overseeing their implementation and making the European Commission and the ECB accountable for the results achieved. The role of social actors and social partners also needs to be included in the new paradigm.

3. Social and employment policies

The Covid-19 crisis has had until now a much smaller negative effect on jobs than the global financial crisis as a result of the spread of furlough and short-time working schemes; these covered 18.4% of all EU employees at the peak of the first wave of the pandemic. The rise in the unemployment rate was small and temporary, but young people were disproportionately hit by job losses and more limited job opportunities. Women have also been among the greatest victims of Covid-19 crisis, having assumed the largest share of the additional burden in unpaid work and suffered increased work-family life conflicts and greater health risks during the lockdowns, as teleworkers or ‘essential’ workers. Most importantly, median employment income in the EU has shrunk by -7.2% in 2020, mainly because of reduced hours of work, with large variations between countries and vulnerable groups of workers; industrial relations have also suffered, especially in countries with low union density and a low coverage by collective agreements.

The pandemic crisis has been a period of intense political activity at EU level in the fields of employment and social policy. Positive developments include the adoption of an Action Plan for the implementation of the European Pillar of Social Rights, the proposal by the European Commission of two Directives, one on adequate minimum wages and another on combating violence against women and domestic violence, the espousal of a European Child Guarantee and the creation of a Just Transition Fund as part of the European Green Deal (EGD). Negative developments include, first, the new Employment Policy Guidelines for EU Member States that repeat the flexicurity recipe, calling for a reduction in protection from dismissals of permanent employees and, second, the new Recovery and Resilience Facility, whose resources are available upon the fulfilment of neoliberal product or labour market reforms imposed as ex-ante conditionalities and linked with Council recommendations under the European Semester. Moreover, a just transition within the EGD is premised upon an ecological modernization perspective reproducing the pattern of social flanking measures to market-based green transition programmes and a social partnership model without meaningful input from workers, leaving social power relations unaltered. Last but not least, while the European Child Guarantee is welcome, poverty reduction in the EU remains an elusive policy objective, even more so in the context of rapidly increasing energy prices which have transformed energy poverty a core policy issue across the EU.

Alternative proposals include, (a) adoption of a more ambitious and binding Directive on adequate minimum wages with a stronger commitment to the active promotion of collective bargaining by governments, a prerequisite for combating in-work poverty and ensuring decent living standards for wage earners; (b) an ambitious EU Council Recommendation on minimum income; (c) the need to adapt the EU Stability and Growth Pact, aligning the EU’s governance mechanisms with its social and ecological goals; (d) working time reduction, and (e) a public job-guarantee programme. Generally speaking, social policies should be a cornerstone of a growth strategy centred on ‘human needs’ and a solidaristic approach that supports labour rights and collective bargaining, respects local and communal levels of participation and offers a strong vision of socio-ecological transition in Europe.

4. The war in Ukraine and the role of the EU

In February 2022, the long-festering conflict between Russia and Ukraine escalated into an all-out war. The West has responded very strongly in terms of economic sanctions and military aid. Russia has responded by putting its nuclear deterrent on high alert. The world has not been this close to thermo-nuclear war since the Cuban Missile Crisis in 1962.

While the Russian decision to invade Ukraine violates established moral and legal norms, it was not without context. Since the wars in Kosovo and Iraq, and especially since the ‘colour revolutions’ in Georgia and Ukraine, Russia has been concerned about the US and Western strategy of destabilizing adversaries, including themselves. There is also an incompatibility between the US grand strategy – or the interests and ideas professed by the EU – and the evolving aims of the Russian state. With the ongoing expansion of the EU and NATO towards Russia, Russia started to securitise issues and became increasingly focussed on “drawing a line”, which in turn has contradicted the universalising interests and purposes of the West.

The context of the crisis involves political economy developments. In contrast to neoliberal expectations, the ‘shock therapy’ administered in Russia in the early 1990s resulted in disaster involving two periods of hyperinflation, drastic decline of industrial production, and rapid rise in inequalities. The changes resulted also in a significant deterioration in the quality of life and contributed to mass poverty among the population during this period, including among educated and qualified workers. Through the chaotic 1990s, these maldevelopments paved the way for a counter-movement favouring a semi-authoritarian ‘strong’ state-capitalism – though within a liberal constitution – led by an interlocked political elite and economic oligarchs.

Similar to Russia, Ukraine suffered from the economic and social costs of the early 1990s shock therapy. The period of rapid economic growth in 2000-2008 lifted many people from poverty and improved socio-economic conditions in general. The social conflict that preceded the Euromaidan revolution and its aftermath took place against the context of the global financial crisis and a 15% drop of Ukrainian GDP. Soon Ukraine was struggling with the conditions of IMF loans and those of the European Neighbourhood Programme (ENP). Following a short-lived, partial recovery in 2010–11, the economic downturn continued in parallel with, and partly caused by the Euro crisis.

Policy prescriptions advanced in previous EuroMemoranda could contribute to a more enduring peace by replacing the security dilemma with an integrative logic of mutually beneficial interdependence. Here, economic integration could be facilitated in Ukraine, Russia and other post-Soviet states by public investment rather than military investments. Apart from recognising the problems of imposing shock therapy or austerity, the EU should allow for, and encourage, experimentation with different institutional arrangements and macroeconomic policies – as it has itself been doing with unconventional monetary policies and new fiscal packages. A key point is that actors must learn to accept pluralism and resolve conflicts by means of peaceful changes. A transformed EU should include the following external policies: (1) The EU should resist tendencies toward securitisation and militarisation and focus on social and ecological projects; (2) the EU should significantly increase humanitarian aid and support for Ukrainian refugees in the EU, and the EU should advocate debt forgiveness for Ukraine (including applying forgiveness to its loans), but not give military support to Ukraine; and (3) while sanctions against Russia are necessary, we call for moderation, rational reflection on the perilous brink situation, and on de-escalation.

1. Introduction

The consequences of the Covid-19 crisis

The Covid-19 pandemic defined the year 2021, as it did the previous year. The world has already been through three major Covid-19 infection waves, and at the time of writing this year's EuroMemorandum, a fourth infection wave caused by the new Omicron variant with recently discovered subvariants is raging through Europe. As of end of January 2021, 376 million cases of Covid-19 have been reported globally, including 5.68 million reported deaths.[1] In Europe there have been 140 million cases and 1.74 million deaths, corresponding to nearly 37% and 31% of the global total respectively. The five European countries that have been hit worst in absolute numbers are France, UK, Russia, Turkey and Italy.

Not least by dint of dramatic losses in global biodiversity, Covid-19 has had a profound impact on global living conditions and on the European economy. While EU GDP contracted by 5.9% in 2020, in 2021 the macroeconomic context improved somewhat with all member states returning to positive GDP growth rates. Nevertheless, employment and real wages lagged behind the developments in output. Unemployment peaked at 8.6% in September 2020, up from 7.4% in September 2019, but started a downward trend since then. The youth unemployment rate saw a more important upsurge from 15% in September 2019 to 18% in September 2020, since young people were disproportionately hit by the pandemic crisis. While the widespread use of job retention schemes and similar measures had a dampening effect on unemployment, the resulting income losses were nevertheless significant. In 2020, the loss of median employment income at EU level was estimated at -7.2%, with large variations among countries and unequal effects on vulnerable groups. This finding confirms the general pattern that the pandemic has hit different regions and sectors with varying force, creating or intensifying existing divergences across the EU.

Overall, while the arrival of vaccines and their relatively rapid deployment across the EU have reduced fatality rates, Covid-19 remains a major threat to society. With billions of people still unvaccinated worldwide, either because they lack access to the vaccines or are unwilling to receive them, the recovery from the pandemic of the European economy as well as of European societies will remain vulnerable and subject to setbacks, as the recent outbreak of the new Omicron variant has demonstrated.

The EU has failed dramatically to achieve multilateral cooperation for the Covid-19 pandemic. The pandemic can only be addressed effectively at global level and the rich Global North has a leading role to play in the strengthening of health systems, including the rapid vaccination of the populations in the Global South. So far, the Global North has not initiated the much-needed measures and support programmes. Financial support for the multilateral vaccine programme COVAX and for bilateral vaccine donations from the USA or the EU, for example, have been too small, have occurred too late and have been implemented only slowly. Leading industrialized states, including the EU, have instead prioritized vaccinating their own populations. The EUR 1 billion EU support announced by Ursula von der Leyen in June 2021 to build vaccine production capacity in Africa is largely symbolic. At best, it can be seen as an insufficient concession in response to widespread civil society criticism of the EU's unwise rejection of the suspension of patent rights on vaccines in the World Trade Organization (WTO) ('*TRIPS Waiver*').

[1] According to the Institute for Health Metrics and Evaluation, total deaths due to the Covid-19 pandemic are even estimated at some 16 million deaths. See https://covid19.healthdata.org/global?view=cumulative-deaths&tab=trend (accessed, 16 March 2022)

The failure of effective multilateral cooperation is not limited to the Corona pandemic, however, but extends to other key areas, not least the all-important climate issue. The Conference of the Parties to the Framework Convention on Climate Change (COP 26 from October 31 to November 11, 2021 in Glasgow) produced modest results. The latest IPPC report, published at the end of February 2022 stresses that, should countries not significantly scale up their measures to fight the climate crisis within the next few years, it will be impossible to meet the key target of limiting global warming to 1.5° Celsius by 2100.[2] Instead, a rise in global average temperature of some 3° Celsius or more has become a likely perspective. The EU's climate commitments of reducing greenhouse gas emissions by at least 55% below 1990s levels by 2030 and to net zero by 2050 might appear ambitious when compared to those of its international peers, including the US and China; however, the implementation of these targets is proceeding slowly at best. Global warming, loss of biodiversity and the emergence of pandemics and other illnesses are interlinked. What is more, greenwashing of important measures, such as the recent European Commission (EC) proposal to classify natural gas and nuclear energy as green bridging technologies, is threatening to impair any substantial progress. [3]

The Ukraine war: a dangerous turning point for the future of Europe

Russia's invasion of Ukraine, which started on February 24 2022, is causing terrible human suffering, increasing the global food problem and worsening the ecological situation. It marks a dramatic turning point for the international system itself and in particular for the political and economic development of the EU. Given both the many victims among the Ukrainian population and the increased threat of thermo-nuclear war, the most immediate task must of course be to reduce tensions through stepping back from the escalation-ladder. The harsh economic sanctions imposed upon Russia, as well as the massive military support from the US, the EU and others to Ukraine might appear justified by the Russian government's flagrant breach of international law. Nevertheless, these measures might contribute to an escalation of the war and exacerbate the risk of an all-out military conflict involving NATO countries, including the eventual though unlikely deployment of nuclear weapons. To avoid such a scenario from materializing, it is urgent to reconsider the approach to sanctions and, above all, to intensify diplomatic efforts to stop a further escalation of the war, to de-escalate the conflicts.

Internally, EU countries and Germany in particular, have responded by announcing massive, national financial programmes of defence spending and rearmament, further strengthened by the Versailles Declaration at the EU leaders' summit of 11 March 2022. In a dramatic change-of-mind, the EU now wants to pro-actively pursue a strategy of energy autonomy, including both a diversification of natural gas and oil supplies, and a speeded-up investment offensive for renewable energies. But a later phasing-out of coal, increased imports of liquid gas and new nuclear power stations are also being debated. This stands in marked contrast to the hitherto lukewarm debate on 'strategic autonomy' in the EU. While the Ukraine conflict has dramatically exposed the strategic import dependencies of the EU, it remains to be seen whether this will lead to an accelerated implementation of the European Green Deal programme, or whether the policy response will focus on extending the use of fossil fuels (i.e. coal and gas from alternative sources) and nuclear energy. What is clear is that the economic and social repercussions of the crisis on the EU will be significant, with a conservative estimate of the short-term budgetary cost for the EU in

---

[2] See „Climate Change 2022. Impacts, Adaptation and Vulnerability", Intergovernmental Panel on Climate Change, Februar 2022, https://report.ipcc.ch/ar6wg2/pdf/IPCC_AR6_WGII_FinalDraft_FullReport.pdf (accessed 08 March 2022).

[3] See EC proposal for a delegated regulation at https://www.euractiv.com/wp-content/uploads/sites/2/2022/01/draft-CDA-31-12-2021.pdf (accessed 9 January 2022).

2022 at 1.25% of EU GDP, that is, some € 175 bn.[4] Given the economic shock, heightened risk aversion on financial markets and a likely discount on European assets, repercussions for public debt-sustainability in the most fragile EU member states are not to be ruled out. The on-going reform of the Stability and Growth Pact as well as of national fiscal frameworks, such as the German *Schuldenbremse ['debt brake'],*[5] will have to adapt to the new situation and be made flexible enough to make room for cushioning the social effects of the crisis in particular, including on the one hand through massive humanitarian assistance to the millions of Ukrainian refugees fleeing to EU countries, and on the other through social assistance programmes to cushion the effects of rising energy, food and housing costs on EU households.

Cooperative internationalism as a core task for the EU

With the outbreak of the war in Ukraine, the principles of the European security order as enshrined in the 1975 Helsinki Accords have been severely violated. The deep shock that these events have inflicted upon the EU public has triggered an emotionally-charged debate, which in turn has led to rash announcements in EU member states towards increased defence spending and rearmament. Public and civil society resistance to this move towards militarization has so far remained subdued. The wider implications of recent developments not only for European security, but the development trajectory of European integration in general remain to be seen, though certain tendencies are already visible. In strategic terms, NATO has clearly seen a revival and the US leadership position has been reinforced. This in turn has favoured US strategic interests of subordinating the EU to its geopolitical objectives, in particular with respect to containing not only Russia, but more importantly to confronting China as the rising systemic rival of the US. Conversely, from a strategic perspective, the EU finds itself in a difficult position. For one thing it is clear that the economic and social costs of the war – as well as of the eventual reconstruction of Ukraine thereafter – will primarily fall on the EU, and of course on Ukraine itself and its immensely suffering population. In the case of a prolonged military conflict with a massively damaged Ukraine and an internationally isolated Russia, not only will it be impossible to re-establish a durable security order for Europe, but economic relations with Russia and thus access to Russia's market as well as its vast natural resource-base and commodities will be permanently reduced. The EU's strategic economic dependence on the US and other regions such as the Middle Eastern oil-exporting countries will increase, while relations with China as a strategic ally of Russia will likely deteriorate. Given China's importance both as a market for EU products, but also as a supplier of critical raw materials and a wide range of intermediate goods and products such as solar panels for the green transition, this will have severe consequences for the prevailing outward orientation of the EU economy. Though economic globalization has already slowed down prior to the Corona crisis, a stronger trend towards economic regionalization will likely emerge in the near future.

Against this background, the EU's top priority must be to stop further escalation, if not end the conflict over Ukraine and mediate a durable political solution to both Ukraine's legitimate interests for territorial sovereignty and to Russia's security concerns. An EU-backed policy of comprehensive and escalating sanctions imposed on Russia and of massive armament reinforcements to Ukrainian military forces is likely to be counterproductive, as it risks prolonging and brutalizing the war.

4 See Jean Pisany-Ferry "The economic policy consequences of the war", 8 March 2022, Bruegel Blog Post, https://www.bruegel.org/2022/03/the-economic-policy-consequences-of-the-war/ (accessed 09 March 2022).

5 The *Schuldenbremse* (debt brake), enshrined in the German constitution, is a fiscal rule introduced in 2009 in the wake of the global financial crisis strongly limiting the government's fiscal powers. It was suspended in 2020 to enable a robust response to the coronavirus pandemic. See The Economist Intelligence Unit, March 1st 2021, https://country.eiu.com/article.aspx?articleid=1650762548&Country=Germany&topic=Economy_1 [accessed 13 March 2022]

More generally, the EU should rethink its strategic orientation and resist the impetus for rearmament and militarization. A geopolitical confrontation between the great powers in the broader context of an emergent multi-polar world is neither a necessary nor desirable outcome, but depends on the political decisions that peoples and their political leaders take. Against a constellation of multiple crises and the climate emergency, the EU and indeed the international community at large, need to focus their political and economic capital on promoting effective international cooperation and peace-building. In order to become a credible and effective advocate for a renewed cooperative internationalism, the EU should lead by example and accelerate the socio-ecological transformation of the European economy. For starters, this will entail the abandoning of its neoliberal policy dogmas of the last 30 years directed at fostering privatisation, financialization and harmful export mercantilism. These policies have increased external imbalances and driven countries, particularly in the Global South, into seeking refuge in tax competition and locational competition in the form of low wages and permissive environmental standards. Through, for instance, trade and investment agreements, EU policies have often very directly hindered the development of an inclusive form of statehood and led to considerable macroeconomic instability. The combined effects of the Corona pandemic and the war in Ukraine are likely to generate additional economic and political instabilities in the Global South. Both Ukraine and Russia are big agricultural producers and exporters. Since the war started, their exports have essentially dried up and the impacts have already been felt around the world, with food prices rising and stockpiles shrinking.[6] Against the threat of a further escalation, this threatening situation needs to be addressed by the EU. To realize a cooperative internationalism requires a clear awareness among political and economic elites in the EU that the existential crises and conflicts of the 21st century cannot be solved by confrontation and war, but rather by promoting sustainable and inclusive development at home and abroad.

In view of the enormous dynamic developments brought about by recent events, it remains to be seen whether the EU can summon up the political will to provide the impetus for the much-needed international cooperation. We are clearly at a decisive turning point in the history of the European Union, where the political decisions taken now will determine future developments for better or worse. Wrong political decisions carry the risk of the post-pandemic world being caught up by a dynamic whereby not only the achievement of the global Sustainable Development Goals (SDGs) by 2030 will be impossible, but also where the multiple crises, involving food, ecology, migration and societies among others, are compounded by growing military threats. For political leaders as well as for civil society in the 21st century, this means that ecological and social activism must go hand in hand with the building of a new peace movement.

[6] See e.g. Bloomberg report at https://www.bloomberg.com/news/articles/2022-03-08/war-in-ukraine-compounds-global-food-inflation-hunger-crisis,

2. Transitioning to a post-pandemic economy – The macro context

The Covid-19 pandemic one year on

The Covid-19 pandemic defined the year 2021, as it did the previous year. The world has already been through three major Covid-19 infection waves, while scientists are warning that "the world faces the clear and present danger of more frequent and more lethal infectious disease outbreaks. The current pandemic was not a black swan event" (G20:1)[7]. Indeed, the emergence of a new variant, designated as BA.1 and named 'Omicron', appeared towards the end of 2021, starting a new wave of cases and deaths.

Since December 31st 2019 and as of the 31st of January 2022, 376,229,546 cases of Covid-19 have been reported globally, including 5,681,828 deaths[8]. In Europe there have been 140,263,613 cases and 1,739,661 deaths, corresponding to approximately 37% and 31% of the global total respectively. The five countries that top the European list are France, UK, Russia, Turkey, and Italy. Amongst the EU member states, France, Spain, Italy, Germany and Poland have been worst hit.

After a problematic start, the vaccination campaign took off in the EU. As of early February 2022, 81.8% of the adult population in the EU had received two vaccine doses. The vaccination rate has varied across the EU, with the CEECs having markedly lower rates, as opposed to the northern and southern European countries (*Table 1, Col.1*). According to the European Centre for Disease Prevention and Control (ECDC), "countries with lower vaccination uptake continue to be the most severely affected" by the resurgence of the coronavirus. It is noteworthy that the latest variant 'Omicron' and its sub-variants appear to be able to evade some existing levels of immunity, thus causing a wave of reinfections.

Overall, while the arrival of vaccines has reduced the fatality rates across the globe, Covid-19 remains a major threat to society. Billions of people remain unvaccinated, either because they lack access to the vaccines or because they have been persuaded to be suspicious of these and other vaccines. It is estimated that more than one-half of the world's countries had been unable to vaccinate more 40% of their populations by the end of 2021[9]. Furthermore, the WHO has warned governments against lifting Covid-19 restrictions due to political pressure.

In the macro context, the pandemic has influenced both the supply- and the demand-side of the economy for the second year running. While governments are trying to keep their economies afloat, deep structural changes are taking place, traces of which may be detected in the short-term macro-trends. Such changes include shifting labour patterns, as people are reassessing their work-life balance, expanding e-commerce, as well as e-banking, among others.

[7] G20 High Level Independent Panel, 2021, 'A Global Deal for our Pandemic Age', www.pandemic-financing.org

[8] European Centre for Disease Prevention and Control; https://www.ecdc.europa.eu/en/geographical-distribution-2019-ncov-cases; accessed on 5/2/2022

[9] Wolf, M., 2021, Hopes and fears for the global Covid-19 recovery, FT, 12/10/2021

Table 1: EU Economic Indicators, 2021

		Fully vaccinated % population (a) Col. 1	Real GDP % change Col.2	Unemploy-ment % labour force Col.3	Real wage % change (b) Col.4	HCPI annual average % change Col.5	Ratio of Top 20% to bottom 20% (c) Col.6	Budget balance % GDP Col.7	Gross debt % GDP Col.8
	Euro area		**5.3**	**7.0**	**0.4**	**2.6**	**4.99**	**-7.1**	**100.0**
	EU	**81.8**	**5.3**	**6.4**	**0.5**	**2.9**	**4.98**	**-6.6**	**92.1**
Nordic	Finland	85.9	3.5	7.1	0.1	2.1	3.72	-3.8	71.2
	Denmark*	99.1	4.0	5.1	0.0	1.9	4.00	-0.9	41.0
	Sweden*	85.9	5.0	8.2	-0.3	2.7	4.12	-0.9	37.3
Western Europe	Austria	81.9	4.7	4.9	-0.7	2.8	4.11	-5.9	82.9
	Belgium	88.6	6.1	5.7	1.5	3.2	3.65	-7.8	112.7
	France	90.4	7.0	7.4	2.7	2.1	4.48	-8.1	114.6
	Germany	87.8	2.8	3.2	0.0	3.2	6.47	-6.5	71.4
	Ireland	94.6	13.7	5.1	0.6	2.4	4.03	-3.2	55.6
	Luxembourg	82.0	7.0	5.0	-0.7	3.5	4.99	-0.2	25.9
	Netherlands	82.5	4.3	3.8	0.1	2.8	4.04	-5.3	57.5
Southern Europe	Cyprus	85.6	5.3	6.4	0.5	2.3	4.31	-4.9	104.1
	Greece	79.1	8.5	12.7	-0.1	0.6	5.15	-9.9	202.9
	Italy	84.8	6.5	9.0	-1.2	1.9	6.01	-9.4	154.4
	Malta	93.2	5.9	3.4	1.3	0.7	4.69	-11.1	61.4
	Portugal	93.6	4.9	5.9	1.0	0.9	4.99	-4.5	128.1
	Spain	86.4	5.0	13.0	-2.1	3.0	5.77	-8.1	120.6
Eastern Europe	Czechia	73.7	3.3	2.1	2.5	3.3	3.34	-7.0	42.4
	Estonia	71.1	7.5	5.2	0.9	4.5	5.03	-3.1	18.4
	Latvia	76.0	4.7	7.5	3.9	3.2	6.27	-9.5	48.2
	Lithuania	78.3	4.8	5.6	5.3	4.6	6.14	-4.1	45.3
	Slovakia	58.3	3.0	6.4	2.1	2.8	3.03	-7.3	61.8
	Slovenia	67.8	6.9	4.6	1.6	2.0	3.32	-7.2	77.7
	Bulgaria	34.5	4.0	4.9	7.4	2.8	8.01	-3.6	26.7
	Croatia	64.5	10.5	7.0	-0.1	2.7	4.61	-4.1	82.3
	Hungary	70.3	6.5	3.7	2.4	5.2	4.30	-7.5	79.2
	Poland	65.3	5.7	2.9	2.8	5.2	4.07	-3.3	54.7
	Romania	49.2	6.3	5.4	2.4	4.1	6.62	-8.0	49.3
Non EU	**UK**	76.8	6.9	4.9	1.1	2.4	(2017) 6.19	-10.1	(d) 109.4
	Japan	80.4	2.4	2.8	1.8	-0.5	(2013) 5.33	-9.1	(d) 258.9
	USA	75.4	5.8	3.9	-0.2	4.3	(2018) 9.02	-11.4	(d) 152.7

Source – European Commission Autumn Forecast 2021: Col. 3, 4, 7, 8; E.C. Winter Forecast 2022: Col.n2, 5.

(a) Cumulative uptake of primary course (not incl. booster) among adults aged 18 years and above as of 4/2/2022; accessed on 6/2/2022; available from https://vaccinetracker.ecdc.europa.eu/public/extensions/COVID-19/vaccine-tracker.html#summary-tab and https://ourworldindata.org/covid-vaccinations

(b) Real compensation of employees per head

(c) Ratio of total income received by 20% of population with highest income to that received by 20% with lowest where income is 'equivalized disposable income'. Sources – EUROSTAT, Inequality of income distribution (TESPM151); Non-EU countries: World Bank (2022) Income Share Held by the Highest and Lowest 20% https://data.worldbank.org/indicator/SI.DST.FRST.20;

(d) Source for Non-EU countries World Bank (2022) Quarterly Public Sector Debt (QPSD) https://databank.worldbank.org/embed-int/T1-Gross-General-Gov-GDP-percent/id/be9dfffc

Macroeconomic trends

This section focuses on the most recently available data prior to Russia's invasion of Ukraine. Although the immediate effects of the invasion included spikes in energy prices and stock-market losses, the longer-term implications for the EU economy remain to be calibrated.

Table 1 above shows selected macro-developments as of late 2021[10]. In assessing them, it is necessary to bear in mind the slump experienced by the economy in 2020, as well as past performance rates of the European economy. Data for the UK, the USA and Japan are provided for reasons of comparison. In particular, the annual **growth rate** of the EU economy and especially of the eurozone was 2% or slightly less in the early to mid-2000s. Following the global financial crisis and the euro crisis, it dropped to below 1% on average, while some member states experienced no growth or even negative rates of growth. Thus, low growth appears recently to be endemic in the European Union. It is against this background that the pandemic hit the European economy, wiping away most if not all of the weak recovery of the late 2010s.

In 2021, the macroeconomic context improved with all member states returning to positive growth rates (*Table 1 Col.2*); the positive trajectory is expected to continue in 2022, albeit at a lower rate[11]. The war in Ukraine is going to further dampen EU growth in 2022. For example, the ECB has reduced its growth forecast from 4.2% to 3.7%.

On the other hand, the pandemic hit different regions and sectors with varying force, creating or intensifying divergences across the EU. For example, sectors relying on personal contact, such as retail trade and tourism, were affected more than others, while regions depending on these sectors were hit especially hard, impacting on an already worrying record of inequality in the EU (*Table 1, Col.6*).

Employment typically lags behind developments in output. By 2016 the average EU employment rate was above its 2008 level and in 2017 and 2018 it increased by 1.1. % p.a. It recorded a lower increase in 2019 (0.7%) due to the deceleration of the growth rate, while the shock of 2020 is still working its way through employment relations. By the end of 2021, **unemployment** in the EU returned to its pre-pandemic level of 6.4% and to 7% in the Eurozone (*Table 1, Col. 3*). However, the 'great resignation' needs to be taken into account, i.e., the fact that many workers have been reluctant to return to their old jobs, seeking a new work-life balance following the experience of the pandemic. Furthermore, unemployment was considerably higher in Greece (12.7%) and Spain (13%)[12]. In addition, the unemployment of young workers (under 25s) remains relatively high (15%) and has reached chronic levels in Greece (30.5%) and in Spain (30.6%). Both of these countries rely heavily on sectors badly hit by the pandemic.

Inherent in the production paradigm of the EU is the limited increase in **real wages**, which has been the case throughout the past two decades, while negative rates of annual change are not uncommon. In 2021, real wages grew by an average of 0.4% in the Eurozone and by 0.5% in the EU, while in seven member states they grew by less than the average and in seven more they actually decreased (*Table 1, Col. 4*).

The regime followed by EU macro policy in the past resulted not only in low wage increases but also in a low **inflation rate** (*Table 1, Col. 5*). In the transition to the post-pandemic economy, rising energy and commodity prices, supply bottlenecks due to the shortage of input components and raw materials, as well as capacity constraints are pushing prices up. The consumer price index was

10 The source is the European Commission unless otherwise stated. Data for 2021 is based on forecasts.

11 European Commission, Autumn 2021 Forecast for the European Economy

12 Eurostat, Euro Indicators, Euro area unemployment at 7% in Dec 2021, 16/2022, Feb 1

set to average 2% in 2021 in the EU for the first time in a decade, but had already reached 5.3% year-on-year in December. The Ukraine war will add to the rise in inflation. The ECB has raised its inflation forecast from 3.2% to 5.1% for 2022. Whether the increase in inflation is a transitory phenomenon or a shift of a longer duration is at present hotly debated by those who press for EU policy tightening and those who are sceptical about it. The fear that a wage-price spiral is about to set in, shaping expectations and leading to inflationary pressure is unfounded in view of the subdued upward change in wages. Furthermore, the pursuit of a low inflation policy risks abruptly interrupting the recovery, as was the case in the past and especially in the aftermath of the global financial crisis.

The combination of low wage increases and employment trends cuts into households' income, resulting in significant income **inequalities**. In 2020, the income earned by the top quintile of the population was five times that of the income earned by the bottom quintile in the EU on average (*Table 1, Col.6*). This ratio was even greater in nine member states. Furthermore, beyond being a social phenomenon, income inequality also bears on the macroeconomic outlook of the EU member states through households' spending and saving patterns.

Given the intensity of the health crisis and the economic fallout that succeeded the lockdowns and other curbs imposed by governments, economic activity shrank significantly. Following the activation of the general escape clause of the Stability and Growth Pact, the statutory **fiscal deficit** of 3% of GDP was exceeded by all member states with the exception of Denmark and Luxembourg (*Table 1, Col. 7*). **Public debt** also spiked across all EU member states, indeed the 60% of GDP limit was exceeded by most of them (*Table 1, Col. 8*).

Overall, the year 2021 marked a turn-around from the recession into which the EU economy was plunged by the pandemic. However, the recovery remains weak, but also uneven across the EU member states due not only to their pre-existing structural differences, but also to the different containment measures employed by governments and the timing and extent of policy support measures. Furthermore, the recovery remains fragile in view of the multiple risks ahead, including supply disruptions, rising energy prices, an over-extended financial sector, climate shocks, trade tensions and of course the uncertainly regarding the evolution of the Covid-19 pandemic. These risks are now significantly amplified by the Ukraine war. Two years after the onset of the pandemic, the trust of people in national and European institutions has decreased considerably putting social cohesion at risk[13]. Even the IMF is worrying about the 'political stress, triggered by the legacies of the pandemic' (IMF:5)[14]. Overcoming the health crisis and its associated economic and social implications thus requires above all a holistic approach to support the economy and society at large. This is all the more so, given the political instability caused by the Russian invasion of Ukraine.

Policy responses

The shock of the pandemic revealed many structural weaknesses in the EU, including inadequate health care systems, gaps in social safety nets, weak systems of public administration, lack of digital skills, digital access and infrastructure and low quality jobs; all these factors have reinforced inequality dynamics and the sluggish growth of productivity. The policy responses at both national and EU level need to be considered.

---

[13] Eurofound, 2021, "Living, working and Covid-19 (Update April 2021): Mental health and trust decline across EU as pandemic enters another year"

[14] IMF, 2021, Regional Economic Outlook, Europe, October

In 2021, it was the national **fiscal policy** responses that provided the bulk of the support measures. In particular, the total fiscal response of EU member states – including automatic stabilisers – is estimated at approximately 19% of GDP over the period 2020-2022[15]. In addition, EU member states provided liquidity support amounting to nearly 20% of GDP mostly in the form of public guarantees and tax deferrals.

At the EU level, further to the temporary suspension of the SGP, the so-called "Next Generation EU" (NGEU) plan was decided upon after long negotiations, which took up the better part of 2020. This amounts to €750 billion (2018 prices), which is approximately equal to 5% of EU GDP, to be financed by borrowing on the bond market by the European Commission on behalf of the EU. It is of a short duration, as legal commitments under the NGEU must be made by December 2023 and related payments by December 2026.

At the heart of NGEU is the "Recovery and Resilience Facility" (RRF), which came into effect in February 2021. This amounts to €672.5 billion (2018 prices), to be mobilised by way of loans (53.5%) and grants (46.5%)[16]. To be included, member states must submit national recovery plans for the years 2021-2023, addressing the recommendations made as part of the European Semester, thus introducing conditionalities to the recovery effort. Furthermore, such plans need to take into account the RRF targets of 37% expenditure for climate investments and 20% for digital transmission.

Overall, the fiscal policy response of the EU at both the national and the European level has exposed the TINA doctrine – There is No Alternative – of the past few decades politically, i.e., as a neoliberal construct with dire consequences for the greater part of the population; accordingly, TINA has been put aside under the pressure of the pandemic.

In particular, the NGEU project marks two departures from past practice. Namely, providing grants to member states in need, and borrowing on the capital market. Although the small scale, the limited duration of the NGEU and the RRF, along with the conditionalities inherent in the European Semester, constitute serious constraints, the qualitative changes introduced under the pressure of the pandemic crisis open up space for public debate on issues that social movements, trade unions and initiatives such as the EuroMemo Group have long been advocating. Such issues include the need to increase the size of the EU budget, the importance of transfer payments, the issuance of 'safe' assets such as EU bonds, which enjoy a triple-A rating.

At the EU level, **monetary policy** remained accommodative throughout 2021. At its meeting in October, the ECB confirmed its resolve to continue purchasing assets under the Pandemic Emergency Purchase Programme (PEPP) with a total envelope of €1,850 billion until 'at least the end of March 2022, and, in any case, until it judges that the coronavirus crisis phase is over'[17]. Further the key ECB interest rates remain unchanged[18], while net purchases under the Asset Purchase Programme continue at a monthly pace of €20 billion. These will run 'for as long as necessary to reinforce the accommodative impact of policy rates' (ECB, ibid).

It is worth noting that until recently the ECB diverged from other major central banks, such as the US Federal Reserve and the Bank of England, which responded to the recent increase in inflation

[15] European Commission, 2021, The EU economy after Covid-19: Implications for economic governance, Oct. 10.

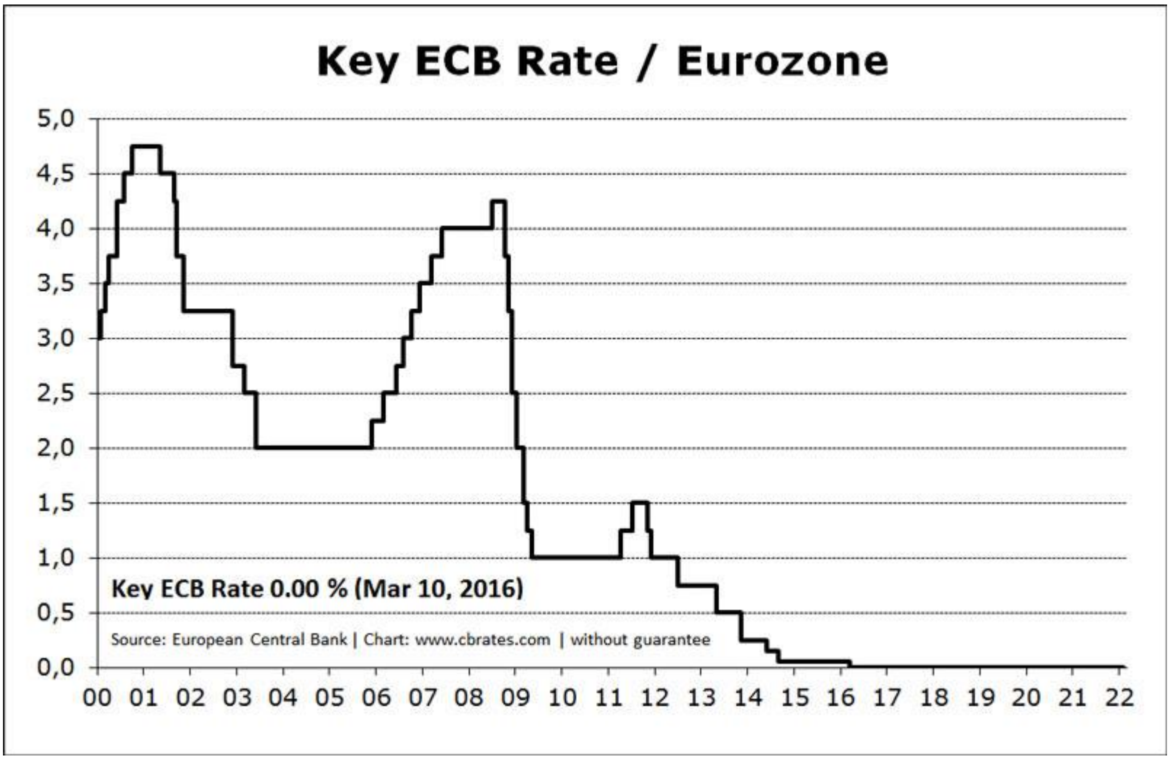
[16] The remaining €77.5 bn is distributed amongst certain individual programmes; namely, ReactEU (€47.5bn), Horizon Europe (€5bn), InvestEU (€5.5bn), Rural Development (€7.5bn), Just Transition Fund (€10bn) and RescEU (€1.9bn).

[17] ECB, 2021, Monetary Policy Decisions, Press Release, Oct. 28

[18] At 0% for the main refinancing operations, 0,25% for the marginal lending facility and -0,50% for the deposit facility.

by tightening policy[19]. This has stirred a controversy amongst those who argue that the ECB should reverse its accommodative stance as inflation is likely to remain above the Bank's target for longer than expected, and those that argue against a premature tightening of policy. What this, essentially theatrical, discourse conceals, however, is the increasing powerlessness of the ECB and other central bank institutions to restore a degree of equilibrium in their macro-political strategies. This is demonstrated, by the historically unprecedented pattern of flatline interest rates since the financial crisis of 2008, shown in the graph below[20].

Graph 1: ECB Rate, 2000 - 2022



Source www.cbrates.com

Equally dramatic has been the acceleration of asset purchases by the ECB and the almost 6-fold increase in its balance sheet (2007: €1.5 trillion; 2022: €8.6 trillion). Despite the extraordinary extent of this "accommodative" stance over 12 years, the ECB has failed to achieve its reflationary purpose, with average growth in the Eurozone of just 1.9% between 2010 and 2019 or 0.7% if one includes the severe recession of 2020. While real investment has not returned to 2007 levels, the release of € trillions into European and global financial markets has resulted in a damaging misallocation of capital, intensifying wealth inequalities and increasing the difficulties for public authorities to meet today's urgent challenges: ensuring the socio-ecological transformation favoured by the EuroMemo Group and flagged as a key ambition of the EU's own European Green Deal[21].

---

19 The BoE raised its main policy rate to 0.5% on 3/2/2022, less than two months after increasing it to 0.25%, while investors are pricing in five rate rises by the Fed in 2022.

20 Leaman, J. 2021, "Central Bankism: fashionable but destructive", Roundtable: Monetary Policy in the EU, Just Money, Feb 26; available from https://justmoney.org/the-hegemony-of-central-bankism-and-authoritarian-neoliberalism-as-obstacles-to-human-progress-and-survival/

21 Leaman, J., 2021 (ibid)

At the meeting of the ECB Governing Council on 10/3/2022, the hawkish approach won the day, as the ECB's monetary policy stance reversed course. The fear of inflation dominated, prevailing over other concerns, such as the war, uncertainty and growth. Thus by June 2022, the Asset Purchase Programme, the Pandemic Emergency Purchase Programme, as well as the special refinancing operations will end. On the other hand, the key ECB interest rates remain unchanged[22].

Overall, both in the fiscal and in the monetary spheres, the EU policy has responded to the crisis by diverging from its institutional dogmas even if temporarily, albeit to a limited extent and conditionally. It is against this background that social actors need to take action to prevent the return of predominantly neoliberal ideas, policies and practices of the past.

The need for a paradigm shift

In February 2020, the European Commission initiated the review of EU economic governance as set out in the Stability and Growth Pact (SGP) and its extensive revisions following the financial and the euro crises. Due to the pandemic, the process was frozen until October 2021, when it was relaunched. According to the Commission, the aim of the review is to simplify the rules and to make them more comprehensible and transparent, as well as to facilitate communication and to enhance national ownership and better enforcement.

Indeed, the SGP was declared 'stupid' as early as 2002 by Romano Prodi, the then Commission President, while episodes such as the 2002/3 joint decision involving France and Germany, which simply ignored the Pact, or the 2016 decisions on zero fines for Portugal and Spain underlined its ineffectiveness. Last but not least, the pandemic made clear its irrelevance at a critical moment. Understandable as the Commission's initiative to review the economic governance of the Union may be, it seeks to improve the existing model, which has prevailed for more than 20 years and which has been proven to be largely irrelevant. Instead, what is needed is a shift in paradigm recognizing the fact that social, economic and ecological issues are intrinsically interrelated and that market-based solutions do more harm than good.

Such a paradigm should include both economic and socio-ecological perspectives on an equal footing, instead of the current dominance of economic considerations over all other spheres[23]. Further, it should combine fiscal and monetary policy considerations within a single framework, as opposed to the institutionally established separation of the two in the EU at present. Generally, a holistic approach is needed, the value of which has been made abundantly clear by the Covid-19 crisis and its repercussions across all spheres. Such an approach has to be based on the revitalization of the economic role of the state, allowing the pursuit of economic and socio-ecological goals. More specifically, certain broad directions in which the suggested EU economic governance paradigm should move, and include the following:

- *Integrating the social in the economic* – The European Pillar of Social Rights and its Action Plan, endorsed by the Porto Declaration on 7 May 2021 should be integrated in the architecture of the economic governance of the EU. Further, this should be based on full employment with high quality jobs and just transition to a socially and environmentally sustainable economy, while non-GDP indicators should be employed to measure the well-being of societies. The

[22] Combined monetary policy decisions and statement, 10 March 2022; https://www.ecb.europa.eu/press/pressconf/shared/pdf/ecb.ds220310~c4c5a52570.en.pdf

[23] In the academic field also, more work needs to be done regarding the combination of macro analysis and socioecological transformation, such that the two can be blended into a single approach. Macro focus on growth tends to ignore negative externalities, while solely focusing on socio-ecological developments may produce unintended, undesirable results.

specific socio-economic and environmental challenges faced by different member states must be taken into account. The one-size-fits-all notion should be abandoned.

- *Reinstating public services* – After years of budgetary restrictions, public services have been weakened, as well as shrunk in size. The pandemic brought to the fore the significance of a well-functioning and effective public services sector. The lessons of the pandemic need to be learnt and the role of public services be enhanced in the economy, linking it to the needs of society.
- *Fiscal and monetary policy should be coordinated so that money and credit are re-embedded in public policy pursuits*. This is especially the case, given the present climate and health challenges and the need for greatly increased public investment. Thus, a coordinated system of credit allocation and budgetary financing is necessary, encompassing the issuance of bonds by the European Commission on behalf of the EU. As has been pointed out, the reconstruction effort of many post-war advanced economies was based on such a model of governance[24].
- *The new governance architecture must be made fairer and more sustainable.* The EU's difficulties in achieving a common approach to *taxation* remain a critical obstacle to building a strong foundation. After all, taxation is of great importance in the context of democratic legitimation of macro-policy. While the EU has accepted the OECD's recommendation of a 15% minimum rate for Corporation Tax, it has done nothing to counteract the widespread practices of tax avoidance and money-laundering. The agreement by ECOFIN, on October 5th 2021, to reduce the number of blacklisted "tax havens" to just nine, flies in the face of the evidence of the Pandora Papers[25] published shortly before the meeting.
- *The sovereign debt accumulated as a response to the Covid-19 crisis must be dealt with at the European level*. Some of the largest eurozone economies, such as Italy, Spain and France, are experiencing especially large debt increases, as are countries entering the crisis with an already high rate of public debt, such as Greece. In all cases, the risk of a bond market panic cannot be discarded. To head off such a risk, the ECB needs to buy government bonds in primary markets. In this way, the threat of a bondholder panic is averted, while there is no permanent legacy of unsustainable levels of government debt[26].
- *The entire policy formulation and implementation process of the EU needs to be democratized*. In particular, the European Parliament should participate in the decision-making process regarding the setting of macro-objectives and policies, overseeing their implementation and making the European Commission and the ECB accountable for the results achieved. The role of social actors and social partners also needs to be taken into account in the new paradigm.

The above proposals outline the main features of an alternative paradigm; it is an indicative rather than an exhaustive list. Strong opposition to such demands may be expected from the vested interests in the current system. Hence, it is imperative that public discourse is encouraged and broadened to include alternative ideas and proposals, and that social actors, including trade unions, social movements and initiatives such as the EuroMemo Group, mobilize in this respect. The Covid-19 crisis presents an opportunity not just to 'build better', but to 'build differently' to past policies and practices.

---

[24] Braun, B, Gabor, D and B. Lemoine, 2020, 'Enlarging the ECB mandate for the common good and the planet', Social Europe, June 8.

[25] https://www.icij.org/investigations/pandora-papers/. See also previous revelations of the ICIJ in the Panama Papers, the Paradise Papers and the Lux-Leaks

[26] De Grauwe, P, 'The need for monetary financing of corona budget deficits', LSE Forum; http://eprints.lese.ac.uk/105098

3. Social and employment policies

Overview of the employment and social impact of the pandemic crisis

The Covid-19 crisis has, until now, had quite different consequences for European labour markets and workers compared with the global financial crisis. During the latter, namely between 2008 and 2013, GDP had declined by 1.2% and employment by 3.3% in the EU. The 5.9% fall in GDP and the 1.4% reduction in employment in 2020 point to a much smaller employment effect of the Covid-19 crisis, which can be ascribed to state intervention. The adjustment mechanisms of European firms mainly consisted of temporary lay-offs or reduced hours of work rather than dismissals, because governments heavily subsidised the massive use of job retention schemes.

The reduction in actual hours worked was huge, especially during the initial lockdown episode, as a result of the spread of furlough and short-time working schemes. These covered 18.4% of all EU employees at the peak of the first wave of the pandemic.[27] Job retention schemes and the rise in the inactive population due to discouragement of the unemployed to look for jobs during the lockdown months, jointly account for the rather small and temporary rise in the unemployment rate. The latter peaked at 7.8% in August 2020, up from 6.7% in December 2019, but started a downward trend since then, arriving at 6.2% in January 2021. The youth unemployment rate saw a more important upsurge from 15.2% in December 2019 to 19% in August 2020, since young people were disproportionately hit by the pandemic crisis. Many of them were working in hard-hit sectors with precarious contracts and lost their jobs while those finishing education struggled in vain to find jobs in a context of limited vacancies. In January 2022, the youth unemployment rate had fallen to 14%, below its pre-pandemic level. Women have also been among the greatest victims of Covid-19 crisis, having assumed the largest share of the additional burden in unpaid work and suffered increased work-family life conflicts and health risks during the lockdowns, as teleworkers or 'essential' workers. Yet, contrary to forecasts, female employment in the EU as a whole declined less than male employment in 2020 and the first quarter of 2021 and increased more during the rebound of the economies in the second and third quarters of 2021.

Reduced hours of work have entailed smaller or greater income losses for wage earners in the EU member states, their size depending on the scale of the adopted wage compensation scheme. Eurostat has estimated the loss of median employment income at EU level at -7.2% in 2020[28], with large variations among countries and unequal effects on vulnerable groups of workers i.e., youth, immigrants, the low educated, the individual self-employed, temporary, part-time, platform- and informal workers. To prevent impoverishment, on top of job retention schemes, most EU countries have provided income support to the self-employed and non-standard workers and extended unemployment benefits. At EU level, in 2020, job retention schemes and tax reductions have compensated 70-85% of employment income losses across income quintiles[29] while most EU Member States managed to shield the most vulnerable groups. The median disposable income for the whole population increased slightly (+0.7%), more so in the lower income quintiles, thus limiting income inequality; at the same time, at-risk-of-poverty rate remained stable, albeit with a

[27] European Commission (2020*), Labour Market and Wage Developments. Annual Review 2020*, Luxembourg: Publications Office of the European Union, Table 3.1, p. 82. https://ec.europa.eu/social/main.jsp?langId=en&catId=791&furtherNews=yes&newsId=9873

[28] Eurostat (2021), Early estimates of income inequalities during the 2020 pandemic, *Statistics Explained* 27-9-2021. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Early_estimates_of_income_inequalities_during_the_2020_pandemic&oldid=532435#Key_findings

[29] Ibid.

high degree of heterogeneity across countries[30]. With regard to median disposable income, in about half the Member States an increase was estimated for 2020 and large decreases in Cyprus, Italy, Belgium and Greece, while for the remaining Member States, the median income was estimated to remain stable compared with 2019[31].

Industrial relations suffered in the emergency context of the lockdowns and other measures to counter the spread of Covid-19. The marginalisation of collective bargaining and social dialogue, the suspension of labour rights for workers who continued to work in workplaces that remained open, heightened employment- and financial insecurity of workers and households, especially among the most vulnerable, have diminished the power of workers and unions to prevent the erosion of labour rights and employment relations, mostly in countries with low union density and a low coverage by collective agreements[32].

Policy developments at EU level: Contradictions with a view to the post-pandemic world

Employment and social policy developments at the EU level during the COVID-19-19 crisis are divided between a) the emergency measures taken by EU institutions at the outbreak of the pandemic to enable the management of the crisis at the national level, as well as financial assistance to Member States to fund schemes that ensure a smooth transition to recovery; b) the strategic decisions on the longer-term direction of EU employment- and social policies designed to redefine the social dimension of European integration and its significance for the 'green and digital transitions', delineated as the EU's major challenges in the post-pandemic world.

The EU emergency measures in the fields of employment and social policies mainly include the SURE Initiative (€100 bn, April 2020) which provided assistance to member states in the form of low interest loans for the funding of job retention schemes and exceptional income support for the self-employed and small business owners. The React-EU Initiative (€51 bn, December 2020) under the NGEU Recovery Plan took over from SURE the financial assistance to Member States in the period 2021-2023, for the funding of the above schemes/measures.

From a strategic and political economy perspective, the following were the most important employment and social policy developments at EU level in 2020-2021 and at the beginning of 2022:

- The adoption of new Employment Policy Guidelines for the next decade;
- The European Commission's proposal for a Directive on adequate minimum wages;
- The adoption of an Action Plan for the implementation of the European Pillar of Social Rights (EPSR) together with the new headline quantitative targets for employment, skills-acquisition and poverty-reduction, to be achieved by the EU by 2030;
- The creation of a Just Transition Fund (€17.5 bn, December 2020) as the main financial instrument of the Just Transition Mechanism which is part of the European Green Deal:
- The European Commission's proposal for a Directive on combating violence against women and domestic violence.

[30] Ibid.

[31] Ibid.

[32] Maria Karamessini (2021), The Covid-19 Crisis and Socio-Economic Disruption in Europe: Threats and Challenges for Labour, in W. Baier, E. Canepa and H. Golemis eds., *2021 transform! europe Yearbook: Capitalism's Deadly* Threat, London: The Merlin Press, pp. 153-184.

The new Employment Policy Guidelines, adopted in October 2020, have not included any innovations. They simply repeat the two main recipe-pillars of the European Employment Strategy in the past decades: flexicurity and investment in education and training. Ironically, issued at the start of the second wave of the pandemic, in a context in which a substantial percentage of employees was feeling considerable insecurity over retaining their jobs, the new Guidelines urged governments to adopt *flexicurity* measures, further attacking the employment protection of permanent employees, making dismissals easier and less costly for firms. At the same time, the guidelines called on governments to improve the protection of non-standard workers, whose proliferation in the European labour markets the European Employment Strategy itself and EU institutions have relentlessly promoted since the 1990s. Concerning the second main pillar, namely *large investments in skills*, the new Guidelines stressed adult training, to enhance the productivity and competitiveness of European firms and to prevent/reduce the inequalities generated by the green and digital transitions. The well-known contradictions of the European Employment Strategy from its very beginnings – in its role of simultaneously eroding labour and social rights and enhancing others in compensation – have now resurfaced in the new Employment Policy Guidelines during the pandemic.

Clearly positive but still inadequate is the European Commission's proposal for a *Directive on Adequate Minimum Wages*, which also includes the obligation of member states to actively promote collective bargaining and to monitor progress. The ETUC[33] actively supports it but is proposing amendments, especially the need for a binding 'decency'-threshold at 60% of the gross national median or 50% of the gross national average wage, below which minimum wages should not fall regardless of how they are set, while a group of well-known progressive European economists have welcomed the Directive as a 'paradigm shift' in the European Commission's approach and supported higher minimum wages and stronger collective bargaining as an essential component of a strong, fair and sustainable recovery from the pandemic[34]. Given that the European Parliament has called for improvements to the Commission's proposal, the trialogue currently taking place between the European Parliament, the European Commission and the Council will certainly introduce positive amendments but also refuse a binding 'decency' threshold.

Similarly positive is the European Commission's proposal for a Directive on combating violence against women and domestic violence, which is the first legal instrument in this field at EU level. It sets minimum standards for Member States in the areas of prevention, protection, access to justice and support for victims/survivors, coordination and cooperation between authorities.

Last but not least, we have to underline the important implications for labour and social rights of the governance of the new Recovery and Resilience Facility (RRF) under the New Generation EU recovery instrument[35]. Having access to the resources of the RRF, presupposes that the Member States have implemented „structural“ labour and product market reforms which correspond to „ex-ante conditionalities“ included in the National Recovery and Resilience Plan, agreed in advance between governments and the European Commission. The fulfilment of „ex-ante conditionalities“ are a disciplinary instrument „invented“ by European institutions and the IMF during the 2009-11 public debt crisis; they sought to exert pressure on eurozone Member States that received financial assistance through the EFSF/ESM to comply with their commitments under

---

33 https://www.etuc.org/sites/default/files/page/file/2021-02/ETUC%20calls%20for%20improvements%20to%20the%20Directive%20on%20adequate%20minimum%20wages%20to%20achieve%20fair%20minimum%20wages%20and%20collective%20bargaining.pdf

34 https://www.etuc.org/sites/default/files/press-release/file/2021-05/Min%20wages%20op%20ed%20EN.pdf

35 Roland Erne, keynote speech at the opening plenary of the *27th Annual Conference on Alternative Economic Policy in Europe*, September 2021 (online).

Economic Adjustment Programmes, and are now extended to all EU Member States. This development has reinforced the power of the European Commission to impose further neoliberal reforms on unwilling governments, and that of neoliberal governments to impose such reforms on their people under the pretext of EU pressure. This remains relevant also in the broader context of the EU's social policy trajectory. The European Social Fund (ESF) has been revised into the ESF+, that establishes a direct link between its objectives and the European Pillar of Social Rights (EPSR). Whereas the ESF+ outlines stakeholder inclusion in the discussion and setting of specific priorities, overall policy-coordination remains under the European Semester. [36] In fact, member states are now required to concentrate ESF+ resources to address issues identified in the country-specific recommendations, potentially further limiting the latitude of member state for pursuing progressive policies. Solidarity and a fundamental commitment to care and well-being are not part of this agenda.

While the commitments of the EPSR Action Plan are a step in the right direction, contradictions between a competitive, growth-based economy and a social model that is supposed to prioritise inclusion, well-being and solidarity, remain at the core of the EU's social policy ambitions. At the Porto Social Summit in May 2021, the tripartite position paper of the *Porto Social Commitment* formulated the ambition of '*an inclusive, sustainable, just and jobs-rich recovery, based on a competitive economy that leaves no one behind'.*[37] Here, we focus particularly on the just transition aspect and poverty reduction.

Just transition within the EGD is a core dimension that cuts across employment and social policies, based on policy tools to mitigate the impact of the transition towards a climate-neutral economy on employment or income. The EPSR Action Plan does not provide a comprehensive focus on just transition mechanisms or broader commitments to the green transition, beyond references and commitments to sustainable economic development, i.e., growth, flanked by social inclusion.[38] In the context of the EGD, this implies an ecological modernisation perspective involving environmental sustainability measures, technology-utilisation, social reform and labour market regulation achieved through social dialogue. Social power relations remain unaltered.[39] As case studies of sectoral 'just transition' programmes show, social partnership without meaningful input from workers excludes alternative visions for eco-social transformation.[40] In the EGD frame, just transition is generally understood as a combination of temporally limited, mainly cash-transfer safety nets, and re-education and training programmes for groups of workers in specific sectors that are most directly affected. It is based on short-term mitigation to legitimise the restructuring of economic sectors to retain competitiveness. Trade unions have to balance sustainability and production objectives within the social partner model at EU level, within a context where support for collective agreements is being challenged. European unions are crucial actors, contributing to policy formation and shaping the just transition. As it stands, however, the vision of a just transition is an abstraction of a particular set of concrete social relations, in particular the European social partnership model, excluding others involved in production, such as migrants, and premised on a dynamic of capitalist development which has given rise to climate change in the first place.[41]

---

36 https://ec.europa.eu/info/sites/default/files/economy-finance/economic_governance_review-communication.pdf

37 Porto Social Commitment, 7 May 2021, available at https://www.2021portugal.eu/media/icfksbgy/porto-social-commitment.pdf

38 Jørn Janssen (2021) ‚The European Pillar of Social Rights' workshop contribution, EuroMemo workshop 2021

39 Linda Clarke and Melahat Sahin-Dikmen (2021) 'Just Transition' as a European vision: from global union strategies to beet sugar bio-economy and sustainable forestry' Workshop contribution, EuroMemo workshop 2021.

40 Ibid.

41 Ibid.

Poverty reduction is one of the key goals formulated in the social policy programmes at EU level, including the 2021 Porto declaration, but it appears that, if anything, the EU has so far fallen short of its ambitions. As the EAPN argues in response to Ursula von der Leyen's *State of the Union* address, which prominently addressed social policy ambitions, a reinforced political focus on poverty in Europe is indeed needed.[42] The current target of reducing the number of people at risk of poverty or social exclusion by at least 15 million does not meet the commitment of the Sustainable Development Goals, and has been criticised by organisations focusing, for example, on old-age or child poverty.[43] While the European Child Guarantee has been welcomed as an EU achievement, poverty reduction remains an elusive policy objective. In the context of the EGD, and rapidly increasing energy prices, energy poverty has become a core policy issue across the EU. Green transition measures have potentially regressive distributional effects, negatively impacting people with lower income levels.[44] The Commission has acknowledged the potential socioeconomic impact of these measures, e.g. the revised EU Emissions Trading System (ETS), and proposes a Social Climate Fund to address these as part of the ‚Fit for 55' package. Critical questions have been raised as to whether the suggested level of funding is sufficient, compared to anticipated increases in energy costs, and alternative renovation programmes for low-income households.[45] Moreover, the Social Climate Fund reproduces the same pattern of social flanking measures to market-based green transition programmes.

Alternative proposals

There are many compelling additional discussions and recommendations to the EU's employment and social policy programmes. Of utmost priority, especially with energy poverty spreading over Europe, is the adoption by the European Council of the Directive on Adequate Minimum Wage with the amendments proposed by the ETUC and a stronger emphasis on the active promotion of collective bargaining by governments, which would allow a substantial rise in wages especially at the lower end of the wage distribution, a prerequisite for combating in-work poverty and ensuring decent living standards for wage earners and their families.

The European Social Policy Network offers a range of relevant suggestions, for instance inviting the Commission to deliver on its commitment of an ambitious EU Council Recommendation on minimum income'.[46] Discussions about Minimum Income Schemes are important. They remain too narrow, though, if they are not consistently and with a long-term perspective linked to a comprehensive focus on a just transition. The European Economic and Social Committee has also published an important catalogue of suggestions towards a more ambitious EU social agenda, arguing the need to adapt the EU Stability and Growth Pact to account for sustainability and wellbeing, reflecting the proper alignment of the EU's governance mechanisms with its social and ecological goals, while respecting fiscal responsibility.[47] This suggestion, reasonable as it might sound, shows the straightjacket in which progressive social policy is caught, against the broader contradictions of the subordination of social policy and inclusion under a green growth transition to safeguard economic competitiveness.

[42] https://www.eapn.eu/wp-content/uploads/2021/09/eapn-EAPN-Statement-SOTEU2021-5224.pdf

[43] https://www.age-platform.eu/special-briefing/social-rights-all-generations-time-deliver-european-pillar-social-rights; https://www.eurochild.org/uploads/2021/04/European-Pillar-of-Social-Rights-Action-Plan-Eurochild-Reaction.pdf

[44] https://www.eurofound.europa.eu/publications/report/2021/distributional-impacts-of-climate-policies-in-europe

[45] https://www.feantsa.org/en/press-release/2021/07/16/fit-for-55-package-a-unique-opportunity-to-achieve-climate-goals-while-tackling-energy-poverty-and-unfit-housing

[46] https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8418&furtherPubs=yes

[47] EESC (2019) 'The sustainable economy we need' (own-initiative opinion) EESC 2019/02316.

Rather than merely pushing for reforms and raising ambition levels in existing social policy programmes, we need more radical policy measures that contribute to (at least partial) changes in the fundamental provision of social security, such as worktime-reduction or a public job-guarantee programme.[48] Many of these measures have been discussed in previous EuroMemo publications; they need to be considered as serious policy options now, more than ever. Worktime reduction (per week, per month or per annum) is at the heart of the just transition, linking labour concerns with an ecological dimension, as it is potentially associated with a "triple dividend": lowering unemployment, increasing life-satisfaction and lessening environmental degradation.[49] Worktime reduction can reduce unemployment, assuming that a more equal distribution of aggregate working hours is arranged, namely work-share. A localised distribution of work could go hand in hand with a just transition approach that is based on a bottom-up radical approach shaped by local unions.[50] Increased individual free time can be allocated to family, voluntary work or self-development, which would increase life-satisfaction. Worktime-reduction can have a strong impact on lessening anthropogenic environmental degradation. Yet this is conditional on the change in production and consumption patterns as well as on mobility and income compensation.

As part of its recovery strategy, in 2020 the Commission announced the EU Job Guarantee Programme. This is reminiscent, if only in name rather than actual scope and intention, of the public job guarantee (cf. Minsky), where the state acts as the 'employer of last resort'; providing employment for all those who are prepared to work at the basic public sector wage rate in socially or ecologically oriented local projects. The proponents of the job guarantee programme highlight its benefits: poverty-reduction, maintaining skills, individual and societal psychological health, socially and ecologically beneficial production, low unemployment leading to stronger bargaining power of the workforce, reduced inequalities, as well as a buffer to counteract price and demand instabilities. A job guarantee would set minimum labour standards and wage levels and hence improve labour standards in the private sector.[51] While recognising the challenges inherent in such a post-Keynesian policy measure, it constitutes an important alternative to the existing push for active labour market policies.

As long as social and employment policies in the EU, even more so now in the context of the EGD, are seen as flanking measures to safeguard minimum social cohesion and legitimacy of ecological modernisation aimed at retaining and increasing competitiveness of the European economy, even the most well-meaning and ambitious reform will not fundamentally alter the social power relations that leave millions of people across Europe at risk of poverty. Instead, social policies should be the headline target, based on a solidaristic approach that supports labour rights and collective bargaining; that respects local and communal levels of participation; and offers a strong vision of a truly socio-ecological transition in Europe. This requires a growth strategy that is centred on 'human needs', backed up by a distributional strategy to deliver on people's needs to ensure the well-being of current and future generations. We need to build on the current generation of the young and not-so-young who have put sustainability on the political agenda, and work towards a sustainable social policy agenda in order to create a better sustainable future.[52]

---

48 Zeynep Nettkoven (2021) ‚Social policy in the beyond-growth debate: Positions of the German labour movement', contribution to EuroMemo workshop 2021.

49 Ibid, p. 4

50 Clarke and Sahin-Dikmen, p. 15

51 Nettkoven, p. 10

52 Mahmood Messkoub (2021) 'Sustainability and social policy nexus', *ISS Working Paper* 685 [https://repub.eur.nl/pub/135641] to be published as Messkoub, M. (2022) 'Sustainability and Social Policy Nexus' in Karagiannis, N. and King, J. E. (eds) (2022) *Visions and Strategies for a Sustainable Economy.* London, New York, Shanghai: Palgrave-Macmillan publishers. Chapter 8.

4. The war in Ukraine and the role of the EU

Russia's invasion of Ukraine – in clear violation of international law, but not without context

In February 2022, the long-festering conflict between Russia and Ukraine escalated into an all-out war. A few days later, Russia announced that it is putting its nuclear deterrent on high alert. This is especially worrying given the recently adopted doctrine that Russia will use nuclear weapons in response to a conventional weapon attack that threatens Russia's existence. The world has not been this close to thermo-nuclear war since the Cuban Missile Crisis in 1962. The post-Cold War European security arrangements have clearly failed. What are the immediate, proximate, and deeper causes for this failure, and what should be done?

The most immediate cause was the decision of the Russian regime to invade Ukraine. This decision is causing immense human suffering while it drastically diminishes the room for negotiation. It was also a high-risk move likely to fail in various senses of the term. It is worth reminding ourselves that Russia's population is less than half of that of the Soviet Union (in the context where the world population has been growing very fast) and, moreover, that Russia itself lost some 45% of its GDP between 1989-1998. Privatization and "shock therapy" resulted in rapid deindustrialization and a 40% decline in GDP, involving a vast jump in inequality and the spread of mass poverty as well as periods of hyperinflation. Since the late-1990s, Russia's GDP in dollar terms has been comparable to that of the growing economy of Canada. In Purchasing Power Parity (PPP) terms it is bigger but still smaller than Germany and comparable to France. Russia spends 4.3% of its GDP on military expenditure, compared with 3.7% for the USA and 2% for France. In absolute PPP terms, the combined military spending of NATO is perhaps ten times that of Russia.

In the background of deeper causes, there is something that could be called a Listian concern with Russia's place in the international division of labour, while the US grand strategy since the 1990s and early 2000s has included a commitment to prevent the emergence of any military competitor to American global dominance. Russia has sought recognition of equality. The Russian idea is that a strong state is required to make the best use of Russia's natural resources, to further develop space and military technologies, and to diversify the industrial base. The ensuing conflict has focussed a lot on Ukraine. The Russian war aims are not entirely clear, but even a swift and successful campaign for 'regime change' in Ukraine would have needed to be followed up with a draining major effort to keep the country in line with Russian preferences. Ukraine's stiff resistance indicates that a swift 'regime change' is unlikely and that the war will also be costly for Russia – and not only economically.

The Russian decision to invade Ukraine violates established moral and legal norms, yet it was not without context. The overall context conforms strikingly well to a classic security dilemma: When A does something for defensive purposes, this is by necessity treated as a threat by B, which takes defensive action that is treated as an increased threat by A in what becomes a ladder of progressive escalation.[53] It is certainly understandable that former Soviet and East Bloc states seek Article 5 guarantees granted through NATO membership. This has indeed been vindicated by Russia's invasion of Ukraine, which is contrary to the UN Charter and indeed to the 1994 OSCE Budapest Memorandum on Security Assurances, where Russia recognised the territorial integrity of Ukraine, including Ukrainian sovereignty of Crimea in exchange for Ukraine giving up its Soviet-legacy stockpile of nuclear weapons, At the time this was the third largest in the world. At the same time, NATO expansion into eastern Europe can be seen as a security threat to Russia and in

[53] John Herz 'Idealist Internationalism and the Security Dilemma,' *World Politics* 2 (2) (1950), pp. 171-201;

breach of what it considers to be assurances received at the end of the Cold War, such as those given by US President George H.W. Bush and Secretary of State James Baker in 1989.[54] Since the wars in Kosovo and Iraq, and especially since the 'colour revolutions', Russia has been concerned about the US and Western strategy of destabilizing adversaries, including themselves.[55] This has led to a process of securitization.[56] By March 2022, the adversaries have stepped alarmingly high up the escalation ladder. The Russian decision to put its nuclear deterrent on high alert responded, in the one area where it still has relative strength, to western economic sanctions, and announcements of packages of military aid to Ukraine. At the same time, the vast literature on economic sanctions indicates that these are unlikely to have the desired effect and at worst could contribute to the further escalation of the crisis.[57] Moreover, there are weak links in the sanction packages enabling the flow of Russian oil and gas to Europe's hydrocarbon-dependent economies at a time when oil prices are soaring. Barring SWIFT payments notwithstanding, trade can still be financed through intermediaries.

Climbing down the escalation-ladder as the urgent political priority

In response to the increased threat of thermo-nuclear war, the most immediate task must be to reduce tensions through a descendance on the escalation-ladder. The heroic national defence of Ukraine against the invasion, the near-unanimous outcry against the invasion in the West, and incredibly brave anti-war opposition in Russia, may offer some slim hope in a situation where there seems to be little scope for compromise. On the other hand, some of the anti-Russian actions could also contribute to the further escalation of the conflict. What is clear is that what appear to be Russian pronouncements of ambitions to restore the borders of the 1922 Russian Empire are outrageous and unrealistic (analogical to the British or French nostalgia for the empire). Most wars end in a peace agreement. What is especially promising is that, at the time of writing, representatives of Ukraine and Russia are meeting for negotiations. A favourable outcome would be if these were result in a ceasefire and a withdrawal of Russian troops from Ukrainian territory. In return, assurances should be made of Ukrainian neutrality, mutually guaranteed by Russia and the USA, and the implementation of the Minsk agreement. A similar guarantee by Belarus and a restatement by Finland and Sweden to remain non-aligned would further add to de-escalation.

In a broader perspective and as part of a search for deeper causes, the question arises as to how we have arrived at this point after the hopes expressed at the end of the Cold War? Why are we in a situation where security dilemmas prevail? What is the role of the EU in all these processes? The EU has been trying to impose specific interests and normative purposes as universally applicable. It has defined these purposes in terms of two ideas conceived as mechanisms. These two mechanisms are held to generate pathways out of security dilemmas. European integration is usually held to be exemplary of these mechanisms at work, but they have both failed. This is due, in no little measure, to the neoliberal model of development that has been critiqued by

[54] The most detailed analysis of this, as far as we know, is Uwe Klußmann, Matthias Schepp & Klaus Wiegrefe, 'Did the West Break Its Promise to Moscow?', *Der Spiegel International*, 26.11.2009, https://www.spiegel.de/international/world/nato-s-eastward-expansion-did-the-west-break-its-promise-to-moscow-a-663315.html

[55] Jack Watling & Nick Reynolds, *The Plot to Destroy Ukraine* Royal United Services Institute, February 15, 2022, pp. 1-2.

[56] Academic analysts in International Relations (IR) have been torn between two different interpretations. Some argue that securitization has served Putin's regime in domestic politics, whereas others think that the anxiety of leading Russian politicians is genuine. Do the dominant beliefs in Russia conflate concerns about the ruling elite's position and the interests of society at large? A new phase in securitization was reached in 2013–2014. Since Euromaidan, the Russian leadership has framed mass anti-regime protests at home and abroad as a military threat.

[57] For a discussion and references, see Heikki Patomäki, *Disintegrative Tendencies in Global Political Economy*, (London & New York: Routledge), ch 3, esp. pp. 58-60.

Euromemoranda year on year.

The first of these mechanisms is the free trade mechanism, about which it is hypothesized that peace is facilitated by creating a web of mutually beneficial interdependence. The second is the democratic peace mechanism in relation to which it is hypothesized that democracies do not wage wars against one another. It is now often forgotten that modern European integration theory, steeped as it was in the memory of the 1930s and the economic causes behind World War II, was keenly aware that free trade and market integration as such may lead to social turbulence and political instability, and must be flanked by 'spill-over' into the fields of social policy and coordinated macroeconomic management.[58]

Shock therapy, NATO expansion, and Western arrogance as the root of the alienation with Russia

In contrast to neoliberal expectations, the 'shock therapy' administered in Russia in the early 1990s resulted in disaster involving two periods of hyperinflation, a drastic decline of industrial production, and a rapid rise in inequalities. The changes also resulted in a significant deterioration of the quality of life and contributed to mass poverty among the population during this period, including among educated and qualified workers.[59] Through the chaotic 1990s, these maldevelopments paved the way for a counter-movement favouring a semi-authoritarian 'strong' state-capitalism – though within a liberal constitution – led by an interlocked political elite and economic oligarchs. While the universalising interests and purposes of the West were widely accepted in Russia for a short while, the politico-economic effects and the failure of "shock therapy" generated reassessments and revisions, as did the tendency of the US and EU members to use military force to impose their preferred world order model, often in apparent contravention of international law.

The progressive escalation of the security dilemma led increasingly to alienation between Russia and the West. Especially after the beginning of the Iraq war in 2003, the Putin regime resorted to a vision of pluralism articulated in terms of theories and practices of power-balancing, emphasizing the importance of regions and their special characteristics. Since 2005, the Russian government has tended to see "colour revolutions" as a key means of US-led Western expansion involving the EU, and has thus securitized the internal developments of countries such as Ukraine. The free market and the liberal-democratic orientation of the EU's external relations and its expansion have thereby come to be contested and geo-politicized, despite Russia's own albeit somewhat different neoliberal orientation, where oil and gas revenues to the state play a key role. With the ongoing expansion of the EU and NATO towards Russia, Russia became increasingly focussed on "drawing a line", which in turn went against the universalising interests and purposes of the West. In the process, the Putin regime has securitised issues and become increasingly authoritarian at home.

The Ukrainian conflict has been entangled both with NATO and EU expansion eastwards and with Russia's and Ukraine's positioning in the world economy. Similar to Russia, Ukraine suffered from the economic and social costs of the early 1990s shock therapy. The period of rapid economic growth between 2000 and 2008 lifted many people out of poverty and improved socio-economic conditions in general. The social conflict that preceded the Euromaidan revolution and its aftermath took place against the background of the global financial crisis and a 15% drop in

[58] Ernst Haas, *The Uniting of Europe: Political, Economic and Social Forces,* (Stanford CA: Stanford University Press, 1968); Bela Balassa, Bela Balassa, *The Theory of Economic Integration,* (London: Routledge, 1961).

[59] According to official statistics, one third of Russians were poor in the early 1990s, while the oligarchs were amassing huge amounts of collective wealth to themselves. See e.g. Svetlana Mareeva, 'Socio-economic inequalities in modern Russia and their perception by the population', *Journal of Chinese Sociology*, 7 (1) (2020), https://doi.org/10.1186/s40711-020-00124-9

Ukrainian GDP. Soon Ukraine was struggling with the conditions of IMF loans and those of the European Neighbourhood Programme (ENP). Following a short-lived, partial recovery in 2010–11, the economic downturn continued in parallel with and, partly caused by the Euro crisis.

Ukraine faced a situation of mounting debt and a rapid decline in its currency reserves. Demonstrations started after the Ukrainian government suspended preparations for the signing of the EU Association Agreement on 21 November 2013. Following a few years of decline and uncertainty, the acute phase of the fiscal crisis coincided with the Euromaidan demonstrations. The EU had offered a relatively small loan, with conditions like those imposed by the Troika on Euro crisis countries. Criticism of those conditions fed into East–West and other divides in Ukrainian political economy and society. The situation was further complicated by the increasingly acute contestation and geo-politicization of NATO and EU expansion, especially concerning Ukraine.

The role of the EU: transnational public investment and a commitment to pluralism

In 2021, following Russia's 2014 annexation of Crimea and years of low-intensity conflict in Eastern Ukraine, the situation became more tense once more. Because of Russia's fatal decision to invade Ukraine and of the unprecedented scale of sanctions against Russia, the world is now on the brink of a nuclear war. In this context, could the EU assume a more active, independent, and mediating role in this conflict and in world politics more generally? Given the constitutive relationship between the EU's internal and external policies, however, this would require major transformations of the EU itself. This is precisely what the EuroMemo-Group has been advocating for 25 years.

Policy prescriptions advanced in previous EuroMemoranda could contribute to a more enduring peace by replacing the security dilemma with an integrative logic of mutually beneficial interdependence. Here, economic integration could be facilitated in Ukraine, Russia and other post-Soviet states by public investment rather than military investments, administrated by regional development banks, possibly based on the model of the German *Kreditanstalt für Wiederaufbau*, but on the basis of a strict policy aimed at the realisation of the Paris Climate Deal and beyond, as well as on the Sustainable Development Goals 2030. The public investment programmes for a socio-ecological transformation outlined in the EuroMemorandum 2020 and 2021 could be extended eastwards and facilitate a transformation away from a hydrocarbon economy and toward a new industrial base. It should be emphasised that public investments cannot rely on merely leveraging private investments with publicly guaranteed debt but must be based on genuine new resources.

In addition to these and related ideas, the war in Ukraine can also be taken to indicate that the EU should cultivate its capacity to recognize and accept ethical, political, and economic differences, including those concerning the conditions of socio-economic development and progress. Apart from recognising the problems of imposing shock therapy or austerity, the EU should allow for, and encourage, experimentation with different institutional arrangements and macroeconomic policies – as it has itself been doing with unconventional monetary policies and new fiscal packages.

The current conflict is a deep tragedy, where neither side wants the outcome, "but at the same time both have been unable to alter the policies that have contributed to the problem in the first place".[60] What is required is a perspective that transcends this clash of principles and narratives about world history. On the other hand, there is the European/western narrative fundamentally

[60] Tuomas Forsberg & Hiski Haukkala, *The European Union and Russia* (London: Palgrave), p.1, see also p. 226.

similar to Fukuyama's story of how the West won the Cold War, for example, where the world ends in liberalism, and so on. The Russian story is the belief that the EU and the US are declining and Russia along with the other BRICS are on the rise. The future is theirs; the world is heading to a multipolar system where possibly authoritarian states have a significant role in supporting the economy. The free market does not work as such, although all these countries have followed economic liberalism to an extent.

Transcending this opposition requires a commitment to pluralism. In contrast to current Russian discourse, pluralism does not have to mean a return to 19th-century conceptions of power politics; rather it should be articulated in terms of a deeper pluralism that includes the idea of a security community. A security community is defined by the mutually shared understanding that there is an institutionalized capacity to resolve common problems and social conflicts by means of peaceful change. One indication is that actors do not prepare for the use of violence against others, but this is as much an effect as a cause. What matters is that actors accept pluralism and expect peaceful change to be possible. This means that things do not have to stand as they are now; the status quo is not a norm to be accepted without question. The Cold War ended in a strategy of *altercasting* by Mikhail Gorbachev and his regime.[61] Perhaps the new cold war could end in a strategy of *altercasting* by the EU that is not afraid of transforming itself – or of assuming new roles.

We propose that this kind of a transformed EU should include the following external policies that contrast to a considerable degree with what is happening at the moment:

1. The EU should resist tendencies toward securitisation and militarisation. The EU countries are already spending twice as much as Russia on the military. The common identity of the EU should be built on a European and global democratic, social and green project rather than in terms of an evil enemy and a drastic rise in military expenditure.
2. The EU should significantly increase humanitarian aid and support for Ukrainian refugees in the EU, and the EU should advocate debt forgiveness for Ukraine (including applying forgiveness to its loans), but not give military support to Ukraine.
3. Sanctions against Russia are necessary to express commitment to the basic norms of international society and the world industrial civilization. However, the EU should avoid excessive sanctions that will primarily hit the Russian population, have severe effects on food security for many countries in Northern Africa and the Middle East, and further escalate tensions at the risk of drawing the EU into a direct military confrontation with Russia. We call for moderation, for rational reflection on the perilous brink situation, and for de-escalation.

[61] Alexander Wendt, *Social Theory of International Politics* (Cambridge: Cambridge University Press), p.76, 129, 329, 346.

Contact information for the Steering Committee of the EuroMemo Group:

Angela Wigger, Nijmegen (a.wigger@fm.ru.nl); Judith Dellheim, Berlin (judith.dellheim.fellow@rosalux.org); Marica Frangakis, Athens (frangaki@otenet.gr); Magnus Ryner, London (magnus.ryner@kcl.ac.uk); Laura Horn, Roskilde (lhorn@ruc.dk); Maria Karamessini, Athens (mariakarames@gmail.com); Jeremy Leaman, Loughborough (J.Leaman@lboro.ac.uk); Mahmood Messkoub, The Hague (messkoub@iss.nl); Ronan O'Brien, Brussels (ronanob@skynet.be); Heikki Patomäki, Helsinki (heikki.patomaki@helsinki.fi); Werner Raza, Vienna (werner.raza@aon.at).

Declaration of support

I support the general direction, main arguments and proposals in the

EuroMemorandum 2022
Caught between the Covid-19 crisis and the war in Ukraine: the EU in 2022

_______Yes _______No

Name:____

Institution:____

Street:____

City/Country:____

e-mail: ____

I would like to be informed about the regular work of the working group and be invited to their meetings. Please add my email-address to the mailing list of the EuroMemo Group.

_______Yes _______No _______I am already on the list.

Please return this form to the EuroMemo Group **via e-mail to** info@euromemo.eu**.**