

Sarah Anderson is the director of the Global Economy Project at the Institute for Policy Studies in Washington, D.C. This article draws from an IPS research project, "Lessons of EU Integration for the Americas," funded by the Rockefeller Foundation.



The Equity Factor and Free Trade

What the Europeans Can Teach Us

Sarah Anderson

Trade unions in both the Western Hemisphere and Eastern and Central Europe have been working to influence votes regarding the integration projects of their respective regions. However, the parallel ends there.

In the Western Hemisphere, the point of the voting is to express opposition to the proposed Free Trade Area of the Americas, or FTAA. Unions are at the forefront of the diverse alliance that is trying to defeat the pact, which is scheduled to unite 34 countries by 2005. In Brazil, the major labor federations worked with church and other groups in 2002 to organize an unofficial referendum on the FTAA in which 10 million people cast votes, 98 percent against. In the United States, the AFL-CIO has been distributing hundreds of thousands of ballots to members that pointedly offer only one choice: "No to the FTAA." In other countries, unions are working with civil society groups on their own FTAA consultations.

Across the Atlantic, unions in the ten countries that are slated to join the European Union in 2004 have been playing a significant role in the voting in their own countries.¹ But in these East and Central European nations, the ballots are official and the unions, with only a few exceptions, are urging voters to say "yes to the EU." The contrast between the union position in this hemisphere and that in Europe reveals much about the regional integration initiatives. The critical difference is that while the proposed FTAA is a narrow, free-market-oriented agreement, the EU has never been just about economics. Built on the ashes of World War II, it has sought both economic

prosperity and social harmony. And to promote the latter, it has developed mechanisms that support labor interests, including development funds, legally binding social standards, and a place at the table in decision making. These mechanisms already apply to, or are being phased in by accession countries.

To be sure, the EU is not a workers' paradise. Labor organizations within the European Union are waging the same battle as their counterparts elsewhere against the spread of such "neo-liberal" policies as trade and investment liberalization, privatization, deregulation, and cuts in social spending. With reduced protections, they face the challenge shared by workers elsewhere seeking to maintain decent wages and working conditions within a competitive global labor pool. The EU has played a role in promoting these economic reforms. For example, the European Commission has insisted that aspiring members carry out free market reforms in their industrial and agricultural sectors despite the loss of jobs and livelihood. And member states that have adopted the euro can no longer independently employ fiscal or monetary policy to boost employment or reduce poverty.

At the same time, however, the EU has offered benefits sufficient to build solid, albeit not uncritical, labor union support. As one cautiously optimistic Hungarian trade unionist put it, "The European Union is neither a threat nor a panacea; instead, it is a means and a chance to complete a difficult task, the main pillars of which are the creation of democracy and social justice."²

All this is clearly relevant to the volatile debate over the FTAA. While U.S. negotiators insist the talks are on track, new political actors in Latin America are raising fundamental objections. Notably, Brazil's president, Luiz Inácio "Lula" da Silva, has described the FTAA as currently proposed as an "annexation" rather than as an integration project. Not to be outdone and even more vehemently, President Hugo Chávez of Venezuela has called the pact "the cauldron of hell itself." In a more diplomatic critique, Chávez's colleagues have urged FTAA negotiators to learn from the EU's broader approach.³ Others, including the new presidents of Argentina and Ecuador, have expressed their own reservations.

Yet this rift also represents an opportunity to promote alternative rules and institutions to manage relations in the Americas.⁴ Thus, it makes sense to consider what the EU experience may offer.

Reducing Inequality

One of the starkest contrasts between EU's integration project and the proposed FTAA agreement is in their respective approaches to inequality. The draft FTAA is modeled after the North American Free Trade Agreement (NAFTA), which is rooted in the assumption that reducing trade and investment barriers alone is sufficient to lift living standards. Thus, like NAFTA, the FTAA text contains no mechanisms to narrow income gaps through aid or any other means of resource transfer. In 2001, Mexican president Vicente Fox floated the notion of a "NAFTA-plus" that would include a development fund to support infrastructure and other projects aimed at alleviating poverty. It went nowhere. As one U.S. official explained to the *Los Angeles Times*, "We're no longer in the business of Marshall Plans."⁵

By contrast, the economic community that evolved into the European Union committed itself to reducing inequality from its founding in 1957. By 2001, the EU had funneled 324 billion euros (\$353 billion) in

development grants (not including farm supports) into member states. This was roughly ten times the total U.S. economic assistance grants to all of Latin America in the same time period. The bulk of the EU funds have been allocated over the past 15 years, including 18 billion euros in "cohesion funds" targeted at the countries known as the "poor four": Ireland, Greece, Spain, and Portugal. Member states draw on this development aid for programs that they co-fund in consultation with the European Commission.

Since receiving EU aid, the poor four have experienced varying degrees of convergence with their richer EU partners. Ireland's surge has been by far the most dramatic. Between 1982 and 2001, Irish per capita income increased from 63 percent to 111 percent of the EU average. Per capita income in Spain and Portugal has increased from 73 to 81 percent and from 61 to 72 percent, respectively. Greece's experience has been more mixed. While it fell behind in the 1980s, it has narrowed the gap with the rest of the EU by 3 percentage points since 1990.⁶

NAFTA's "poor partner," Mexico, has gone in the opposite direction. In 1982, Mexico's per capita income amounted to 40 percent of the North American average. That year marked the beginning of sweeping free market reforms in Mexico, including privatization of state-owned enterprises and trade and investment liberalization. Ten years later, per capita income in Mexico had slipped to 32 percent of the regional average. The 1994 initiation of NAFTA, which expanded and locked in Mexico's free market reforms, did nothing to narrow the gap. By 2001, Mexico's per capita income had dropped to 30 percent of the regional average.

EU development funds are channeled not only to the poorest countries but also to the poorer regions within richer countries. Unfortunately, however, internal inequality trends are difficult to track. The European

Commission focuses on data from 1995 onward, as figures prior to this period are inconsistent across borders. However, even in the short time frame of 1995–99, the EU countries have on average narrowed the ratio of the income share of the richest and poorest fifths of their populations from 5.1:1 to 4.6:1.⁷

Official inequality data for North America are extremely sparse, but what is available suggests that in the United States and Mexico, income gaps are larger than in any EU country and have widened during the NAFTA period. In Mexico, the ratio between the income share of the top and bottom 20 percent grew from 14.3:1 in 1996 to 17:1 in 1998. In the United States, the same ratio grew from 9.3:1 in 1993 to 10.2:1 in 1997. Canada's gap rose slightly, from 5.2:1 in 1994 to 5.4:1 in 1997.⁸

One consequence of the EU's income convergence is that people are not as pressed to migrate in search of jobs. Since 1968, EU citizens have enjoyed freedom of movement from one member state to another. Fears that this "open border" policy would lead to a brain-draining flood proved unfounded. As economic opportunities and social standards improved—in part due to the prospect of EU membership—migration pressures subsided.

The European Commission reports that during the period 1990–2001, annual net migration in the EU was never higher than 3.1 per 1,000 inhabitants.⁹ In fact, migration rates have been so low that ten years ago the European Commission created a special program to abet worker freedom of movement by providing employment information and counseling and recruitment services. By contrast, NAFTA has limited increased mobility to professionals. Thus, the pact did little to reduce the pressures that cause the United States to spend billions to patrol its borders.

To be sure, the EU falls short of the egalitarian model. Civil society groups complain that the poor have not received their

fair share of EU aid, and the European Commission acknowledges that income gaps remain unacceptably high. Besides income, there are other indicators of persistent inequality. For example, only 28 percent of Spain's workers have a high school education, compared to the EU average of 56 percent.¹⁰ In Ireland, half of single mothers live in poverty, compared with only 9 percent in Finland.¹¹ Leveling the playing field will be an even greater challenge with the coming enlargement. Ninety percent of administrative regions in candidate countries have per capita income levels below 75 percent of the EU average.¹²

It is also arguable that much of the progress made in reducing inequality can be attributed to other factors. Some assert that market liberalization was more important because it helped countries attract private foreign investment. However, if massive investment inflows were an automatic leveling agent, Mexico would have enjoyed similar positive trends. Every year since NAFTA went into effect, Mexico has received more than twice as much foreign investment as in previous years. In 2001, net inflows hit a high of \$25 billion, up 463 percent since 1993, an increase greater than achieved by any of the "poor four," save Ireland.¹³

Social Protection

In the 1970s, the EU began taking on the role of social standard sheriff. This was as much for economic as for altruistic reasons. For example, France feared that unless the EU mandated equal pay for women, the higher pay levels enjoyed by French women would lessen competitiveness.

In 1989, the EU increased its social policy emphasis by adopting a "Community Charter of Fundamental Social Rights for Workers." The charter deals with freedom of movement, social security benefits, freedom of association and collective bargaining, employment and pay, living and working conditions, vocational training, gender equity, the right to information about and

participation in corporate governance, and workplace health and safety. In 1992, the charter was incorporated as a “social policy protocol” in the Maastricht Treaty, the agreement that established a blueprint for adopting a single currency.

The charter itself is precatory rather than legally binding, but some clauses form the basis for EU “directives” that must be transposed into national legislation.¹⁴ The same applies to environmental standards. Treaties contain broad language on environmental principles, which are implemented by regulations regarding air and water quality, conservation, and other minimum standards. Although the emphasis is on encouraging compliance, governments and corporations that flout these directives may face sanctions from the European Court of Justice. According to Karoly Gyorgy, international secretary for the National Confederation of Hungarian Trade Unions, “These fines can be high enough to make governments cry, so in the long run, it will be cheaper to implement the EU standard.”¹⁵

Labor unions cite instances in which they obtained benefits only through EU action. For example, the Irish government tried to wiggle out of a requirement banning gender discrimination in pay, but the EU refused to allow it. In Austria, it was only after the EU issued a parental leave directive that its unions won a longstanding battle to obtain that right.¹⁶ As David Begg, general secretary of the Irish Congress of Trade Unions, puts it, “The EU has the potential to moderate the excesses of big business beyond anything that can be achieved by workers in individual countries.”¹⁷

NAFTA’s labor agreement, officially, the North American Agreement on Labor Cooperation (NAALC), was supposed to help protect North American workers from health and safety and other labor rights violations. However, according to Lance Compa, former NAALC research director, “While Europeans are skeptical about the effectiveness of the European Court of Justice, there’s no ques-

tion that it’s far better than what we have under NAFTA.”¹⁸ To date, the 20-odd cases filed under NAALC have yielded little more than increased publicity of abuses, particularly by U.S. corporations in Mexico. Most appeals have involved complaints regarding violations of the right to freedom of association. The strongest remedy that can be applied in such cases is a call for consultations between labor ministers. Only violations of health and safety, child labor, and minimum wage laws may invoke government sanctions.

So far, no case has come even remotely close to resulting in sanctions. An important test case involved health and safety violations at two Mexican factories owned by U.S.-based Breed Technologies, which makes automobile parts. In 2001, the NAFTA agency that investigates charges of labor rights violations confirmed that the Mexican government had failed to protect workers adequately from dangerous chemical exposure. The case then moved to the stage of ministerial consultation, otherwise known as the “black hole.” There is no deadline for producing results, and in fact no case has moved past consultation. Another case documented forced pregnancy testing to screen out Mexican job applicants who might require maternity benefits. The outcome was a series of conferences on women’s workplace rights. By contrast, the European Court of Justice has taken a strong stance on women’s rights.

A Seat at the Table

The EU institutional framework offers several avenues for worker input. The European Trade Union Confederation, along with two employers’ associations, is an official “social partner” that hammers out agreements, including some that have led to EU directives, such as those on parental leave and part-time work. Another EU entity gives unions an advisory role with respect to social and economic issues. This is the European Economic and Social Committee, comprising

representatives of employers, workers, and other civil society sectors from each member state. Eva Belabed, a committee member from Austria, asserts that the process has helped build consensus for a European social model. For example, she says, dialogue has had a moderating effect on British employers, who are often the most eager to adopt unregulated U.S.-style labor policies. "When these Brits have to sit at a negotiating table with unions as well as employers from Scandinavia and other countries with more cooperative styles, they usually change a lot," she explains.¹⁹

EU workers also have consultation rights at the company level. Since 1994, every multinational company with at least 1,000 workers within the EU and at least 150 in at least two EU states is obliged to negotiate agreements with a "European works council" representing employees. At a minimum, employers must give the EWCs the right to meet with central management once a year to discuss the firm's finances and plans for the introduction of new technologies, production transfers, mergers, and layoffs. In some cases, the agreement provides expanded rights. For example, the France-based food manufacturer Danone has agreed to very specific rules related to job cuts. The firm must consider union proposals to avoid layoffs and first attempt to transfer workers to other positions.²⁰ In all cases, the corporation must pay for the EWC's operating expenses.

Still, the EWCs have not met their potential. Only about 650 out of the 1,900 or so firms technically required to form EWCs have complied, and in most cases the agreements offer a bare minimum. Nevertheless, EWCs offer some important benefits. For example, EWC representatives often obtain information, such as profit and wage data, that is useful in collective bargaining. Andrzej Matla from the Polish union Solidarnosc says that the inclusion of Central and Eastern European worker representatives in EWCs is "the most effective and some-

times nearly the only way for them to obtain information on multinational companies' operations at the European and global levels."²¹

Willy Buschak, deputy director of the European Foundation for the Improvement of Living and Working Conditions, claims that EWCs can influence corporate restructuring. When General Motors announced in 2000 that it was about to shut down a plant in Luton in Britain, the EWC for GM-Europe mobilized 40,000 workers in five countries to participate in solidarity rallies. The company later agreed to a moratorium on closures and to discuss all future moves with the EWC.²²

By contrast, neither NAFTA nor the proposed FTAA offers any significant opportunities for public participation. A civil society committee made up government representatives and set up as part of the FTAA negotiation process is widely derided as nothing more than a "mailbox," since it solicits public input but has no obligation to respond. At the company level, workers have had to make considerable effort to connect with employees in other NAFTA countries. Cross-border solidarity has grown in reaction against the agreement, rather than as a result of it.

Lessons for the Americas

At a meeting of trade ministers in Miami this November, labor unions in the Western Hemisphere are due to join with other groups to report on their consultations on the FTAA and to demand that NAFTA be abandoned as the model for the Americas. Most of these critics would be in favor of establishing rules to guide economic relations between the countries of the region if these rules were designed to alleviate the pressing problems of inequality, poverty, and environmental degradation. But an FTAA based on a NAFTA blueprint would not achieve those goals.

The EU approach does not offer the perfect alternative. It does, however, offer

a few guiding principles based on concrete experience.

First, it is necessary to address inequality directly. How this should be done is debatable. It may be that EU-style development funds are not the most appropriate approach for the Americas. In a region plagued by crushing foreign debt, a mechanism that incorporated debt relief might be more effective. But the principle of transferring economic resources to reduce inequality, rather than expecting the market to do the job, is a key lesson from the European experience.

Second, it follows that resource transfers are most effective when accompanied by social and environmental protections. As in the EU, the emphasis should be on promoting compliance, including through financial and technical assistance, rather than on rushing to penalize violators. But without minimum standards, workers and communities will continue to be vulnerable to exploitation by corporations that are operating in an increasingly competitive global economy.

Finally, civil society groups, such as labor, environmental, consumer, and farmer organizations, should be given an official role in the formulation, application, and evaluation of international economic policies. While the EU mechanisms for citizen participation have serious weaknesses, the adoption of similar rules for the Americas would constitute a small step toward ensuring that labor policies reflect a measure of social consensus.

These proposals may seem inauspicious at a time when the dominant nation in the region is dismissive of international cooperation agreements and in open conflict with many of the civil society organizations most active in the free trade debate. On the other hand, as resistance in Latin America gains steam, the Bush administration's chances of obtaining the NAFTA-style FTAA it desires appear to be fading.

The most likely outcome may be the abandonment of the FTAA project altogether, but this would be a Pyrrhic victory for the pact's critics, since it would do nothing to alleviate the region's existing economic and social problems. Thus, if negotiators are wise, they will walk away from the FTAA table, then reconvene around another one, with the goals of reduced inequality, social and environmental protections, and democracy at the center of the discussion. ●

Notes

1. Thirteen countries are candidates for EU membership. Of these, ten have been approved for accession in May 2004: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. Negotiations are continuing with Bulgaria, Romania, and Turkey.

2. Democratic Confederation of Free Trade Unions (LIGA), "Decision by the Campaign-closing Assembly of the LIGA Confederation," April 9, 2003, at www.liganet.hu.

3. Victor Alvarez, Vice Minister of Industry, Government of Venezuela, "Memorandum to the FTAA-Trade Negotiations Committee," April 16, 2003.

4. For a highly detailed alternative proposal to the FTAA, see "Alternatives for the Americas," developed by the Hemispheric Social Alliance, December 2002, at www.asc-hsa.org.

5. Esther Schrader, "Mexican Development Aid Not in the Offing, U.S. Says," *Los Angeles Times*, September 1, 2001.

6. Percentages are based on gross national income per capita in terms of purchasing power parity. See World Bank, World Development Indicators Online (also available in print as *World Development Indicators 2003* [Washington, D.C.: World Bank, 2003]).

7. Eurostat, "Inequality of Income Distribution," April 18, 2003, at www.europa.eu.int/comm/eurostat.

8. Figures for Canada and Mexico are from United Nations Development Program, *Human Development Report* (2001 and 2003); U.S. figures are from Congressional Budget Office, "Effective Federal Tax Rates, 1979–1997," October 2001, appendix G.

9. Eurostat news release, April 18, 2003.
10. Sebastián Royo, "The Experience of Spain and Portugal in the European Union: Lessons for Latin America," Working Paper Series, vol. 2, no. 2, Florida International University, EU Center, March 2002, p. 21.
11. Gerry Boucher and Grainne Collins, "Having One's Cake and Being Eaten Too: Irish Neo-liberal Corporatism," Employment Research Center, Trinity College, Dublin, March 3, 2003, p. 2.
12. Eurostat news release, January 30, 2003.
13. World Bank, World Development Indicators Online.
14. The social charter may become legally binding as a result of the ongoing debate over the formation of an EU constitution.
15. Telephone interview with the author, July 10, 2003.
16. Gerda Falkner and Simone Leiber, "A Europeanization of Governance Patterns in Smaller European Democracies?" paper for the Eighth Biennial International Conference, European Union Studies Association, March 27–29, 2003.
17. Speech by David Begg, general secretary of the Irish Congress of Trade Unions, Patrick Macgill Summer School, Glenties, Ireland, July 29, 2002.
18. Interview with the author, Washington, D.C., June 2, 2003.
19. Interview with the author, Washington, D.C., May 16, 2003.
20. European Foundation for the Improvement of Living and Working Conditions, "Bargaining at European Level? Joint Texts Negotiated by European Works Councils" (Luxembourg: Office for Official Publications of the European Commission, 2001), p. 71.
21. "Unions Seek More Influence for EWCS," European Industrial Relations Observatory On-line, 2002.
22. Phillip Inman, "Time to Talk the Same Language," *The Guardian* (London), May 18, 2002.