Lessons of European Integration for the Americas

by Sarah Anderson and John Cavanagh

February 26, 2004

Institute for Policy Studies
733 15th St. NW, #1020
Washington, DC 20005
Tel: 202 234-9382, Fax: 202 387-7915
www.ips-dc.org

About the Authors

Sarah Anderson is the Director of the Global Economy Project at the Institute for Policy Studies. John Cavanagh is IPS Director. Research assistance was provided by: Tammy Williams, Michael Borucke, Sara Johnson, and Elinor Douglass. IPS is an independent center for research and education founded in Washington, DC in 1963.

Acknowledgements

This report is based on a research project conducted by the Institute for Policy Studies (IPS) and supported by the Rockefeller Foundation on the lessons of the European Union for integration in the Americas. Research involved a review of available literature and data on the EU experience, as well as interviews with a broad range of academics, government officials, business leaders, and civil society representatives in several EU member states.

The authors would especially like to thank the following individuals for taking time to share their insights and research for this project: Eva Belabed, member, European Economic and Social Committee; Norman Birnbaum, IPS Senior Scholar; Andreas Botsch, Deutsche Gewerkschaftsbund; Nigel Boyle, Pitzer College; Brid Brennan, Transnational Institute; Herbert Bruecker, Deutsches Institut fuer Wirtschaftsforschung; Willy Buschak, European Foundation for the Improvement of Living and Working Conditions; Vasco Cal, Directorate-General, Regional Policy, European Commission; Alejandro Chanona, National University of Mexico; Lance Compa, Cornell University; Jan Delhey, Wissenschaftszentrum Berlin fuer Sozialforschung; Claude Denagtergal, European Trade Union Institute; Alan Dukes, Director-General, Institute for European Studies (Dublin); Carole Garnier, Directorate-General, Economic and Financial Affairs, European Commission; Olivier Hoedeman, Corporate Europe Observatory; Peadar Kirby, Dublin City University; Ronald Janssen, European Trade Union Institute; Clarence Lusane, American University; Geoff McEnroe, Irish Business and Employers Confederation; Christian Weise, Directorate-General, Budget, European Commission; James Wickham, Trinity College.

CONTENTS

I. SUMMARY **1**

II. INTRODUCTION **3**

III. MAJOR FINDINGS **6**

A. Development Funds **6**
- Ireland Case Study **11**

B. Migration **15**

C. Agriculture **17**

D. Social Standards **21**

E. Environmental Standards **25**

F. Public Participation **27**

IV. CONCLUSION **29**

NOTES **31**

Boxes and Graphs:
Key EU Institutions i
Acronyms used in this Report i
Key Elements of the EU and NAFTA Approaches 4
A Sampling of Proposals for EU-style Initiatives in the Americas 5
Types of EU Structural Funds 7
Regional Convergence and Non-Convergence 8
Ratio of income of top 20% of population to that of the bottom 20% 9
EU-Speak 16
Mexico: % of workforce employed in agriculture 17
Poor Four: % of workforce in agriculture 19
Structural Funds Expenditure on the Environment, 1994-1999 26

Key EU Institutions

European Parliament: Legislature elected every five years by citizens of each Member State. It shares legislative and budgetary authority with the Council and approves the final Community budget. It also supervises the Commission.

Council of the European Union: Includes representatives from each Member State and is the main decision making body of the EU. It shares legislative and budgetary power with the European Parliament, coordinates economic policies and judicial matters, and makes decisions regarding EU foreign and security policy.

European Commission: Presents and implements legislation approved by the Parliament and the Council. It is the guardian of treaties and works together with the Court of Justice to ensure proper application of Community Law. The Commission does not directly represent national governments but is an administrative body designed to promote the common interest.

Court of Justice: Ensures that Community law is uniformly interpreted and effectively applied. It has jurisdiction in disputes involving Member States, EU institutions, businesses, and individuals.

Acronyms used in this report

CAP:	Common Agriculture Policy
EC:	European Commission
ECJ:	European Court of Justice
EESC:	European Economic and Social Committee
EU:	European Union (used loosely to refer to the alliance that has evolved into the European Union, after several name changes)
EURES:	European Employment Services
EWC:	European Works Council
FDI:	Foreign Direct Investment
FTAA:	Free Trade Area of the Americas
HCP:	Hemisphere Cooperation Program
ILO:	International Labor Organization
LFA:	Less Favored Areas
NAALC:	North American Agreement on Labor Cooperation
NAFTA:	North American Free Trade Agreement

I. SUMMARY

As criticism mounts in the Americas over what many perceive to be an overly narrow approach to integration, there is growing interest among political leaders and citizen groups to learn more from the most advanced regional integration project in the world: the European Union. We list below a summary of what we judge to be the most important lessons in five issue areas from the European experience that may be relevant for the Americas.

1. Development Funds

From Europe there is strong evidence that regional economic arrangements can include mechanisms to reduce disparities among member nations. The EU invested €324 billion in development grants to reduce disparities between and within its member states between 1961 and 2001, most of it since the mid-1980s. Accordingly, poorer European countries have made progress in catching up with their neighbors, and there is widespread consensus that EU aid grants were an important factor in that region's trend towards reduced disparity. By contrast, the European funds were roughly ten times the amount of U.S. economic assistance grants to all of Latin America during the same period. And, NAFTA contained no mechanisms whatsoever to reduce inequalities. As Ireland and the other formerly poor European nations have surged forward, Mexico has fallen further behind its NAFTA partners.

The general lesson for the Americas is that trade and investment liberalization alone do not guarantee a narrowing of the economic divide. This said, there are many questions that should be explored regarding the most appropriate approach to resource transfer in the Americas. It may be that debt reduction, or a combination of debt reduction and aid would be a more appropriate approach.

The EU also offers lessons on how to develop and maintain support for development aid in the richer countries. This has been accomplished by "de-politicizing" aid by assigning responsibility for administration to a supra-national body (the European Commission) and by allowing a portion of aid to be channeled into the poorer regions of the richer countries.

2. Migration

EU citizens enjoy the right of freedom of movement from one member state to another. In response to fears of massive flows of migrants into the richer countries, the EU has focused aid and other assistance to lift up living standards in poorer countries to mitigate migration pressures. As a result, when the EU lifted borders with Portugal and Spain, out-migration was negligible. Even though the EU is confronting wider income gaps in the current round of enlargement, countries scheduled to join the EU in May 2004 are slated to enjoy full rights to freedom of movement within seven years. By contrast, NAFTA side-stepped the migration issue, aside from offering limited visas for professionals. There is a great deal the Western Hemisphere can learn from the EU approach in adopting a long-term plan for leveling the playing field among nations and working towards increased labor mobility.

3. Agriculture

The lessons of the EU on agriculture are mixed. For the first two decades or so, the EU approach centered on boosting yields and production levels. This exacerbated a problem of massive surpluses that drove down world market prices for many commodities. It also encouraged intensive farming practices that had substantial negative environmental impacts. And despite massive spending (€672 billion between 1963 and 2001), the EU also experienced a rapid decline in small farms, since subsidies disproportionately benefited large producers.

Even if the results had been more positive, it would be unrealistic to propose such an expensive approach to agricultural policy in the Americas. However, more recent attempts to reform the EU agricultural policy, while too early to judge, may prove more fruitful. These changes have focused on de-linking subsidies from production and conditioning them on respect for environmental and other standards. The EU is also planning to cut payments to large farmers. These reforms can inform the debate in the Americas region, where small-scale agriculture remains highly significant in terms of employment, as well as social, environmental, and cultural welfare. Like the EU, the Western Hemisphere should recognize that increased exports and other trade liberalization policies will not solve the serious problems facing rural residents.

4. Social and Environmental Standards

One overall lesson of the EU is that development aid, trade and foreign investment are most effective when accompanied by social and environmental protections. NAFTA lacks strong mechanisms on these issues and as a result, corporations, particularly in Mexico, continue to profit through severe labor repression and environmental degradation. Through EU-wide standards on labor rights, gender equity, racial discrimination, health and safety, environment and other issues, the EU has helped promote a high-road path to development.

The EU model also offers lessons on how to handle enforcement of social and environmental standards in a way that promotes compliance, including through financial and technical assistance, rather than rushing to penalize violators. At the same time, there are those who have been frustrated by the slow pace of justice against violators of EU laws.

5. Public Participation

The EU offers several avenues for civil society input in policymaking. Two of the most significant are: 1) the European Economic and Social Committee, which is made up of representatives of employers, workers, and other civil society sectors from each member state and provides input to the European Commission, and 2) the social partnership process, in which trade unions and employer groups develop proposals for EU initiatives, including some that have led to legislation. EU employees of multinational companies also have rights to consultation at the company level.

While all of these mechanisms have their shortcomings, the EU has made some progress towards creating an institutional framework for ensuring that policies reflect a measure of public consensus. By contrast, neither the NAFTA nor the proposed FTAA offer any opportunities for civil society participation in decision-making.

The EU model is not without flaws. Moreover, there are historical, economic and cultural differences between Europe and the Americas that would make it both foolhardy and unrealistic to attempt to simply replace the NAFTA model with the EU approach. However, as talks on the FTAA as well as at the World Trade Organization flounder, our leaders would do well to broaden their discussions to consider alternative approaches, including that of the EU.

II. INTRODUCTION

The debate over economic integration is more robust and less predictable today than at any point in the past decade. This is particularly the case in the Americas. Since 1994, 34 countries in the Western Hemisphere (all but Cuba) have been engaged in talks around a proposed Free Trade Area of the Americas. Until recently, the model for the FTAA, as evidenced by draft texts, has been the North American Free Trade Agreement. However, while the official January 2005 deadline for completing the FTAA is fast approaching, the U.S. government's goal of a NAFTA-style agreement appears more remote than ever.

During the past few years, citizens organizations in Latin America have confronted governments with a growing record of negative social and environmental consequences from decades of market-opening policies. Leaders associated with these policies were voted or driven out of office in Brazil, Argentina, Ecuador and Bolivia, and the new Presidents of Brazil and Argentina are particularly critical of the proposed FTAA. In Venezuela, President Hugo Chavez has also been a consistent critic, while leaders of Caribbean nations have demanded strong concessions for small economies. Even Mexican President Vicente Fox, one of the United States' closest economic allies, has conceded at times that if he had the chance to re-negotiate NAFTA, he would take a different approach.

The growing backlash had a clear impact on FTAA negotiations in November 2003 at a meeting of lead trade negotiators in Miami. Facing a deadlock in the talks, the U.S. government backed down from its demand that the FTAA be a comprehensive agreement endorsed in full by all 34 governments. Instead, they agreed to a two-track approach that would allow countries to opt out of some of the more controversial areas. At this point, the details of the new approach are yet to be determined, but it is clear that resistance from developing country governments has shaken up the debate. Unless the U.S. government launches a successful arm-twisting campaign, the FTAA is likely to be a hollowed out version of the original vision.

But while the hemisphere appears to have digressed from the NAFTA path, the road ahead is unclear. Leaders are far from achieving consensus around an alternative road map for integration in the Americas. One frequent theme, however, is that the Western Hemisphere should consider the experience of the European Union (EU). This message has been most explicit in statements by the governments of Mexico and Venezuela. Mexico's Fox has promoted the idea that both the NAFTA and the FTAA include EU-style development funds and that the NAFTA countries follow the EU by adopting a common currency and more liberal migration policies. The Chavez administration in Venezuela issued a memo stating that "one of the key goals of a successful integration project, as demonstrated by the experience of the European Union, is to ensure that integration allows for concrete steps to be taken towards significantly reducing these inequalities."[1] As the Western Hemisphere grapples with its own integration process, the EU offers one of the few concrete examples of an alternative approach.

This report lays out some of the main differences between the NAFTA and EU experiments and attempts to draw some lessons from the European experience that might be relevant to the debate in the Americas. The two approaches are indeed quite distinct. In short, NAFTA is a narrow, free market-oriented agreement that combines trade and investment liberalization with strong investor protections. By contrast, the EU has never been just about economics. Built on the ashes of World War II, it has the dual goals of economic prosperity as well as social and political harmony. And to promote the latter, EU architects have developed mechanisms to reduce disparities, established legally binding social and environmental protections, and created numerous avenues

for civil society input into decision-making. They have also allowed free labor movement within the EU zone, while seeking to minimize migration pressures by narrowing gaps in living standards.

To be clear, though, the EU is not without conflicts of its own. In fact, there are raging debates over virtually every aspect of this complex project. EU policies can roughly be grouped into two categories: those that restrict government intervention and those that require it. The restrictive policies include trade and investment liberalization, the adoption of the common currency (which is tied to restrictions on fiscal policy), competition policy (which restricts government subsidies to the private sector) and free movement of labor (which inhibits restrictions on labor flows). There are particularly contentious battles over EU restrictions on deficit spending and interest rate policies that were imposed as part of the adoption of the euro. National government leaders and civil society groups alike have complained that these restrictions undermine democratic processes and pose unacceptable obstacles to achieving social goals.

The other category of policies, those that involve government intervention, include the EU's development aid and farm supports, social and environmental policies, and public participation and consultation mechanisms.

This report focuses primarily on this set of initiatives because they are absent from the NAFTA model and are also those most frequently cited by government officials as well as civil society groups in the discussion around a more favorable alternative to the FTAA. The report also discusses EU migration policy since this issue is of great interest in the Americas. A comprehensive analysis of the policies that restrict government intervention is beyond the scope of this report.

As the remainder of this report makes clear, almost all of these initiatives are contentious. Particularly as the EU has worked to prepare for its upcoming enlargement in May 2004 from 15 to 25 members, there has been intense scrutiny of and debate on these issues. EU institutions and member state governments have grappled with conflicting views on such questions as whether and how to reform these initiatives and — perhaps most difficult — how to pay for them. We present the issues in these debates in the pages that follow.

These European debates have produced a rich body of thinking that should be more closely integrated into discussions in the Americas. The goal of this report is to summarize some of the weaknesses and strengths of the EU experience in order to draw lessons that could help guide the integration debate in the Americas.

Key Elements of the EU and NAFTA Approaches

	EU	NAFTA
Restrict Government Intervention	• Trade and investment liberalization	• Trade and investment liberalization
	• Common currency	• None
	• Competition policy	• Included, but non-binding
	• Free labor mobility	• Limited visas for professionals only
Require Government Intervention	• Development funds	• None
	• Agriculture supports	• None
	• Enforceable social/environmental standards	• Weak "side agreements" on labor and environment*
	• Official channels for public participation at regional level	• None
* Included in NAFTA, but not in FTAA draft		

A Sampling of Proposals for EU-style Initiatives in the Americas

Venezuela's "Bolivarian" Alternative

Beginning in 2003, the Venezuelan government has promoted an alternative to the FTAA that includes several elements similar to the EU: 1) Structural Convergence Funds to finance infrastructure and services projects aimed at reducing inequalities among countries; 2) free movement of persons; and 3) the right to public participation in decision-making. On social and environmental issues, it does not call for enforceable regional standards, but a guarantee that the FTAA would not jeopardize commitments made on these issues in other international treaties. Like the HSA proposal mentioned below, it differs from the EU approach in that it would allow national governments more authority to intervene in markets to support social goals.[2]

Vicente Fox's "NAFTA-Plus"

In 2001, Mexican President Vicente Fox floated the notion of a "NAFTA-plus" that would include a North American development fund, common currency, and an agreement to increase labor mobility. Fox also proposed an FTAA development fund to which all parties would contribute, based on a sliding scale. His proposals have mostly fallen on deaf ears. Although President Bush recently proposed a limited migration reform, this would provide only temporary work visas and it is not clear whether the plan will become law. Referring to Fox's proposed development fund, one U.S. official explained to the *Los Angeles Times:* "we're no longer in the business of Marshall Plans."[3]

Jorge Castañeda, who served as Fox's Foreign Minister until 2003, in a recent article continued to press for a "North American Economic Community" with common policies on migration, economics, monetary convergence, security, energy cooperation, and agriculture. He also called for an EU-style compensatory mechanism, but instead of supporting development projects as in the EU, he suggested that assistance be provided to displaced people in Mexico and unemployed individuals in all three countries.[4]

U.S. Development Fund Proposals

In November 2003, Rep. Bob Menendez (D-NJ) and Rep. Cass Ballenger (R-NC) introduced a bill in the U.S. House of Representatives to create a Social Investment and Economic Development Fund for the Americas. The bill would provide $500 million per year over five years for investment in education, health care, and housing and economic development. Unlike EU aid, this plan would channel resources through existing institutions — the U.S. Agency for International Development and the Inter-American Development Bank. The bill also recommends that countries of the Western Hemisphere collectively make a similar level of contribution for the same purposes.

American University professor Robert Pastor proposes a similar plan for a North American Investment Fund that would invest $200 billion in infrastructure in Mexico over the next decade, with the U.S. government contributing $9 billion per year and Canada $1 billion, conditioned on Mexico providing matching funds through increased tax revenues. He also cites the IDB as a potential administrator of the fund.[5]

Hemispheric Social Alliance (HSA)

The HSA is a network of trade unions and civil society networks from the Americas formed in 1997 in opposition to the proposed FTAA and in support of alternative approaches to integration. Their consensus document "Alternatives for the Americas" supports many of the elements of the EU approach, including resource transfers to reduce disparities and enforceable social standards.

It conflicts with the EU's emphasis on market liberalization, instead calling for countries to have the authority to channel trade and investment to support social goals.[6]

III. MAJOR FINDINGS

The following six sections examine key components of the European approach to integration. Each section highlights the debates over these initiatives as well as implications for integration in the Americas. We also include a section on Ireland's experience under the EU, since it is widely perceived as the poorer nation which has reaped the most benefits.

A. DEVELOPMENT FUNDS

One of the starkest differences between the EU and the proposed FTAA is in their approach to inequality among and within nations. The EU has had two periods of enlargement that involved nations with per capita incomes that were substantially below the other member states. The first phase involved the accession of the "poor four" nations of Ireland (1973), Greece (1981), and Portugal and Spain (1986). Second, the EU is currently preparing for enlargement in May 2004 to include 10 new nations: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia[7] Development funds have been central to the inclusion of both sets of countries.

The model for the draft FTAA, NAFTA, is based on the assumption that the reduction of trade and investment barriers alone is enough to lift living standards. Thus, like NAFTA, the FTAA text contains no mechanisms to reduce disparities through aid or any other form of resource transfer.

Under NAFTA, the only remotely relevant initiative was the establishment of the North American Development Bank (NADBank). Created simultaneously with NAFTA (but not an integral part of the pact), the NADBank was designed primarily to provide loans for environmental infrastructure projects along the U.S.-Mexico border and has had minimal impact.[8]

In the FTAA talks, negotiators have paid lip service to the problem of inequality in their official declarations, but so far the only concrete development is the creation in 2002 of the Hemispheric Cooperation Program (HCP).[9] This U.S.-backed program focuses not on reducing inequalities but on building "trade capacity" through such means as technical assistance to train government officials to participate in negotiations and implement FTAA commitments. In 2002, the U.S. government allocated $102 million for the HCP, a miniscule amount compared to EU aid levels. The U.S. Trade Representative has stated that additional funds may be available through the Inter-American Development Bank and private sector sources, but there is no binding commitment to support the program and it is separate from the FTAA text. Critics charge that the program's primary purpose is to buy support for the increasingly controversial proposed FTAA.

By contrast, the alliance that evolved into the European Union had an explicit commitment to reducing income disparities, beginning with its founding Treaty of Rome in 1957. This Treaty established the European Social Fund and expressed the need to "strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions."

The alliance began allocating development funds in 1960, but this assistance remained at relatively low levels until the 1980s, when Jacques Delors became President of the European Commission. Appointed by French President Francois Mitterand, of the Socialist Party, Delors was instrumental in ramping up the EU's efforts to address income disparities. Through the 1987 Single European Act and the 1992 Maastricht Treaty, he more than doubled the funds available, placing emphasis on regions where per capita GDP was less than 75 percent of the EU average. Delors also reformulated

how programs were delivered, stressing social partnership among government, business and civil society and pushed for a larger role for local governments by emphasizing the principle of "subsidiarity," which means that decisions in a political system should be taken at the lowest level possible. The 1997 Treaty of Amsterdam reinforced the goal of reducing inequality. Article 158 states: "… the Community shall aim at reducing disparities between the development of various regions and the backwardness of the least favoured regions or islands, including rural areas."

Between 1961 and 2001, the EU funneled €324 billion in Structural Funds in the form of development grants into member states.[10] This is roughly ten times the amount of U.S. economic assistance grants to all of Latin America during this time period. Some 88 percent of the EU funds were allocated during the period 1988 – 2001.[11] Structural Funds make up the second-largest line item in the EU budget, after the Common Agricultural Policy, and are grants (not loans), which require national governments to provide a certain level of co-funding. Although the Structural Funds transfer resources to the less wealthy, this assistance may not be used for income support. Rather it is tied to specific investments designed to support economic growth, such as infrastructure development or training. National governments develop proposals for programs in consultation with the European Commission.

About 70 percent of Structural Funds goes to administrative units designated as "Objective 1" regions because they have a GDP per capita less than 75 percent of the EU average. This includes regions in the richer countries. The EU in recent years has also contributed more than €3 billion per year towards helping the accession countries prepare for EU membership. For the period 2004 to 2006, the EU has allocated an additional €22 billion for the 10 new member states. No country may receive more than 4 percent of their GDP from Structural or Cohesion funds.

Of the total development funds, Cohesion Funds to provide additional support to the initial "poor four" countries of Ireland, Spain, Portugal, and Greece totaled some 18 billion euros between their inception in 1993 and 2001.

Since they began receiving EU aid, all of the original "poor four" have experienced varying degrees of convergence with the richer EU

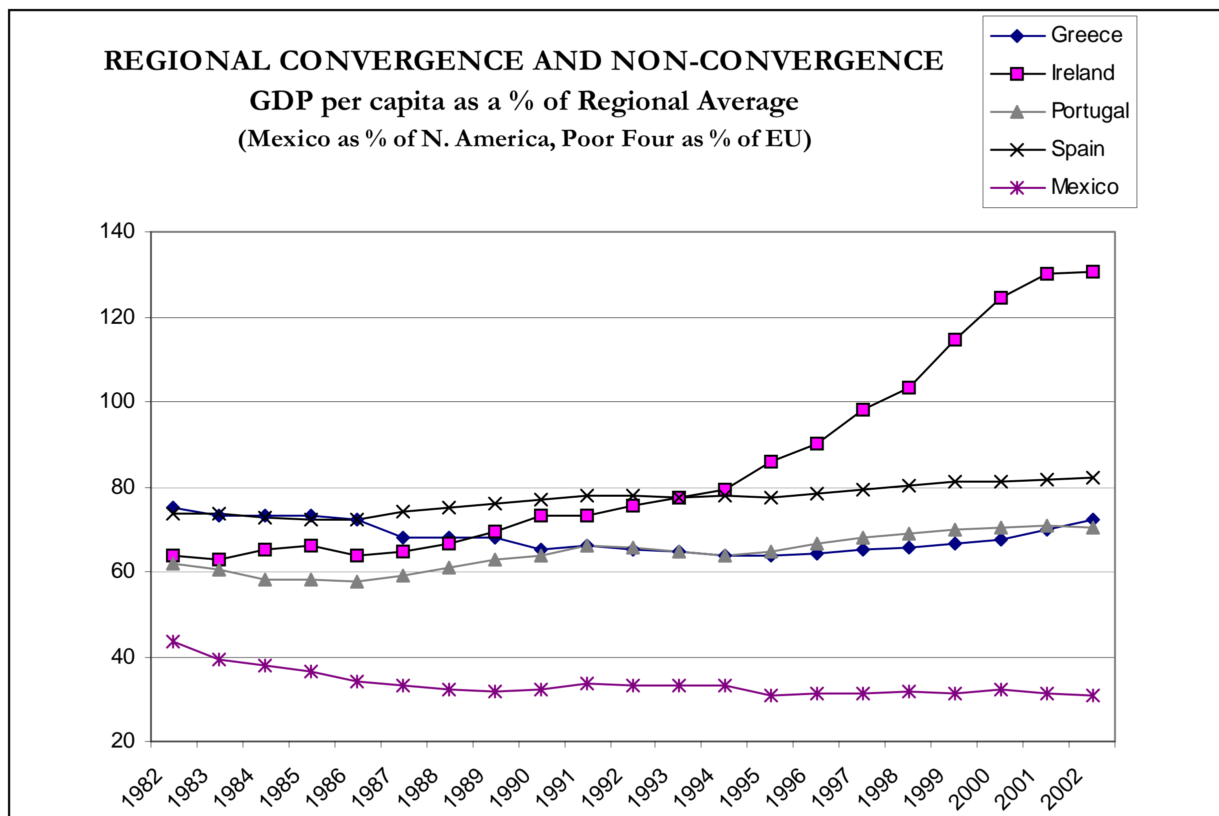
TYPES OF EU STRUCTURAL FUNDS	**Established**	**% of Structural Fund Budget***
European Regional Development Fund: Promotes economic and social cohesion, primarily by co-financing productive investment leading to job creation; infrastructure; and activities of small- and medium-enterprises.	1975	46%
European Social Fund: Aims to prevent unemployment through education and promoting opportunities for women, youth, and long-term unemployed.	1957	26%
European Agricultural Guidance and Guarantee Fund: Supports rural development and structural reform of the agriculture sector.	1975	9%
Financial Instrument for Fisheries Guidance: Promotes sustainable balance between fishery resources and their exploitation.	1994	2%
Cohesion Fund: Finances projects designed to improve the environment and develop transport infrastructure in member states where per capita GNP is below 90 percent of the EU average. Thus far, these funds have gone only to the four poorer EU countries (Ireland, Greece, Spain and Portugal). This will change with EU enlargement.	1993	8%
* Based on 2001 budget. Total for Structural Funds that year: €32 billion.		

nations. Ireland's surge is by far the most dramatic. Between 1982 and 2002, Irish GDP per capita increased from 64 percent to 131 percent of the EU average. Spain and Portugal have increased from 74 to 82 percent and 62 to 71 percent, respectively. Greece's experience has been more mixed. While the country fell behind in the 1980s, it gained ground after it began receiving additional support through the Cohesion Fund in 1993. Since that year the country has narrowed the gap with the rest of the EU by 7 percentage points.[12]

Absent any resource transfers, NAFTA's "poor partner," Mexico, has gone in the opposite direction. In 1982, Mexico's per capita income amounted to 43 percent of the North American average. That year marked the beginning of sweeping market reforms in Mexico, including privatization of state-owned enterprises and trade and investment liberalization. Ten years later, Mexico had slipped to 33 percent of the regional average. The 1994 initiation of NAFTA, which expanded and locked in Mexico's market reforms, did nothing to reverse the trend. By 2002, Mexico's per capita income had dropped to only 31 percent of the regional average. In terms of wages, hourly compensation in Mexican manufacturing dropped from 15 percent of the U.S. average in 1993 to 11 percent in 2002.[13]

Admittedly, one factor in the narrowing of the gaps within the EU may have been Germany's economic stagnation in the 1990s (in part due to the challenge of absorbing eastern Germany). For the "poor four" it was likely easier to catch up with the EU average when the region's largest economy was in the doldrums. However, this is by no means a complete explanation. A comparison of the "poor four" versus Mexico (instead of against their regional averages) reveals that the EU nations have all had higher rates of growth in GDP per capita since 1982.[14]

There are a few critics who question whether EU supports deserve any credit for the "poor four's" progress in catching up with their neighbors. For example, in a book published



Source: Calculated by the authors based on data in World Bank, World Development Indicators Online. GDP in terms of purchasing power parity (current international $).

by the World Bank, Michele Boldrin and Fabio Canova argue that the funds transfers had no significant effect, but rather that national policies such as market liberalization and openness to trade and investment were the key factors in sustained growth.[15] This, however, is a minority view, reflected by the fact that EU governments have agreed to expand Structural Funds to the new EU members. In defending the positive impact of the funds, the European Commission (EC) and others offer several points:

- Econometric studies indicate that the Structural Funds added around 10 percent to the GDP in Greece, Ireland, and Portugal, and over 4 percent in Spain during the period 1989-1999. Moreover, the EC claims that these Funds maintained or created 2.2 million jobs in these countries during this period.[16]

- With regard to Ireland, it is difficult to argue that market liberalization was the sole key to prosperity since the country has had a relatively open economy since the 1970s but did not become economically successful until the 1990s, the same time that it was benefiting from significant EU development aid.[17]

- If massive investment inflows were an automatic leveling agent, Mexico would have enjoyed similar positive trends as the "poor four." Every year since NAFTA went into effect, Mexico has received more than twice as much foreign direct investment as in previous years. In 2001, net inflows hit a high of $25 billion, up 463 percent since 1993. That increase was far greater than those achieved by the "poor four," except for Ireland.[18]

- EC officials claim that in addition to their impact on growth, the Structural Funds have helped improve governance. According to Garnier, "Through their planning, partnership, monitoring, evaluation, and control requirements or through specific programs, the Structural Funds have been instrumental in increasing efficiency in public administration."[19]

It is more difficult to measure whether EU development funds have helped narrow income gaps between rich and poor within countries. The European Commission focuses on data from 1995 onwards, as figures prior to this period are inconsistent across borders. However, even in the short timeframe of 1995 to 2001, the EU countries have on average narrowed the ratio of the income share of the top and bottom fifths of their populations from 5.1 to 4.4.[20]

Ratio of income of top 20% of population to that of the bottom 20% of population

Current EU members	1995	1997	1999	2001
Austria	4.0	3.6	3.7	3.5
Belgium	4.5	4.1	4.2	4.0
Denmark	3.1	2.9	3.2	3.1
Finland	na	3.1	3.4	3.5
France	4.5	4.4	4.4	4.0
Germany	4.6	3.7	3.6	3.6
Greece	6.5	6.6	6.2	5.7
Ireland	5.1	5.0	4.9	4.5
Italy	5.9	5.3	4.9	4.8
Luxembourg	4.3	3.6	3.9	3.8
Netherlands	4.2	3.6	3.7	3.8
Portugal	7.4	6.7	6.4	6.5
Spain	5.9	6.5	5.7	5.5
Sweden	na	3.1	3.2	3.4
United Kingdom	5.2	4.7	5.2	4.9
EU average	5.1	4.7	4.6	4.4

Source: Eurostat.

Official inequality data for North America are extremely sparse, but what is available suggests that in the United States and Mexico, income gaps are far larger than in any EU country and have widened during the NAFTA period. In Mexico, the ratio between the income share of the bottom and top 20 percent grew from 14.3 in 1996 to 17.0 in 1998. In the United States, the ratio grew from 9.3 in 1993 to 10.2 in 1997. Canada's gap rose slightly, from 5.2 in 1994 to 5.4 in 1997.[21]

EU Challenges

Of course, EU members have varied records on income inequality. The European Commission concedes that in Ireland and Spain, high national economic growth has actually widened disparities within regions of these countries. There is some disagreement over the causes of this trend. Carole Garnier, of the EC's Economic and Financial Affairs Department, maintains that this is a natural result of faster progress in areas, usually urban centers, with higher growth potential. Vasco Cal, of the EC's Regional Policy Department, claims, on the other hand, that policymakers have the power to tackle regional disparities, but have chosen instead to funnel more funds into richer regions. Both pointed out that while there has been some widening of gaps between areas of these countries, the poorer areas have nevertheless made progress in catching up with the rest of Europe.[22]

In addition to disparities within regions of countries, there are other persistent indicators of inequality. For example, only 28 percent of Spain's potential labor force has at least a high school diploma, compared to the EU average of 56 percent.[23] In Ireland, half of single mothers live in poverty, compared with only 9 percent in Finland.[24] The challenge to level the playing field will be even greater with the coming enlargement.

There has been a big debate within the EU over how to handle financial support for the new members. Gaps are wider than in previous enlargements. Whereas the "poor four" had GDP per capita levels of 60 percent or higher than the EU average when they became members, some of the new entrants are as far behind as Mexico is in the North American region. For the four poorest among the accession countries, these rates are: Estonia (37.2 percent), Latvia (27.7 percent), Lithuania (31.0 percent), and Poland (36.1 percent). Two countries that are negotiating EU entry are also around this level: Romania (28.2 percent) and Bulgaria (22.3 percent).[25] Although some of the new entrants have far higher levels of per capita income, 90 percent of administrative regions in the EU candidate countries have per capita income levels below 75 percent of the EU average.[26]

While this daunting challenge has sparked debate over how best to tackle the economic divide in an expanded EU, there has never been a question of whether assistance would be provided. According to Cal, of the EC Regional Policy Department, a key factor in maintaining this commitment is the fact that funds are administered by a supra-national institution, the Commission, which is designed to represent the common interest, rather than national interests. In addition, all member states contribute to a Community budget, which is then allocated on the basis of EU policies. Some have criticized the Commission's supra-national status because it is not directly accountable to the citizens. But Cal maintains that "Without the Commission and the common budget, there would not be a Cohesion Policy." He explained that if the EU attempted to administer such a policy through an inter-governmental authority, national governments that saw themselves as losers would likely pull out, even though it might not be in their long-term interest. "This is not just about solidarity, but also self-interest," Cal said. "What's the point of having an agreement with countries without one buck in their pockets?"[27]

Another important factor in maintaining public support for Structural Funds is the fact that significant amounts go to poor regions in richer countries which are net contributors. In fact, the three current member states that fall clearly below the EU average in GDP per capita (Greece, Spain, and Portugal) receive 45 percent of funds, while Germany, the richest country in the bloc, receives one of the largest amounts, at 15 percent. France and the United Kingdom receive 8 percent and 9 percent, respectively.[28] Christian Weise, of the European Commission's Budget Department, explained that with the financial strain of EU enlargement, there has been a debate over whether to continue to allow the richer countries to receive Structural Funds, but for political purposes at least some funds will likely continue to be allocated to the poorer regions within the richer countries.[29]

IRELAND CASE STUDY

The experience of Ireland, often touted as the EU's biggest success story, is worth a more detailed examination. One of the poorest EU nations upon membership in 1973, Ireland became by the early 1990s a so-called "Celtic Tiger," with the EU's highest economic growth rates. One of the country's strongest achievements was the drop in unemployment from 17 percent in the mid-1980s to around 4 percent in the late 1990s. This job boom succeeded in reversing the trend of Irish emigration, as young people returned from abroad to take advantage of new opportunities, particularly in the rapidly expanding technology, pharmaceutical and financial sectors. Another sign of the country's reversal of fortune is the fact that it is now one of the largest contributors to developing country aid. Ireland currently contributes 0.41 percent of GDP to aid, placing it sixth in the world.[30]

There is a debate over the extent to which EU Structural Funds contributed to Ireland's economic boom, but most agree that they were an important factor. Particularly after the creation of the Cohesion Funds, aimed at the "poor four" EU nations, Ireland received the highest per capita level of EU funding of any member state. Between 1974 and 2001, Ireland received a total of more than €16 billion in Structural Funds. Combined with EU agricultural supports, these funds averaged more than 5 percent of GNP throughout the 1990s.[31]

The EU Structural Funds in Ireland were divided between infrastructure (36 percent), education (28 percent), grants and subsidies for private industry (26 percent), and income support, particularly in rural areas (10 percent).[32] Two of the numerous "success stories" described on the European Commission's web site include: the upgrade of the railway link between Dublin and Belfast, Northern Ireland, 15 percent of which was paid for by the Cohesion Fund, and an urban renewal project in the Temple Bar neighborhood of Dublin. The EU contributed the equivalent of €47 million to help transform this formerly rundown neighborhood into an artsy hotspot often referred to as "Ireland's Soho."

Many analysts and government officials say that one of the most important impacts of EU funding was that it helped the country maintain high levels of investment in training during the late 1980s and early 1990s, when other Irish social programs were facing cuts. Since EU funds would cover 65 percent of training costs, the Irish Training and Employment Authority had an easier time justifying their expenditures.[33] In the period 1990-95, Ireland was second only to Sweden in the EU in terms of the share of GDP spent on an active labor market policy.[34] According to Boyle, the EU training funds not only helped turn the country into a hi-tech investment magnet; it also helped galvanize community activists (from rural feminists to parish priests) who became engaged in developing strategies on how to best use the funds to combat unemployment.[35]

Several other factors related to EU membership were significant contributors to the economic boom:

- **Access to EU Markets:** The Single European Act of 1987 lifted trade barriers within the Union, making Ireland an even more attractive site for U.S. producers eager to use the country as a platform for exporting to other EU member states. Ireland's English-speaking and well-trained workforce was also a draw for U.S. employers.

- **Corporate Tax Breaks:** The Irish government used EU-funded grants and rock-bottom corporate taxes (now 12.5 percent) to help attract a flood of foreign direct investment, particularly from the United States. In the late 1990s, U.S. foreign direct investment amounted to more than 80 percent of the average annual total, and in 1999, products from U.S. firms made up 70 percent of

Ireland's manufacturing exports.[36] These exports are highly concentrated in computer hardware, software and pharmaceuticals. In a March 2003 speech at the World Bank, Irish Prime Minister Bertie Ahern boasted that "Ireland currently is the largest exporter of software in the world and over two-thirds of the computers sold in Europe are made in Ireland."[37]

- **Social Partnership:** Beginning in 1987, the Irish government began negotiating with social partners to produce multi-year national agreements on wages, taxes, and other policies. Initially, these agreements consisted primarily of the trade unions' acceptance of moderate wage growth (for both public and private sector workers) in exchange for low taxes on wages. These pacts have been credited with maintaining low levels of labor conflict and low inflation during most of the past decade. Over time, the social partnership process expanded in scope and participation. In addition to unions and employers, farmers and community and voluntary (anti-poverty) groups engaged in the process.[38] The substance of the agreements extended beyond wages and taxes to include social welfare payments, healthcare spending, education and other policies. Non-union companies (which include many of the U.S. hi-tech firms) are not required to abide by the agreements, but an estimated 70 percent do nevertheless. EU funding has also helped spread the social partnership approach to the local level, creating institutional frameworks for civic engagement in a wide array of community policies.

Alan Dukes, former leader of Ireland's conservative Fine Gael political party, believes Ireland's experience with the EU's broad social and economic integration process offers important lessons for Latin America. Prior to joining the EU, Ireland was largely dependent on the British economy, providing its richer and larger neighbor with a cheap source of labor and food. According to Dukes, "For the countries of Latin America, starting off to create an integrated market on a solely economic basis with the United States as the leading partner is a very dangerous enterprise. We had economic integration between Ireland and what's now the UK from the beginning of the 19th century, and it worked very much against Irish interests. Only when we joined the EU did we get on an equal footing."[39] Since joining, Ireland's dependence on Britain has dramatically declined. In 1972, 61 percent of Irish exports went to the United Kingdom. By 1995, this had dropped to 28 percent.[40]

Complex Social Impacts

Despite many signs of economic success, there is much disagreement over whether the boom fueled by EU aid and foreign direct investment was good for Ireland's poor. The Irish government points to declines in a measure of "consistent" poverty as a positive sign. "Consistent" poverty indicates households that fall below relative income poverty lines and also lack one or more items on a list of basic indicators of deprivation. Between 1994 and 2000, the percentage of Irish households in consistent poverty fell from 15.1 percent to 6.2 percent.[41] However, others argue that with rising living standards, it is valid to examine relative poverty levels. On this measure, there appears to have been a negative trend since the arrival of the Celtic Tiger, although only for the very bottom tier. While households falling below 60 percent of average income fell from 34.2 percent in 1994 to 32.9 percent in 2000, those falling below 40 percent of average income rose from 4.9 percent to 11.8 percent.

In terms of inequality, the picture is also complicated. The Dublin-based Economic and Social Research Institute reports that while the share of disposable income of the richest 20 percent of households actually declined slightly between 1987 and 1998, those at the bottom also experienced a slight loss, as the middle gained.[42] Many blame the lack of significant progress in reducing inequality on the national government. Although social spending rose during the boom period in absolute terms, it did not

keep pace with economic growth rates, nor with EU standards. According to a paper by the European Economy Group, "In a clear contrast with its counterparts, the share of social protection expenditures in GDP of the Irish economy has recorded a significant reduction …Thus, it is now noticeably below the EU average."[43] Some point out that the public has been somewhat cushioned from the impact of low social spending while the country's unemployment rate has been low, but this is already creeping up.

The impact of EU funds on inequality appears to have been mixed. In the rural sector, EU agricultural policy boosted farm incomes, but mostly to the benefit of large producers. Since price supports have been linked to production, the more a farmer produced, the more the volume of price support he or she received. The economic pressure on small farmers has been somewhat offset by the fact that non-farm economic opportunities in rural areas have expanded.

For women, on the other hand, EU membership has had clear benefits. There is widespread agreement that the EU anti-discrimination directives (see more in Section II.D) were particularly important for women in Ireland, where many say women's roles upon EU accession in the 1970s were similar to those of other European women in the 1940s. According to Anne Marie McGauran, of the Gender Equality Unit in the Irish Department of Justice, "everything we have in Ireland in gender equality standards we got because of the EU."[44] Women's participation in the labor force has increased from under 28 percent in 1971 to 44 percent in 1999, while women's average wage has increased from about 56 percent to 75 percent of men's wages.[45]

It is understandable that there is disappointment that Ireland's overall prosperity has not translated into an equally dramatic improvement in terms of poverty and inequality reduction. However, it is noteworthy that Ireland has not experienced the rapid increase in inequality experienced by most other countries in the world during this period.

Is Ireland's Economic Progress Sustainable?

When the current phase of EU Cohesion Funds expires in 2006, Ireland's GNP per capita will be too high to qualify for further support. The loss of EU aid, combined with the region's enlargement to include countries that might prove to be strong competitors with Ireland, has contributed to already substantial fears about the future of the nation's economy.

In 2001, FDI levels began dropping and since 2002, there has been a wave of confidence-rattling layoffs by multinational firms. In July 2003, the government announced that tax revenues for the year were expected to be €500 million less than forecast.[46] This announcement added weight to a common criticism that Ireland's low-tax strategy, while attractive to foreign firms, undermines the government's capacity to address poverty or make continued investments in infrastructure and training that could support continued growth. Currently, Ireland has no residential property taxes, Europe's lowest corporate tax rate, and low income taxes. At the same time, EU constraints on deficit spending and borrowing leave few alternatives for stimulating the economy.

Peadar Kirby, of Dublin City University, says he is extremely concerned about the future, stressing the vulnerability created by Ireland's reliance on FDI, its narrow tax base, and growing inequality. "Ireland's economy has been the most successful in the EU, and yet virtually overnight we're in dire straits."[47] On the other hand, Kirby argues that the country will benefit from the fact that the government has maintained a strong role in industrial policy and unlike most nations in Latin America, rejected major privatization of its relatively large public sector, particularly in public utilities and transport. This, he explains, is due to the fact that Irish politics is consensus-based and the unions, particularly in the public sector, are very strong.

Prime Minister Ahern claims that Ireland's highly skilled workforce will help ensure economic sustainability: "we now recognize that mobile foreign investment seeking low cost, low skilled workers is no longer one of our target markets. We now focus on advanced manufacturing or office based activities to a great extent demanding high skills and doing high value work, often connected to research activity." Nevertheless, there is widespread concern that Ireland may lose foreign investment to competitors from India and other emerging markets, while Ireland's indigenous business sector remains weak.

These fears are particularly strong as the country prepares for the transition to net contributor to EU development funds. According to Liam Ryan, of the National University of Ireland, "the true test of Ireland's love affair with Europe will come only when we are asked to be contributors rather than recipients, when we must put away the begging-bowl and reach for our cheque-book instead."[48]

B. MIGRATION

The EU Model

One consequence of the EU's per capita income convergence is that people are not as pressed to leave home in search of economic opportunities. Since 1968, EU citizens have been able to exercise the right to freedom of movement from one member state to another. The EU also bans governments from discriminating against citizens of another member state. This means that if a migrant worker becomes unemployed, he or she is eligible for all benefits a state guarantees to its own citizens. EU citizens also enjoy the right to vote and run as candidates in municipal and European Parliament elections in all member states.

These "open border" policies have not been entirely non-controversial. During the early negotiations over the enlargement to include the "poor four," there was much fear of a flood of brain-draining migration, especially from Spain and Portugal. According to the U.S. Department of Labor, average manufacturing wages in 1980 in all four countries were less than half the level in West Germany. Portugal was the lowest, at 16 percent.[49] Hundreds of thousands of Spanish and Portuguese workers had already sought employment in the manufacturing-intensive regions of France, Germany, and Switzerland. Thus, while both Iberian nations became official members in 1986, the EU postponed their right to free labor mobility until 1991. During this transition phase, EU structural funds and other supports, combined with a surge in private foreign direct investment, helped improve economic opportunities and social standards to the point where emigration pressures subsided.

In stark contrast to the predictions prior to EU accession, Spain and Portugal not only did not flood the rest of the Union with migrants, they turned into labor-importing countries. Native Spaniards and Portuguese who once sought work in Northern Europe in droves found increased job opportunities at home. In Spain, net migration levels dropped 90 percent from the period 1962-64 to the period 1990-1994.[50] Moreover, workers unable to find work in Spain were able to stay in their communities because of higher levels of social protection.[51]

Throughout the EU, migration levels are low. Eurostat reports that during the period 1990 to 2002, annual net migration in the EU ranged from 1.3 to 3.5 inhabitants per 1,000.[52] In fact, migration rates have been so low that ten years ago the European Commission created a special program, called the EURopean Employment Services (EURES) network, to help workers and even non-workers take advantage of their right to freedom of movement. EURES provides employment information and counseling, as well as recruitment services.

It must be noted that the EU's openness to migrants does not extend to those from non-member states and in fact barriers to entry from outside the EU are high. However, the EU will soon be allowing migrants from new member states in Eastern Europe free labor mobility. As in the 1980s, there are once again concerns about the potential impact of open borders with countries that have much lower average wage levels than current member states. In fact, the gaps in per capita income between current and new members are far greater than during expansion to the "poor four." As a consequence, the EU is allowing once again for a transition period of up to seven years during which the current EU member states may restrict migration from new member countries. However, most EU countries have agreed to grant unlimited access immediately upon accession in May 2004.

The NAFTA Approach

By contrast, NAFTA granted increased mobility only to professionals. Moreover, the deal set limits on the number of temporary visas to be granted by the United States to eligible Mexican professionals (but not on Canadians). NAFTA promoters argued that trade and investment liberalization would lead to such great improvements in Mexican living

standards that migration pressures would subside. Just the opposite has occurred. The U.S. government estimates that the number of unauthorized Mexican immigrants in the United States grew from 2 million in 1990 to 4.8 million in 2000, with the highest growth occurring in the years after NAFTA went into effect. [53] This is in spite of the billions of dollars spent by the U.S. government every year to patrol its borders and an increase in U.S. border patrol agents from less than 4,000 to more than 9,000 since NAFTA began. Because of tighter security, Mexicans attempting to cross illegally take increasingly dangerous routes, and hundreds lose their lives every year in remote areas.

Herbert Bruecker, an immigration expert at the German Institute for Economic Research, emphasizes that one lesson for the debate over migration policy in the Americas context is that free labor movement creates higher incentives for return migration. "Otherwise, workers have something to lose by going back," Bruecker said. "But with free movement, workers can respond more to the business cycle, creating a more flexible labor force."[54] On the political front, he points out that for national elected officials, the EU has been a convenient scapegoat on migration and other delicate issues. "They can say, 'don't blame me, it's those international bureaucrats who are making the decisions.'" This, combined with the obvious benefits of travel freedom within the EU, has helped maintain public support for the policy.

EU-Speak

The different approach to inequality in the EU is reflected in the language of official EU documents.

SOCIAL EXCLUSION: Where in the United States the term "poverty" would be used, EU documents in the 1980s began to use the term "social exclusion." A definition of the term from a Commission document: "when people are prevented from participating fully in economic, social, and civil life and/or when their access to income and other resources (personal, family social and cultural) is so inadequate as to exclude them from enjoying a standard of living and quality of life that is acceptable by the society in which they live."[55] According to Edinboro University professor Suzanne McDevitt, "Social exclusion restores the dignity of the poor and disadvantaged. The predominant U.S. model has been to blame the poor for their poverty."[56]

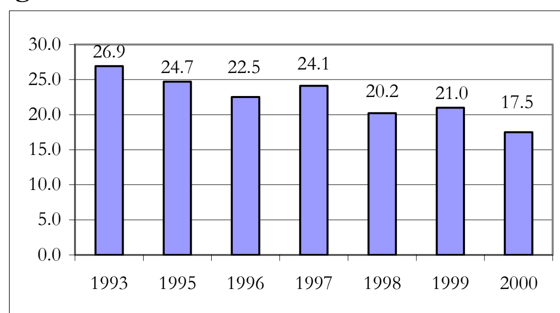
SOCIAL COHESION: The term "social cohesion" was first used in the Single European Act (1987) at the insistence of the poorer states and originally referred to inequality between countries. Only later was the term used to refer to problems within countries. Trinity College professor James Wickham explains that "in a socially cohesive society, people take some responsibility for each other even if they do not share any personal links. Cohesion is therefore the opposite of individualism."[57]

FINANCIAL SOLIDARITY: The European Commission's Department on Regional Policy, responsible for administering and monitoring development funding, is described as an "instrument of financial solidarity," because it aims to benefit citizens and regions that are in some way economically and socially deprived.

C. AGRICULTURE

Agriculture is one of the most contentious issues in the FTAA negotiations. In part, concerns in the rest of the hemisphere are based on the experience of Mexico under NAFTA. According to the World Bank, the percentage of the Mexican workforce employed in agriculture dropped from 26.9 percent in 1993 to 17.5 percent in 2000.[58] This was the biggest decline in agricultural employment among the proposed FTAA countries during this period. According to the Carnegie Endowment, this coincided with a loss of 1.3 million jobs in agriculture.[59] At the same time, extreme rural poverty in Mexico has risen from 51 to 58 percent.[60]

Mexico: % of workforce employed in agriculture



Source: World Bank, World Development Indicators Online. Note: data for 1994 unavailable.

Mexico's rural poverty crisis is the result of a number of factors. Prior to joining NAFTA, the Mexican government initiated free market reforms that made small producers more vulnerable. These included the removal of support prices and a constitutional reform to allow the sale of collectively held agricultural lands on the private market. Then under NAFTA, the Mexican government agreed to a timetable for the phased-in lifting of barriers to agricultural imports from Canada and the United States. In most years, the Mexican government waived restrictions to allow in even more imports, based on the belief that this would lower consumer food prices. As a result, U.S. corn imports doubled between 1994 and 2000. [61] Although the influx of cheaper U.S. corn resulted in lower prices for Mexican industries that use corn, the benefits were not passed on to consumers due to monopoly pricing of tortillas, a basic staple.[62]

There is a debate over the extent to which the sharp increase in U.S. corn imports has led to displacement in the Mexican countryside. For example, it is pointed out that in some Mexican states, corn production has actually increased during the NAFTA period. However, as Mexican researcher Alejandro Nadal points out, this is likely a sign of desperation rather than economic health. "Proof of this," he explains, "is the fact that the cultivated surface devoted to corn has increased, while yields have dropped. This demonstrates that there is greater pressure on existing resources."[63]

For many Mexican farm groups, anger over NAFTA is focused on both the reduction of farm protections in Mexico as well as what they see as the hypocrisy of U.S. agricultural policy, which provides billions of dollars in supports for domestic producers (particularly large-scale agribusiness) while promoting free market reforms abroad. In early 2003, campesino groups marched on the capital and threatened to block border crossing points to protest NAFTA. In response, President Vicente Fox agreed to push the U.S. and Canadian governments to renegotiate NAFTA tariffs on some commodities. So far, however, there has been little concrete action.

If the FTAA is based on the NAFTA model, other governments in the Americas could face similar rural crises. Without protections, many farmers in these countries would be vulnerable to being displaced by competition with large-scale operations, especially in the United States, that benefit from chemical- and capital-intensive practices and often heavy subsidies. Agriculture is still an important source of income in many countries in the region, employing more than 10 percent of the workforce in at least 18 of the 34 countries engaged in the FTAA negotiations.[64] (By contrast, the percentage in the United States is less than 2 percent.)
Currently, millions of small farmers in the Americas enjoy protection for the staple

foods they grow. For example, Nicaragua charges tariff rates of 45-55 percent on certain types of corn and rice imports.[65] Costa Rica has also used a temporary import duty, called a "salvaguarda," to protect domestic rice growers. This duty was set at 52.8 percent early in 2002.[66] Colombia has also used a price-band system to place higher duties on imports of 13 products when prices fall below a set floor in the band. The U.S. government's negotiating position in the FTAA has been for countries to remove all tariffs on imports within 10 years.

The EU Approach

While NAFTA focuses narrowly on lifting barriers to agricultural trade, EU agricultural policy has combined trade liberalization with massive subsidies for farmers in member states. Thus, NAFTA pits Mexican farmers with little government support against heavily subsidized Canadian and U.S. farmers, whereas in the EU, farmers in all member states can benefit from aid funds in the collective EU budget. This approach supports the principle identified in the EU's Common Agricultural Policy (CAP) of "financial solidarity."

The overriding goal of the CAP, however, has been to boost yields. Designed at a time when Europeans were still traumatized by memories of hunger during World II, the focus was on guaranteeing food security by increasing productivity. Since the program began in 1963, expenditures have totaled €672 billion, €45 billion in 2001 alone. These funds are primarily used to cover price supports, the cost of buying up and storing surpluses, and direct payments to farmers. Smaller amounts are now available for measures linked to the environment and structural and rural development. The CAP currently consumes about half of the EU's annual budget, down from more than 70 percent in the past.[67]

There is no question that the CAP has been successful in reducing dependence on food imports. Whereas the region produced only 80 percent of total consumption needs when the program was introduced in 1962, it now produces 120 percent.[68] This increase has coincided with a significant drop in the percentage of household expenditure on food. However, at the same time, the CAP has been one of the most controversial EU policies. Reforms have been ongoing, with the most recent announced in 2003. The following section looks at the CAP's past record.

Environmental Impacts

The harshest criticism of the CAP is focused on the policy's environmental record. A major concern has been the CAP's narrow focus on food security. Farm payments have been based on production levels, which has encouraged farmers to boost yields through chemical- and energy-intensive forms of agriculture, with little regard for the detrimental impacts on the environment and animal welfare.

Over the years, the European Commission has attempted to respond to these complaints through a number of initiatives. In 1975, the EU issued a "Less Favoured Areas" (LFAs) directive to compensate farmers working in mountainous and other marginal regions. The impact has been mixed. On the one hand, it has had benefits by helping to sustain farmers in low-intensity farming systems. On the other, it may have been detrimental to conservation efforts because the form of support that was used up until the 1990s was based on the number of livestock units, thereby encouraging high stock densities.[69]

In the late-1980s, a "set-aside" scheme was introduced that was expected to have positive environmental impacts by taking land out of production. In practice, in arid regions such as in Spain, it sometimes created further problems by leading to land abandonment and associated problems of soil erosion as well as increased intensification of farming on remaining land.[70]

The first major reform of the CAP was in 1992. One key element was a regulation requiring member governments to develop "agri-environmental" policies. National governments could receive EU co-funding for

projects to promote environmentally friendly forms of farming. A related objective was to provide income support for small farmers who used sustainable practices.[71] Specifically, funding was made available for activities to reduce agri-chemicals (including conversion to organic farming); convert arable land into grassland; reduce livestock densities; raise endangered breeds; manage abandoned farms or woodlands; set-aside farmland for at least 20 years; and manage land for public access. Agri-environmental funds are paid on an annual basis to farmers who undertake commitments for a minimum of five years.[72] The 1992 reform also included mechanisms, such as quotas, to reduce surpluses.

A second major CAP reform in 2000 introduced more environmental policies, as well as initiative on food quality and safety. However, agri-environmental measures still made up only about five percent of the total CAP budget. Nevertheless, there have been some positive impacts. First, it is worth noting that as a result of the new regulation, some EU governments adopted agri-environmental programs for the first time. Secondly, some individual projects appear to have been quite successful. One of the most ambitious was a project initiated in 1993 to address serious problems created by overexploitation of groundwater resources for irrigated farming in the southern central plateau of Spain. Previously, the CAP had contributed to the problem by boosting prices for corn, a basic crop in the area. This motivated the drilling of wells to begin irrigation on more than 100,000 hectares between 1975 and 1988, leading to severe water shortages. The goal of the 1993 project was to recover the wetlands of the National Park "Tablas de Daimiel" by reducing water extractions from the aquifers. By 1997, almost 3,000 of the 8,400 farms in the area had volunteered to participate by reducing their water use (by planting less crops with high water demand and other means) in exchange for income payments. As a result, water consumption in the region dropped in half by 1997.[73]

Impact on Small Farmers

At the time of the founding of the CAP in 1962, ministers of the original six member states emphasized the importance of small family farmers in supporting social stability.[74] They made sure that one of the key missions of the CAP would be to ensure a "fair standard of living" for farmers. And over its history, the EU has spent more on subsidies to farmers than on any other budget item. However, the CAP's mission does not include maintaining farm employment. To the contrary, its focus on boosting productivity has put small-scale producers at a disadvantage. Thus, despite massive agricultural spending, the CAP has not prevented a decline in farm employment. Although it occurred more gradually than in Mexico, every EU member state has experienced a significant decline in agricultural employment. Mexico's agricultural employment dropped 9.4 percent over six years, while the EU's "poor four" nations, which have had by far the highest percentages of workers employed in agriculture in the EU, saw similar levels of decline over a 13-year period (1985-1998).[75]

Poor four: % of workforce in agriculture

	1985	1990	1995	1998
Greece	28.9	23.9	20.4	17.8
Ireland	15.6	15.1	11.7	9.1
Portugal	23.8	17.9	11.5	13.5
Spain	18.3	11.8	9.2	8

Source: World Bank, World Development Indicators Online.

Small farms have declined most rapidly. Between 1987 and 1997, there was a drop in the number of all farms in the EU of 24 percent, whereas farms of 5 hectares or less dropped by 40 percent in Spain and Portugal and by about 70 percent in Ireland.[76] Throughout the EU there is a general trend towards larger farm sizes. This is perhaps not surprising, given that the subsidy system has disproportionately benefited large producers. Because of the linkage between payments and production, the largest 20 percent of farms have received 70 percent of CAP money. While small farmers account for nearly 40

percent of EU farms, they receive only 8 percent of subsidies.[77]

Impact of High Expenditures

The large sums spent through the CAP have been criticized as wasteful, particularly when they have resulted in mountains of surplus commodities. This was particularly a problem in the early 1980s, when a world recession lowered demand for EU agricultural products, resulting in massive stocks and some 70 percent of the Community budget spent on the CAP.[78] While spending levels have dropped considerably, critics argue that farm subsidies are still too high, particularly because they make it difficult for developing country producers to compete with EU farmers. According to the Catholic Agency for Overseas Development (CAFOD), the EU accounts for 90 percent of the world's agricultural export subsidies.[79] The impending enlargement of the EU has raised additional concerns because it will further strain CAP expenditures.

New Direction?

In July 2003, the European Commission responded to many of the common criticisms of the CAP by introducing a set of proposals for significant CAP reform. These include:

- de-linkage of subsidies from production as a way to reduce the incentive to overproduce,
- new subsidies in the form of "single farm payments" conditioned on respect for environmental, food safety and animal welfare standards,
- a ceiling on payments to large farmers, and
- increased spending on rural development, funded through savings from reduced payments to large farmers.

These changes are scheduled to go into effect between 2004 and 2007. According to the European Commission, the new CAP policies reflect recognition of the "multi-functionality" of European agriculture, the notion that farmers, in addition to producing food, "play a key part in protecting and maintaining the environment and the countryside, together with its rich cultural heritage of tradition and knowledge."[80]

It is too early to judge whether these changes will be effective. However, initial responses from some environmental groups were strongly negative. The World Wildlife Fund complained that budget increases for rural development were inadequate and questioned whether they would actually enforce requirements that farmers meet environmental criteria for receiving payments.[81] Friends of the Earth Europe also pointed out that environmental enforcement has been extremely weak in the past and there was not much reason to expect improvement under the new reform.[82]

Negotiations over accession have also pushed the European Commission to wrestle with its vision for small-scale sustainable farming in Europe. The issue was most central to negotiations with Poland. Currently, almost 20 percent of Poland's workforce is employed in agriculture – more than four times as high as in the current average for EU member states. Average farm size – at 7.5 hectares – is less than half the current EU average.[83] Throughout the negotiations, the EC stressed the need for reforms to make Poland's agricultural sector more economically efficient, even though these changes would undoubtedly lead to large-scale loss of farm livelihoods. In the face of strong rural resistance to joining the EU, the Polish government pressed for terms that would allow a more gradual shift away from subsistence agriculture, combined with substantial support for rural development and alternative job creation. Polish farmers will also receive some direct aid from Brussels, but at lower levels than farmers in current EU states until the year 2013. As one EC official put it, there will be changes and some reduction in agricultural employment, but no "big bang."

D. SOCIAL STANDARDS

The EU Model

From the onset, the entity that evolved into the European Union had a mission that encompassed social as well as economic goals. The founding Treaty of Rome states that "It shall be the aim of the Commission to promote close collaboration between member states in the social field, particularly in matters relating to employment, labor legislation and working conditions, social security, protection against occupational accidents and diseases, industrial hygiene, the law as to trade unions, and collective bargaining between employers and workers."

However, the EU did not take on much of a role as social standard sheriff until after the enlargement in the 1970s to include Ireland, the United Kingdom and Denmark. During this phase, a major focus of social policy activity was in the area of gender equality, including three EU directives banning sex-based discrimination in pay, employment and social insurance. The driving force was both altruistic and economic. The French government feared that unless the EU mandated gender equality in pay, the relatively high pay levels enjoyed by French women would undercut the country's competitiveness.

For much of the 1980s, the EU was locked in a battle over social policy, with British Prime Minister Margaret Thatcher fighting for the right to maintain a hands-off approach and other members pushing for higher minimum standards. The momentum behind a more active social policy role was driven by a number of factors. For example, in the early part of that decade, the EU was in the process of negotiating expansion to Southern Europe, where social protections and labor costs were lower than in existing member states. There were strong fears that unless more was done to lift up standards, there would be an increase in "social dumping," as firms shifted production to take advantage of lower standards.[84] In the late 1980s, EC President Delors further intensified pressure for strong EU-wide social protections, arguing that they were necessary to mitigate potential negative impacts on workers and the environment resulting from the formation of the Single European Market in 1992.

Thus, despite British objections, all member states but the United Kingdom adopted in 1989 the "Community Charter of Fundamental Social Rights for Workers," which lays out a number of rights that are to be guaranteed in the EU labor market. These cover:

- freedom of movement,
- social protection,
- freedom of association and collective bargaining,
- employment and pay,
- living and working conditions,
- vocational training,
- gender equity,
- information and participation,
- workplace health and safety
- protections for children, elderly and the disabled.

The Charter's objectives were incorporated by annex as a "Social Policy Protocol" into the Maastricht Treaty in 1992.[85] The 1997 Amsterdam Treaty incorporated the Social Protocol within the main body of the treaty and included a number of amendments related to combating discrimination on the basis of sex, racial or ethnic origin, religion or belief, age or sexual orientation.

Currently, the Charter itself is not legally binding, but parts of it are the basis for EU directives, regulations, and decisions that must be transposed into national legislation.[86] One major advancement in the Maastricht Treaty was that it allowed the European Council to take decisions on some areas by qualified majority, meaning that unanimity is not required. This applies to the areas of improvements in the working environment to protect employees; working conditions; information and consultation of workers; equal opportunities for men and women on the labor market and equal treatment at work;

and occupational integration of people excluded from the labor market. Unanimous approval is still required on votes regarding social security, job security, worker participation, employment of third-country nationals and job creation. The EU thus far has chosen not to take action on setting minimum wage levels.

Enforcement

For the debate in the Americas, it is particularly important to examine the EU's approach to enforcement of social standards. This is a controversial issue because of fears that richer countries will manipulate such standards for narrow protectionist purposes to maintain an economic advantage over the poor. The EU has attempted to ameliorate such concerns in at least three ways. One is by emphasizing compliance and offering poorer countries considerable financial and technical support to help them achieve the required standards. The second is that the authorities responsible for monitoring and adjudication, the European Commission and the European Court of Justice (ECJ), are supra-national, which helps to distance them from narrow national or political interests. And finally, there appears to be no rush to punishment in the EU system.

Here is how it works. The European Commission monitors implementation of all EU laws and investigates charges of noncompliance filed by individuals or member states. When the Commission finds evidence of a breach, it requests that the country take action to meet its obligations. If the national authorities fail to remedy the problem within a specified period of time, the Commission can refer the matter to the ECJ.

If the Court rules against the country, the government still has a substantial (some say too substantial) period of time during which it can come into compliance without facing a penalty. If it does not, the Commission can issue a second opinion urging compliance. If the government again flouts the law, the Commission can take the government before the ECJ a second time and recommend a specific sanction, often a daily fine. If the Court rules against the country, it can then impose a sanction. In addition to cases referred by the Commission, the ECJ also has jurisdiction over cases referred by national courts that involve an interpretation of EU law.

Civil society organizations point to several instances in which they were able to obtain rights only through EU-level action. The EU, after a slow start, has taken a particularly strong stance in defending women's rights. Article 119 of the 1957 Treaty of Rome states that member states must ensure and maintain the principle that men and women receive equal pay for equal work. This article was largely ignored until 1975, when the European Council issued a directive on equal pay for work of equal value, followed a year later by a directive that required equal treatment for men and women in employment and training. Directives in the 1980s and early 1990s dealt with equal treatment in social security and protections for workers who are pregnant or have recently given birth. The Irish government tried to negotiate a waiver from the pay equity directive, but the request was refused, much to the delight of Irish women's and labor groups who had fought for that right. Likewise in Austria, it was only when the EU issued a directive on parental leave that the Austrian unions won a long-standing battle to obtain that right.[87]

The European Court of Justice has aggressively upheld women's rights. For instance, the Court ruled in 1998 against a Scottish company that had fired a woman who had been incapacitated for six months due to a pregnancy-related illness. The Court ruled that even though the firm had a contract that allowed it to dismiss an employee after an extended illness, the firing in this case violated EU anti-discrimination standards, since only women suffer from pregnancy-related disorders.

In recent years, the EU has broadened its work on gender equity from a focus on discrimination in the workplace to the "mainstreaming" of gender issues in its policy

making and implementation processes. New EU policy instruments have been created to accomplish this goal, such as the collection of sex disaggregated data, gender impact assessments, and gender auditing of EU programs. This has resulted in studies of the gender impacts of a wide range of issues, including EU enlargement, globalization, and asylum and refugee policy. However, since these instruments are not legally binding, there is some skepticism that "mainstreaming" will have much impact.

In addition to the progress on women's issues, there is also considerable optimism that two relatively new directives will have a positive impact in the broader area of discrimination. Adopted in 2000, these directives cover sex, disability, religion or belief, sexual orientation, age, and racial or ethnic origin. One is known as the Race Directive and provides protection in education, social security, access to goods and services, and cultural life. The other is the Employment Directive, which covers employment, self-employment, working conditions, membership in workers' organizations, and whistle-blowing.

According to Clarence Lusane of American University, "the Race Directive is revolutionary because many countries haven't had such legislation."[88] Even in the United Kingdom, which is relatively advanced in this area, the directives will have an impact, according to Lusane. For example, he points out that the Race Directive covers all public and private sector entities, whereas UK law had exempted firms with six or fewer employees. As Lusane puts it, "This is an example of where the collective has been more progressive than the individual parts." He notes, however, that the EU member states need to develop strong campaigns to educate the public about their rights under the anti-racism directives.

EU Challenges

While the EU has made some significant progress in lifting up social standards, it should not be overstated. During the past decade in particular, there has been an imbalance in emphasis, with economic policies taking priority. As Ronald Janssen of the European Trade Union Institute points out, budgetary restrictions imposed by the European Central Bank (in accordance with the Maastricht Treaty) have left many national governments with no alternatives to cutting wages and social programs. Meanwhile, according to Janssen, the EU Finance Ministers, together with the business lobby, are constantly pushing policies that would be detrimental to workers, such as decentralization of wage bargaining and reduced unemployment insurance.

Janssen explained that EU labor unions have responded by developing new strategies, including experiments with international sectoral collective bargaining. "We're just trying to do what the officials have been doing for many years," Janssen said. There was difficulty with fiscal coordination, so they got Maastricht and now they say they are bound to that. So the trade unions are now saying, for example, that we can't accept wages increases below the inflation rate because we're bound by our own international agreement."[89]

Clearly, future progress on upward harmonization of social standards will depend on continued civil society pressure and political initiative.

The NAFTA Approach

Under NAFTA, officials recognized that trade and investment have social impacts by negotiating "side agreements" on labor and the environment. (See Section II.E for a discussion of the environmental side agreement). However, 10 years into the agreement, it is more clear than ever that these side deals were not designed to have any significant impact, but were largely meant to appease labor and environmental critics of NAFTA. In fact, even at the time of the NAFTA debate, negotiators reportedly made statements to business lobbyists to calm their fears by explaining that the side deals wouldn't actually be enforceable.

The labor side agreement (officially, the North American Agreement on Labor Cooperation (NAALC)) technically has the authority to enforce existing laws on a set list of labor rights. 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 question that it's far better than what we have under NAFTA. Of what you could get out of the ECJ, you could get maybe 10 percent of that out of the NAALC."[90]

The 20-plus cases filed under the NAALC have produced little other than increased publicity of rights abuses, particularly by U.S. corporations in Mexico. Most cases have involved the right to freedom of association, which can lead, at most, to inter-governmental consultation. Only violations of health and safety, child labor, and minimum wage laws may lead to government sanctions. There is no mechanism to penalize corporate violators. And unlike in the EU, NAFTA provides no financial assistance to help countries achieve compliance.

So far, no NAFTA labor case has come remotely close to resulting in sanctions. One important test case involved health and safety violations at two Mexican factories owned by U.S.-based Breed Technologies. In 2001, the agency that investigates charges of labor rights violations in the NAFTA countries confirmed that the Mexican government had failed to ensure that the employer protected the workers from dangerous chemical exposure and ergonomic conditions. The case then moved on to the stage of ministerial consultations, where it has languished. Ministers have no deadline by which they must either produce results or move a case forward and thus, perhaps not surprisingly, no case has proceeded past this stage. In the FTAA talks, negotiators have actually taken a step backwards from NAFTA, since thus far they have not even developed side agreements on labor and the environment.

E. ENVIRONMENTAL STANDARDS

The EU and NAFTA approaches to the environment are distinct in a number of ways. First, the environmental side accord to NAFTA has the stated goal of strengthening enforcement only of existing environmental regulations. By contrast, the EU aims to harmonize environmental standards upwards. A major goal for the EU is to reduce "environmental dumping," or competition on the basis of lax environmental enforcement

Beginning in the 1970s, the EU launched a series of multi-year environmental action programs aimed at improving environmental protections, focusing on areas that would benefit most from a regional approach. Currently, EU environmental legislation covers a wide range of issues, including air and water quality standards, nature conservation, waste management, climate change, industrial accidents, nuclear safety and radiation protection, and protection of coastal and urban areas. Environmental impact assessments are also required on all relevant EU policies.

Under NAFTA's environmental side agreement, the Commission on Environmental Cooperation (CEC) was created to promote joint projects on environmental issues and hear complaints about failures to enforce existing environmental laws. As of January 2004, the CEC had received 42 citizen submissions regarding charges of failure to enforce environmental laws. However, the most that the CEC can do in response to these citizen complaints is investigate and publish a report. Only government-initiated complaints can lead to fines or trade sanctions, and thus far, none have been filed.

In the EU, the European Commission monitors compliance with EU environmental laws and can bring offending governments before the European Court of Justice. In 2002 alone, the EC brought 71 environmental cases before the ECJ (out of a total of 452 ECJ cases). Sometimes these cases result from complaints submitted to the EC by environmental groups against their own governments.

However, despite the EC's willingness to pursue court proceedings, member states continue to breach many of their environmental obligations. For any given directive, there are several member states that are in some stage of EC infringement proceedings or investigations. One reason for this may be that proceedings related to noncompliance can drag out for years and there are few instances in which the ECJ has actually imposed fines on violators. One exception was a case in 2000 in which the ECJ levied a fine of $19,000 per day on Greece for failing to clean up a toxic waste dump near tourist beaches in Crete. However, this action came 13 years after the EC first cited the dump as a violation of EU law.[91] Critics also charge that environmental enforcement is constrained by the fact that the EC must rely on national-level environmental reporting systems, which are lacking in many countries.[92]

Nevertheless, there are examples of EU environmental laws that have had significant impact. For example, a directive on large combustion plants sets emissions limits that are more easily attained with modern and cleaner natural gas technologies. This law is cited as at least partly responsible for a reduction of energy-related emissions in the energy supply and industry sectors of 43 and 23 percent, respectively, during the past decade.[93] The European Commission also points to a law on urban wastewater that has resulted in a significant decrease in the number of heavily polluted rivers due to reductions in point source discharges. Organic matter discharges fell by 50 to 80 percent over the last 15 years.[94]

Another distinction between the EU and NAFTA approaches is that the EU has gone further, at least on paper, to attempt to balance environment and commercial interests. For example, the 1992 Maastricht Treaty recognized two important

environmental principles. First it states that policy should be based on the "precautionary principle" (i.e., in the absence of scientific certainty about an environmental threat, take the most cautious course of action). This is in stark contrast to NAFTA, which requires countries to meet certain scientific burdens of proof in setting their standards and to show that laws and regulations are "necessary." Secondly, the Treaty recognizes the "polluter pays principle," which means that polluters should be held accountable for environmental costs through, for example, taxes on packaging or recycling requirements. Again, in contrast, NAFTA includes no measures to hold corporations accountable for environmental degradation. In fact, some claim that NAFTA's investment rules turn the polluter pays principle on its head. These protections allow foreign investors to sue governments directly for any government acts that diminish their potential profits. In numerous cases to date, such suits have targeted environmental regulations.

Within the EU, however, there remain strong blocs of resistance to environmental initiatives. For example, efforts to obtain a common CO_2/energy tax and minimum excise tax rates on all energy products have been blocked. Because it is a fiscal measure, this initiative would require unanimous support from the EU Council, which has been lacking.[95]

A final sharp distinction between the NAFTA and EU approaches is in environmental funding. NAFTA's environmental side agreement established the Border Environmental Cooperation Commission (BECC), to help communities develop clean-up projects and certify projects for financing, as well as the North American Development Bank (NADBank), to arrange financing for BECC-certified projects. So far, the NADBank has provided only about $500 million for border environmental projects, a tiny fraction of the sums needed for infrastructure adequate to handle the explosion of industrial development in the region.

Structural Funds Expenditure on the Environment, 1994-1999

(EUR millions, 1994 prices)

Category	Amount
Water treatment and distribution	6,970.5
Natural environment management and protection	1,458.1
Waste collection and treatment	651.9
Industrial site clean up	162.0
Forestry	103.8
Research, training, other	99.2
Total	9,445.5

Source: European Commission, 2nd Report on Economic and Social Cohesion, Annex, Table A.41

By contrast, the EU has committed a substantial amount through Structural and Cohesion Funds to facilitate compliance with EU environmental law. During the period 1994-1999, total funds spent were €9.4 billion, for a variety of environmental projects. One specific example of EU support for compliance is the estimated €3 billion in Cohesion Funds contributed over a 12-year period to support Spain's projected €10 billion investment needed to come into compliance with the directive on urban wastewater.[96] Such funding has helped persuade some reluctant EU member states to accept the imposition of higher environmental standards.

F. PUBLIC PARTICIPATION

The EU Model

The EU institutional framework offers several avenues for civil society input. The European Trade Union Confederation, which represents most labor unions in the region, is an official "social partner," along with two employers associations, the Union of Industries of the European Community and the European Centre for Public Enterprises. These three partners hammer out joint agreements, including some that have led to EU directives, such as those on parental leave and part-time work.

Another EU entity, the European Economic and Social Committee (EESC), is made up of representatives of employers, workers, and other civil society sectors from each member state. The purpose of the EESC is to play an advisory role on social and economic issues. Eva Belabed, a Committee member from Austria, claims that the process has helped build consensus around a European model of society. For example, she said the dialogue tends to have a moderating influence on British employers who typically are those most eager to adopt relatively 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 explained.[97]

EU workers also have rights to consultation at the company level. Since 1994, multinational companies with a significant number of workers in the EU must negotiate agreements with a "European Works Council" representing their employees. At a minimum, employers must give the EWCs the right to meet with central management once a year to receive information regarding the firm's financial situation and plans for new technologies, production transfers, mergers, and layoffs. In some cases, the agreement gives expanded rights. For example, France-based Danone must consider union proposals to avoid layoffs and attempt to transfer workers to other positions before laying them off.[98] In all cases, the corporation must pay for the EWC's operating expenses.

Thus far, the EWCs have not met their full potential. Only about 650 out of the 1,900 or so firms that are technically required to have EWCs actually have complied, and in most cases, the agreements offer the bare minimum. Nevertheless, EWCs offer some important opportunities.

Impacts:

- The EWC meetings give worker representatives the opportunity to gather information that may be useful in their national collective bargaining. Andrzej Matla from the Polish Solidarnosc trade union said that the inclusion of employee representatives from central and eastern European countries in EWCs was "the most effective and sometimes nearly the only way for them to obtain information on multinational companies' operations at the European and global level."[99]

- The EWC directive can also influence corporate restructurings. In 1997, a French court ruled that the Renault car company had not respected its obligation to inform and consult with the Renault EWC prior to its announcement of the closure of a factory in Vilvoorde, Belgium. The court ordered the company to stop pursuing the closure until it had fulfilled its obligation. The Belgian government also strengthened its national legislation on layoffs, requiring firms to inform the works councils of the intention to close, give them a chance to offer a counter-proposal, and consider these proposals.[100] Today, there are still between 100 and 200 workers at the Vilvoorde plant who otherwise would have lost their jobs.[101]

- One example of an EWC playing an influential role in the handling of restructuring was in the case of a plan by General Motors to cut 6,000 jobs and shut down a plant in Luton, United

Kingdom. When the EWC of GM Europe learned of the plan in December 2000, it called for a Europe-wide GM Action Day. In response, 40,000 workers participated in rallies during working hours in five countries (UK, Germany, Spain, Portugal, and Belgium). The workers demanded that GM management negotiate an alternative to the shutdown. According to Peter Booth, a union official at the Transport and General Workers Union, GM later agreed to a moratorium on closures and to discuss all future moves with the EWC.[102]

- According to Willy Buschak, Deputy Director of the European Foundation for the Improvement of Living and Working Conditions, EWCs have also helped to build international solidarity among workers. "Before we had EWCs, most interaction between unions was at the top level, between union presidents, or maybe the one thousand or so unionists from around the world who could attend the congress of the International Confederation of Free Trade Unions. Today, we have more than 32,500 workers involved in EWCs." Buschak pointed to two concrete examples which he claims illustrates the increase in trust resulting from the EWCs. In a case before the EWC directive, the U.S.-based Hoover corporation announced plans to move a vacuum cleaner plant from France to Scotland. In France, rumors flew that the Scottish trade union had betrayed the French workers by offering to work weekends in order to lure the plant to their city. By contrast, Buschak points out that in the Renault case mentioned above, EWCs helped prevent such distrust between workers and as a result, there was strong cooperation between the Belgian and French trade unions.[103]

According to an ILO report, "The establishment of EWCs has not restored the balance of power between management and labour, which has been dramatically affected by globalization of the economy. On the other hand, an EWC, or an information or consultation procedure, offer a bridge for social dialogue across boundaries, which otherwise might not be there."[104]

Trade unionists also cite a potential problem with "consultation burnout" among civil society representatives to various EU committees. Andreas Botsch, of the German Labor Federation, said "if these consultation meetings in Brussels were like the Olympics, I would have certainly won a medal by now."[105] He points out that representatives from the new EU countries face a considerable challenge in making full use of the opportunities for consultation because of their limited personnel and capacity to make the time invested pay off.

The NAFTA Approach

Neither NAFTA nor the proposed FTAA offers any significant opportunities for public participation. The agencies set up under the NAFTA labor and environmental side agreements have advisory committees in each country with trade union, employer, and "public" (sometimes NGO, usually academics) involvement. The tri-national secretariat for the environmental agreement has a public advisory board as well, but the labor one does not. However, these advisors are invited to conferences, but they have no real voice or effect beyond this kind of superficial participation.

A civil society committee 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. And there is nothing in the draft FTAA text that would ensure any continued role for civil society once the agreement went into effect. At the company level, neither NAFTA nor the draft FTAA offer any consultation rights to workers.

IV. CONCLUSION

In this report, we have attempted to offer ideas and insights regarding the strengths and weakness of the distinct approaches to integration in Europe and the Americas that deserve further exploration. However, we would be remiss if we did not acknowledge that during our discussions with EU experts from many countries on the prospects for applying some of their lessons in the Americas, we encountered a great deal of skepticism.

These doubts were heightened by the reputation of the current U.S. administration, particularly among Europeans, as one that lacks patience for international cooperation and is unwilling to adhere to international institutions or treaties that impinge on national sovereignty. Given this, how could one expect such a superpower to support an approach to integration that emphasizes cooperation and solidarity?

We asked many German experts and officials for their thoughts, with the idea that they, as citizens of the richest country in that region, might have insights into the feasibility of building support for a more cooperative approach in the richest country of the Americas. The most common response was one of deep skepticism, based on the opinion that the evolution of the EU, and Germany's role in it, are inextricably linked with Europe's unique history.

For example, Jan Delhey, of the Wissenschaftszentrum Berlin fuer Sozialforschung, claims that World War II resulted in three conditions that were necessary to the EU's formation: "You need to have an extraordinarily negative event to have the will to do it. You need strong support from leaders. We had Monnet, Churchill, Adenauer, Schuman – key players who had all suffered from war and wanted to create a different kind of community. And you also need big countries to support it. For Germany, the only opportunity to get back in politics was through the Union. Perhaps we'd even still be occupied if they hadn't joined. Coming out of the war, Germany had to accept reduced sovereignty and also had to pay to be loved. For France, they never wanted to be defeated by Germany again and wanted access to technology and resources."[106]

Others suggested that the lack of a common identity and bonds of trust in the Americas could be a major obstacle. According to Christian Weise, of the EC's Budget Department, "There must be trust in the receiver. You can have some controls on what's done with the funds, but you must also have a basic feeling of togetherness, which I think we have in Europe and I don't see in the Americas."[107]

And even as the EU boldly takes on the challenge of integrating the much poorer countries of Eastern Europe into the fold, many were daunted by the even more vast gaps in the Americas. The poorest country in the expanded EU, Latvia, might be worse off than Mexico, but it is rich compared to Haiti, Nicaragua, Bolivia, or several other countries in the Western Hemisphere.

We acknowledge the validity of these points. However, one could also argue that the current moment is an auspicious one for beginning an official dialogue towards building a new, broader approach to integration that would draw general lessons from the EU experience.

First of all, it is becoming increasingly difficult, if not impossible, for the U.S. government to continue to advance an agenda based on narrow trade and investment liberalization rules. Referring to this approach, Brazil's President Inacio Lula de Silva stated at a recent meeting of his Western Hemisphere counterparts, "it is a perverse model that wrongly separated the economic from the social." Argentine President Nestor Kirchner echoed Lula's comments by stating that "it is unacceptable to insist on recipes that have failed."[108]

At their most recent meeting, the trade ministers of the Americas were able to break a deadlock only by agreeing to a framework for talks that is likely to lead to a weak agreement that will fail to satisfy the corporate lobby that has been the driving force behind the FTAA. The current approach is also increasingly unpopular among the U.S. public. A recent Zogby poll, for example, indicated strong resistance to the Bush Administration's goal of expanding NAFTA. The poll found that half of Americans oppose NAFTA expansion, compared with only 31 percent in favor. And those who described NAFTA as a job-destroyer outnumbered those who saw it as a job-creator by 3 to 1.[109] With the NAFTA model facing a dismal outlook, it would seem most sensible for the U.S. government to broaden the talks to consider alternative approaches.

Secondly, at a time when the U.S. government remains focused on the war on terrorism, it is an important time to draw from the EU's experience with promoting stability and reducing poverty amongst its member states. U.S. officials have often argued that there is a link between poverty and global security. For example, Secretary of State Colin Powell has stated that "terrorism flourishes in areas of poverty and despair."

This reasoning motivated the Administration, in the wake of September 11, to create the Millennium Challenge Accounts, a new U.S. aid initiative. This policy, however, falls far short of a concerted effort to narrow the gaps in living standards. A more targeted effort in the Americas could be a first step in a new, long-term international security strategy based on cooperation. This could help make Americans not only safer but more economically secure, since the current gaps in standards make it nearly impossible to reduce incentives for companies to export U.S. jobs to areas of low wages and lax environmental enforcement. The EU experience also demonstrates the benefits to the richer countries when their neighbors can better afford to purchase their products and services.

Given the many differences between Europe and the Americas — in our histories, our economies, our natural resources, our cultures — it would be foolish to attempt to simply replicate the EU model. But the EU experience remains valuable as a concrete example of an alternative path, and one that could offer our nations at least some direction as we make our own way forward.

NOTES

[1] Victor Alvarez, Vice Minister of Industry, Government of Venezuela, "Memorandum to the FTAA-Trade Negotiations Committee," April 16, 2003.
[2] Official document of the Bolivarian Republic of Venezuela presented at the Miami Ministerial Meeting, November 17, 2003.
[3] Esther Schrader, "Mexican Development Aid Not in the Offing, U.S. Says," *Los Angeles Times*, Sept. 1, 2001.
[4] Jorge G. Castañeda, "NAFTA at 10: A Plus or a Minus?" *Current History*, Feb. 2004, p. 55.
[5] Robert A. Pastor, "North America's Second Decade," *Foreign Affairs*, January/February 2004.
[6] Hemispheric Social Alliance, "Alternatives for the Americas," December 2002 version, http://www.art-us.org/docs/alternatives%20dec%202002.pdf.
[7] Negotiations are continuing with Bulgaria, Romania, and Turkey.
[8] The NADBank has provided only about $3 million in financing per year, an insufficient amount to make a dent in the deep environmental challenges of the U.S.-Mexico border.
[9] See for example the Quito Ministerial Declaration issued in November 2002, which states: "We reaffirm our commitment to take into account in designing the FTAA, the differences in levels of development and size of economies in the Hemisphere, in order to ensure that these economies participate fully in the building of, and benefits resulting from the Agreement…"
[10] This does not include the considerable sums provided in farm supports.
[11] U.S. Agency for International Development, "US Overseas Loans & Grants [Greenbook]."
[12] Figures are Gross Domestic Product per capita in terms of purchasing power parity (current international $). Source: World Bank, World Development Indicators Online.
[13] U.S. Department of Labor, "International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 1975-2002, Supplementary Tables for BLS News Release USDL 03-507," September 26, 2003.
[14] Calculated by the authors based on data in World Bank, World Development Indicators online.
[15] Michele Boldrin and Fabio Canova, "Regional Policies and EU Enlargement," in *European Integration, Regional Policy, and Growth*, Bernard Funck and Lodovico Pizzati, ed.s (Washington, DC: World Bank, 2003), p. 75.
[16] European Commission Regional Policy web site: http://europa.eu.int/pol/reg/overview_en.htm
[17] Carole Garnier, "Conclusions of the Conference," in *European Integration, Regional Policy, and Growth*, Bernard Funck and Lodovico Pizzati, ed.s (Washington, DC: World Bank, 2003), p. 99.
[18] World Bank, World Development Indicators Online.
[19] Carole Garnier, "Conclusions of the Conference," in *European Integration, Regional Policy, and Growth*, Bernard Funck and Lodovico Pizzati, ed.s (Washington, DC: World Bank, 2003), p. 250.
[20] Eurostat, "Inequality of Income Distribution (income quintile share ratio)," http://europa.eu.int/comm/eurostat.
[21] 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.
[22] Garnier, Carole, "Conclusions of the Conference," in *European Integration, Regional Policy, and Growth*, Bernard Funck and Lodovico Pizzati, ed.s (Washington, DC: World Bank, 2003), p. 252.
[23] 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.
[24] Gerry Boucher and Grainne Collins, "Having One's Cake and Being Eaten Too: Irish Neo-liberal Corporatism," Employment Research Centre, Trinity College, Dublin, March 3, 2003, p. 2.
[25] European Commission, "Second Report on Economic and Social Cohesion: Statistical Annex," Vol. 2, January 2001, p. 64. (figures are from 1998).
[26] Eurostat news release, January 30, 2003.
[27] Interview, Brussels, October 17, 2003.
[28] Christian Weise, "What Future for EU Regional Policy?" in *European Integration, Regional Policy, and Growth*, Bernard Funck and Lodovico Pizzati, ed.s (Washington, DC: World Bank, 2003), p. 233.
[29] Interview, Brussels, October 16, 2003.
[30] Taoiseach Mr. Bertie Ahern, "Globalisation, Partnership and Investment in People: Ireland's Experience," speech to the World Bank, Washington, March 14, 2003.
[31] Peader Kirby, "Macroeconomic Success and Social Vulnerability: Lessons for Latin America from the Celtic Tiger," UN Economic Commission for Latin America and the Caribbean, Special Studies Unit, Executive Secretariat Office, April 2003, p. 28.
[32] Kirby, p. 29.
[33] Nigel Boyle, Director, European Union Center of California, Scripps College, Claremont, "Employment Programs in Ireland 1987-1999: National, Sub-national and Supra-national Governance in a Globalized Political Economy," paper presented at the European Union Studies Association Conference, Nashville, March 27-29, 2003, p. 20.
[34] Organisation on Economic Cooperation and Development, *OECD Employment Outlook* (Paris: OECD, July 1995).
[35] Boyle, p. 29.
[36] Boucher and Collins, p. 8.
[37] Taoiseach Mr. Bertie Ahern, "Globalisation, Partnership and Investment in People: Ireland's Experience," speech to the World Bank, Washington, March 14, 2003.
[38]During the negotiation of the last national agreement, there was a split among the community and voluntary groups, with some withdrawing from the process to protest what they saw as insufficient attention to the need to reduce poverty and inequality.
[39] Interview, Dublin, June 30, 2003.

[40] Dermot McAleese, "Twenty-five Years 'A Growing,'" in Rory O'Donnell, *Europe: The Irish Experience* (Dublin: Institute for European Affairs, 2000), p. 82.
[41] These households had incomes below 60 percent of the national average and lacked one or more of the items that indicate deprivation, such as a warm waterproof coat and heating. Nolan, et al, Monitoring Poverty Trends in Ireland: Results from the 2000 Living in Ireland Survey, Policy Research Series Number 45, Economic and Social Research Institute, 2002, cited in Kirby, p. 34.
[42] Kirby, p. 35.
[43] Carmela Martin and Francisco J. Velazquez, "An Assessment of Real Convergence of Less Developed EU Members: Lessons for the CEEC Countries," working paper no. 5/2001, European Economy Group (http://www.ucm.es/info/econeuro)
[44] Interview, Dublin, July 1, 2003.
[45] Kirby, p. 43.
[46] Una McCaffrey, "McCreevy Issues Stern Warning on Public Spending," Irish Times, July 3, 2003, p. 1.
[47] Interview, Dublin, July 2, 2003.
[48] Liam Ryan, "Strengthening Irish Identity Through Openness," in Rory O'Donnell, editor, *Europe: The Irish Experience* (Dublin: Institute of European Affairs, 2000).
[49] U.S. Department of Labor, "International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 1975-2002, Supplementary Tables for BLS News Release USDL 03-507," September 26, 2003, Table 1.
[50] Norbert Fiess and Marco Fugazza, "European Integration: A Review of the Literature and Lessons for NAFTA," background paper for Daniel Lederman, et al, "Lessons from NAFTA for Latin American and Caribbean Countries" (Washington, DC: World Bank, December 2003), p. 16.
[51] Wayne A. Cornelius, Philip L. Martin, and James F. Hollifield, editors, *Controlling Immigration: A Global Perspective* (Stanford, CA: Stanford University Press, 1994), pp. 331-332.
[52] Eurostat, "Net migration, including corrections," http://europea.eu.int/comm/eurostat.
[53] John Audley, et al, "NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere," Carnegie Endowment for International Peace, 2003, p. 49.
[54] Interview, Berlin, October 22, 2003.
[55] European Commission, "First Joint Report on Social Inclusion," 2002, p. 15.
[56] Suzanne McDevitt, Edinboro University of Pennsylvania, "Social Exclusion and Social Welfare Initiatives in the European Union and the United States," 2003.
[57] James Wickham, "The End of the European Social Model: Before It Began?" paper commissioned by the Irish Confederation of Free Trade Unions and included as an appendix in ICTU submission to the Forum on Europe 2002, p. 64.
[58] World Bank Development Indicators Online.
[59] John Audley, et al, "NAFTA's Promise and Reality," Carnegie Endowment for International Peace, November 2003, p. 20.
[60] World Bank, "Memorandum of the President of the IBRD and IFC to the Executive Directors on a Country Assistance Strategy Progress Report of the World Bank Group for the United Mexican States," May 21, 2001.
[61] Frank Ackerman, Timothy A. Wise, Kevin P. Gallagher, Luke Ney, and Regina Flores, "Free Trade, Corn, and the Environment: Environmental Impacts of US-Mexico Corn Trade Under NAFTA," Global Development and Environment Institute, Working Paper No. 03-06, Tufts University, June 2003, p. 2.
[62]Alejandro Nadal, "The Environmental and Social Impacts of Economic Liberalisation on Corn Production in Mexico," commissioned by Oxfam-GB and WWF International. September 2000, pp. 38-39.
[63] Alejandro Nadal, "Corn and NAFTA: An Unhappy Alliance," Seedling (the quarterly Newsletter of Genetic Resources Action International), June 2000.
[64] Based on data from World Bank World Development Indicators online for the year 1998 for the following countries: Belize, Brazil, Chile, Costa Rica, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, and St. Lucia. In addition, Dominica, Dominican Republic, Guyana, Haiti, and St. Vincent and the Grenadines were included, as they had more than 20% of the workforce employed in agriculture during previous years in the past decade.
[65] General Accounting Office, "Free Trade Area of the Americas: Negotiators Move Toward Agreement that will have Benefits, Costs to U.S. Economy" GAO-01-1027, September 2001.
[66] Christine Pratt, "Tico/U.S. Rice Row Simmers," *Tico Times*, April 26, 2002.
[67] European Commission Directorate-General for Agriculture, "Glossary," September 2001.
[68] European Commission, "The Common Agricultural Policy in Transition," (http://europa.eu.int/comm/dg10/publications/brochures/move/agri/pac/txt_en.html).
[69] Floor Brouwer and Philip Lowe, ed.s, *CAP and the Rural Envronment in Transition: A Panorama of National Perspectives* (Wageningen, The Netherlands: Wageningen Pers, 1998), p. 24.
[70] Brouwer and Lowe, p. 28-30.
[71] Henry Buller, Geoff A. Wilson and Andreas Höll, ed.s, *Agri-environmental Policy in the European Union* (Brookfield, Vermont: Ashgate Publishing, 2000), p. 5.
[72] European Commission, Directorate-General for Agriculture, "CAP Reform – Rural Development," (undated factsheet).
[73] Floor Brouwer and Jan van der Straaten, *Nature and Agriculture in the European Union: New Perspectives on Policies that Shape the European Countryside* (Cheltenham, UK: Edward Elgar, 2002), pp. 127-128.
[74] Kate Hathaway and Dale Hathaway, ed.s, *Searching for Common Ground: European Union Enlargement and Agriculture Policy* (Rome: FAO, 1997).
[75] World Bank, World Development Indicators Online.
[76] Eurostat, "Thirty years of agriculture in Europe," Statistics in Focus, Agriculture and Fisheries, Theme 5 – 1/2000, March 3, 2000.
[77] CAFOD, "The Rough Guide to the CAP," http://www.cafod.org.uk.

[78] Hathaway, Kate and Dale Hathaway, editors, Searching for Common Ground: European Union Enlargement and Agriculture Policy (Rome: FAO, 1997).
[79] CAFOD, "The Rough Guide to the CAP," http://www.cafod.org.uk.
[80] European Commission, "The New Common Agricultural Policy," (pamphlet), 2000.
[81] World Wildlife Fund, "CAP Dance: 2 Steps Forward, 1 ½ Steps Back," June 26, 2003.
[82] Friends of the Earth Europe, "CAP Deal is a Crap Deal for the Environment and for Developing Countries," June 27, 2003.
[83] Speech by Franz Fischler, member of the European Commission responsible for Agriculture, Rural Development and Fisheries, symposium on "Poland on the final straight to EU accession," Brussels, April 2, 2003.
[84] Jeffrey Harrop, *Structural Funding and Employment in the European Union: Financing the Path to Integration* (Edward Elgar: Cheltenham, UK, 1996), p. 124.
[85] The UK government did not become a full signatory until 1998.
[86] The Social Charter may become legally binding as a result of the ongoing debate over the formation of an EU Constitution.
[87] Gerda Falkner, Max Planck Institute for the Study of Societies, Cologne, and Simone Leiber, Institute for Advanced Studies, Vienna, "A Europeanization of Governance Patterns in Smaller European Democracies?" paper for the 8th Biennial International Conference, European Union Studies Association, March 27-29, 2003.
[88] Presentation at the Institute for Policy Studies, Washington, DC, December 8, 2003. Also see Clarence Lusane, "Instruments and Players: The Significance and Impact of Regional Anti-Racism Laws on Anti-Racism in the UK" (undated).
[89] Interview, Brussels, October 18, 2003.
[90] Interview, Washington, DC, June 2, 2003.
[91] Anthee Carassava, "Sun, Sand and Toxic Waste," *Time Europe*, July 17, 2000.
[92] Christopher Demmke, "Towards Effective Environmental Regulation: Innovative Approaches in Implementing and Enforcing European Environmental Law and Policy," Jean Monnet Center, New York University School of Law, 2001 (http://www.jeanmonnetprogram.org/papers/01/010501-01.html).
[93] European Environment Agency, "Energy and Environment in the European Union," 2002, p. 30.
[94] European Commission, "Global Assessment: Europe's Environment: What Directions for the Future?" 2000, p. 12.
[95] European Environment Agency, "Environmental Taxes: Recent Developments in Tools for Integration," Environmental Issue Series No. 18, Nov. 2000, p. 8
[96] European Commission, "Implementation of Council Directive 91/271/EEC of 21 May 1991 Concerning Urban Waste Water Treatment, as Amended by Commission Directive 98/15/EC of 27 February 1998," January 15, 1999.
[97] Interview, Washington, DC, May 16, 2003.
[98] European Foundation for the Improvement of Living and Working Conditions, "Bargaining at European Level? Joint Texts Negotiated by European Works Councils," 2001, p. 71.
[99] "Unions Seek More Influence for EWCs," European Industrial Relations Observatory On-line.
[100] Roger Blanpain, "European Works Council in Multinational Enterprises: Background, Working and Experience," working paper No. 83 (Geneva: International Labour Organization, 1999).
[100] Interview, Brussels, October 17, 2003, p. 38.
[101] Interview with Willy Buschak, European Foundation for the Improvement of Living and Working Conditions, Dublin, July 2, 2003.
[102] Phillip Inman, "Time to Talk the Same Language," *The Guardian* (London), May 18, 2002.
[103] Interview, July 2, 2003.
[104] Roger Blanpain, "European Works Council in Multinational Enterprises: Background, Working and Experience," working paper No. 83 (Geneva: International Labour Organization, 1999).
[105] Interview, Berlin, October 20, 2003.
[106] Interview, Berlin, October 21, 2003.
[107] Interview, Brussels, October 17, 2003.
[108] Reu ters, "U.S. Economic Policies Under Fire at Americas Summit, January 14, 2003.
[109] Zogby International, Dec. 12, 2003.