A new model to help EU's jobless 23m

The EU summit is a chance to look beyond Franco-German state centralism and Anglo-Saxon free-market fundamentalism

The two-day EU summit in Brussels came at a critical juncture. Once Europe was an economic giant with global geo-political ambitions. Now the European economy is in crisis and the union of 27 lacks a clear direction.

The most immediate challenge is to stop the ongoing crisis over Greece spreading to the other highly indebted members of the eurozone such as Portugal, Ireland and Spain. Yesterday's downgrading of Portugal's credit rating by Fitch due to the weakness of economy recovery is alarming. It shows that the euro countries are edging towards a vicious spiral of debt deflation that could bring down the entire economic and monetary edifice.

Faced with this escalating emergency, Germany's stubborn insistence on respecting the rules and calling in the IMF is adding fuel to the fire. Unless there is a credible rescue plan that helps bring down interest rates on public bonds, the speculative forces of global finance will bet against the eurozone's most vulnerable members. By refusing to agree decisive EU action now, the German chancellor Angela Merkel is putting narrow national interests before the stability and solidarity of Europe as a whole.

As Europe's erstwhile economic powerhouse, Germany bears a particular responsibility to address the EU's structural problems. Rewriting the rules of the eurozone amid a faltering recovery is getting the world wrong. Lessons from the current crisis will have to be learned, but right now the priority is to secure and boost economic growth – Europe's second most pressing problem. One option is to bring forward the disbursement of substantial EU structural and regional funds in order to sustain fiscal expansion without accumulating further debt. Another way of stimulating the stalling recovery is to speed up loans by the European Investment Bank (EIB) for investment projects. This would help create confidence, fostering more consumer spending and private investment.

Introducing yet more punitive fiscal measures into the euro rulebook will only exacerbate the deflationary policy which has trapped the eurozone is a toxic mix of low capital investment and very low productivity growth. Non-euro members like the UK have not fared significantly better. What is at stake is a new political economy for the entire EU.

EU summit aimed at discussing a new economic strategy for 2010 to replace the toothless Lisbon agenda – whose lofty aim was to create the most competitive knowledge-based economy in the world by 2010.

Given the current context, this is a unique opportunity to promote new ideas and policies. The economic crisis has fatally undermined the neoliberal project of liberalisation, deregulation and privatisation first promoted by countries such as the UK and Ireland and then gradually adopted by the continent. Structurally high unemployment in France and other more statist economies reveals the limits of central state intervention in fostering productivity and innovation. As such, the dominant approaches of the past offer little prospect of a sustained economic revival.

Nor are the old models diametrically opposed to one another. By concentrating power in the hands of the commission and member-states' representatives, both Anglo-Saxon free-market fundamentalism and Franco-German state centralism have exacerbated the EU's democratic deficit and lack of legitimacy, in terms of policy input and output. By marginalising local and regional economies as well as civil society, both models have reinforced a growing socio-economic polarisation and an increasing disconnect between the ruling elites and Europe's citizenry.

Moreover, both have promoted a centralisation of regulatory power and a concentration of wealth, with banks too-big-to-fail and cartels of supermarket and retail chains. More of the same won't create jobs Europe's 23 million unemployed. As such, neither enhanced free-market competition nor more state regulation will reinvigorate Europe's faltering economy and mitigate its social recession.

First of all, a genuinely new economic strategy has to combine universal principles with concrete policies. What Europe requires is solidarity and subsidiarity – mutual help and assistance for disadvantaged regions and the poor, coupled with the devolution of power to the most appropriate level (localities, regions, nations or in some cases the EU).

Second, the 27 member-states need to shift the emphasis of economic policymaking away from central targets enforced by the European commission towards regional and local levels, with a genuine participation of municipal government and regional authorities. In fact, many EU regions are more economically integrated with other regions across national borders than with the rest of their country. Co-ownership of localities and regions is key to a successful implementation – precisely what the old Lisbon agenda failed to do.

Third, the new strategy needs to reduce the concentration of economic power in the hands of multinational corporations and large retail chains. Limits on the size of businesses coupled with incentives for creating small and medium-sized enterprise (SMEs) is indispensable for more productive investment and employment. SMEs trading across the EU have a better track record in creating and sustaining competitive employment than rationalising multinational corporations or the bloated public sector.

With the relative decline of the US and the rise of emerging markets in the east and south, the 2020 strategy is a final chance to change tack. The challenge for European leaders is to transform Europe's economy in order to preserve European society and way of life.

Adrian Pabst is a lecturer in politics in the University of Kent at Canterbury. Since 1998, he also been a research fellow at the Luxembourg Institute for European and International Studies. He is a frequent visitor to Central and Eastern Europe, Russia and Asia. Currently he is writing The Spectacle of Paradox, a book on market-states, crisis capitalism and the coming ideologies. He is a regular contributor to the international press on geopolitics, political economy, Europe and religion.

* Originally published by «The Guardian» (25.03.2010) at: http://www.guardian.co.uk/commentisfree/2010/mar/25/europe-eu-new-model-jobless