

Foreword

A more socially just and sustainable recovery for the European Union

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2009 was a year devoted to bailing out the European economy, to implementing Keynesian policies and, some said, to the opportunity afforded by the crisis for a 'paradigm shift'. Thereafter, 2010 appears to have represented a return to a much more classic scenario: the banks went back to business as usual, governments unveiled budgetary restraint measures or austerity programmes, unemployment rose and the European social model was yet again buffeted by what is known as the new European economic governance. The paradigm shift seems to have been put on the back burner, far behind the priority of growth, growth and more growth. And growth at any cost: governments are hoping, in the midst of the sovereign debt crisis, that it will enable them to rapidly revive their public finances.

Whereas the banks got back down to business in 2010, the same cannot be said of everyone else. A major transformation had occurred in Europe meanwhile: in 2009-2010 massive amounts of private banking debt were transferred to States, which were compelled to keep their financial industry, and the economy in general, at arm's length. In other words, the crisis did not go away in 2010; it merely changed camps. Basically, it no longer inhabits the world of banking and finance, but now lies at the heart of States and their governments. The sub-prime crisis has become a sovereign debt crisis, which, in turn – albeit to varying degrees – is leading to other crises, political and social in nature. By an odd quirk of fate, the liberal paradigm seems to be feeding on and drawing succour from this crisis. There are various contradictions here that are hard to digest, such as the uneven share-out of the socio-economic and also environmental costs of the

crisis, the difficulty – or even inability – of facing up to the upsurge in economic and political nationalism, and the European model's loss of competitiveness¹.

In short, we have almost come full circle: a banking and financial crisis in 2008; an economic crisis in 2009; a public debt crisis in 2010. And, given that the latter will ultimately be paid for by European citizens, workers and benefit claimants (see contribution by George Irvin in this volume), it would hardly be surprising if 2011-2012 were to be the years of a social crisis.

Austerity as a driver of growth?

We are already witnessing the same austerity scenarios in many EU countries, with certain variants here and there: wage freezes (or even cuts) in the public sector, pay restraint in the private sector², reduced public expenditure, pension reforms, scaled-back social benefits, rises in VAT, reforms of labour legislation, rising school fees³ – and so on and so forth. Against a background of mounting unemployment, these circumstances lend themselves to an all-out (and concerted) onslaught on public services, but also on minimum wages, collective bargaining rights and wage indexation systems in countries where they exist. Indeed, such onslaughts are not confined to European countries: in early March 2011, the Republican Governor of Wisconsin, Scott Walker, successfully pushed through a bill – which is serving as a national test-case – aimed at freezing civil servants' pay, cutting their retirement pensions, eroding their social security cover and stripping them of their collective bargaining rights.

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1. Dadush, U. and Stancil, B., 'Is the euro rescue succeeding?', 6 February 2011 (<http://www.voxeu.com/index.php?q=node/6083>).
 2. See in particular: Glassner, V. (2010), 'The public sector in the crisis', *Working paper* No.2010.07, ETUI, Brussels; also O'Farrell, R. (2010), 'Wages in the crisis', *Working paper* No.2010.03, ETUI, Brussels.
 3. See the 'Overview of European Austerity' drawn up by the European Trade Union Confederation (<http://www.etuc.org/r/1612>). At the time of writing these lines (end of January 2011), twelve European governments had already put forward austerity plans: Czech Republic, Finland, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Poland, Portugal, Spain and the United Kingdom.

As Joseph Stiglitz puts it, 'the response to the private-sector failures and profligacy that had caused the crisis was to demand public-sector austerity! The consequence will almost surely be a slower recovery and an even longer delay before unemployment falls to acceptable levels'⁴.

The European Commission did not mince its words when drawing up the Annual Growth Survey, published in early January 2011⁵. It would be advisable, in its opinion, to 'reduce over-protection of workers with permanent contracts', to 'increase the retirement age and link it with life expectancy', and to 'support the development of complementary private savings'. And that is without even mentioning the messages addressed by zealous Commission officials to countries such as Greece and Ireland. John Monks, General Secretary of the ETUC (European Trade Union Confederation), condemned these 'diktats', aimed at cutting minimum wages and easing 'wage rigidities', reducing pension entitlements, making labour markets 'more flexible' and, in the case of Ireland, enabling wages to reflect 'market conditions'⁶. Mr Monks drove home his point as follows: 'This policy of detailed interference in labour markets tramples all over pious Commission statements about the autonomy of the social partners, the importance of social dialogue and the specific exclusion in the EU treaties of a European competence on pay'.

Clearly, all these developments contrast starkly with the hands-off approach to the rise in very high salaries and bonuses. Indeed, the bonus paid to Stephen Hester, Chief Executive of the Royal Bank of Scotland Group, in early 2011 was estimated at approximately €3 million, at the very time when the UK government – which had bailed out RBS – was subjecting taxpayers to an unprecedented austerity package⁷. Worse still, we can only look on in amazement at a banking sector which apparently believes that we should now put the

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4. Stiglitz, J. E. (2011) New Year's Hope against Hope (<http://www.project-syndicate.org/commentary/stiglitz134/English>).
 5. CEC (2011), Communication from the Commission 'Annual Growth Survey: advancing the EU's comprehensive response to the crisis', COM (2011) 11 final of 12 January 2011 (http://ec.europa.eu/economy_finance/articles/eu_economic_situation/pdf/2011/com2011_11_en.pdf).
 6. Letter from ETUC General Secretary John Monks to Olli Rehn, Commissioner for Economic and Monetary Affairs, 11 January 2011.
 7. *Le Monde*, 12 January 2011.

crisis behind us. In January 2011, the Chief Executive of Barclays Bank, Bob Diamond (2011 bonus: €7.6 million⁸), declared that ‘there was a period of remorse and apology [for the bank], that period needs to be over’⁹. So the time for remorse and apology is behind us, and yet by 2020 the crisis will have cost Europe around 10 million jobs; those job losses will not be reversed until 2025 (see contribution by Jacky Fayolle in this volume). The time for remorse and apology is behind us, and yet, according to the International Labour Organisation (ILO), the crisis caused a considerable slowdown in the rate of real wage growth around the world¹⁰. Should this be viewed as one of the many factors triggering the Arab/Mediterranean revolutions? Be that as it may, how could we be surprised that, two years after the crisis erupted, the conduct of the financial and economic elite is provoking such deep-seated feelings of anger and social injustice?

And it is still not over. In the midst of the economic and social crisis, as Paul Krugman points out, ‘the ideology that brought economic disaster in 2008 is back on top — and seems likely to stay there until it brings disaster again’¹¹. His observation gives all the more cause for concern in that this ideology was clearly analysed and criticised in particular by the Financial Crisis Inquiry Commission (FCIC) established by the US Congress: ‘More than 30 years of deregulation and reliance on self-regulation by financial institutions [...] actively pushed by the powerful financial industry at every turn, had stripped away key safeguards, which could have helped avoid catastrophe. This approach had opened up gaps in oversight of critical areas with trillions of dollars at risk, such as the shadow banking system and over-the-counter derivatives markets’¹². Just over two years after the onset of the crisis, it has to be admitted that the pledges to ‘discipline’ capitalism, fight its ‘tyranny’ and ‘recast’ it no longer feature on the agenda.

8. *Le Monde*, 9 March 2011.

9. *Financial Times*, 12 January 2011.

10. ILO (2010) *Global Wage report 2010/11, Wage policies in times of crisis*, International Labour Office, Geneva, December 2010.

11. ‘The Competition Myth’, column by Paul Krugman, *New York Times*, 24 January 2011.

12. FCIC (2011), Final Report of the National Commission on the causes of the Financial and Economic crisis in the United States, Official Government Edition, *The Financial Crisis Inquiry Commission Report*, p. xviii, January 2011.

Bailing out the euro

Within the European Union, 2010 was of course the year of the euro bail-out. The sovereign debt crisis almost scuppered economic and monetary union. Some countries, such as Greece, Portugal and Ireland, found themselves facing ever higher risk premiums from increasingly demanding financial markets, given their substantial public finance requirements, with the markets making those countries pay over the odds owing to the fear that they might default on their payments.

This state of affairs finally prompted the EU Member States to draw up bail-out plans aimed at protecting the eurozone itself from speculative attacks. On 11 May 2010, the EU Council agreed on the establishment of a 'European financial stabilisation mechanism'¹³ designed to come to the aid of countries experiencing budgetary difficulties that could endanger the eurozone. The agreement on this mechanism was above all intended as a message to the finance markets: the Union, its Member States and the International Monetary Fund (IMF) are prepared, if need be, to mobilise hundreds of billions of euros to defend the eurozone. The mechanism's introduction was accompanied by a commitment on the part of the Member States' governments to reduce excessive public debt and deficits.

Despite major arguments with Germany in particular, the European Central Bank (ECB) likewise joined in with the bail-out operation, presenting itself on the markets as the 'buyer of last resort' of ailing States' debts: it began to acquire Greek, Irish and other government bonds worth tens of billions of euros. The European Commission, lastly, began working on various schemes aimed at overhauling the Union's financial surveillance structures and its method of economic governance. It envisages strengthening the Stability and Growth Pact, mainly by means of *ex ante* budgetary surveillance by Member States via the introduction of a 'European Semester' (see contribution by Jacques Le Cacheux in this volume). Germany and France for their part put forward their controversial plan for a Competitiveness Pact.

13. Council Regulation (EU) No.407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism, OJ L 118 of 12 May 2010, pp.1-4.

Two conflicting interpretations of these events co-existed throughout 2010. To depict them in a somewhat caricatured fashion, the first of these, a pessimistic take, held that economic and monetary union would inevitably implode fairly soon. This would happen because 'economic union' among the eurozone States was falling short in terms of growth, productivity, balance of trade, jobs, competitiveness, etc. This interpretation was most commonly aired in US/UK financial circles and was conveyed mainly by the financial press, especially the *Financial Times*.

The optimistic interpretation drew attention to the European Union's achievements in terms of economic governance during 2010, described only a few years ago as 'unimaginable'. According to this interpretation, conveyed most notably by the editorial-writer at Agence Europe, the EU has made more headway in this area in six months than it has in fifteen years as concerns procedures for governance, budgetary surveillance, solidarity mechanisms among Member States, and also financial stability, etc.

The paradox of this interpretation is that this better-equipped Europe would now seem more wretched than ever before: trust among Member States, but also between States and the European Union, has collapsed. In France, Finance Minister Christine Lagarde has accused Germany of acting selfishly¹⁴, while in Germany, the former head of the employers' organisation BDI, Hans-Olaf Henkel, has published a pamphlet railing against 'euro-deceit'. Torrents of criticism are raining down on Greece; growing Euro-scepticism is feeding the debate and some political groups are seeking to exploit it¹⁵; Slovakia has dissociated itself from the Greek rescue plan; governments are divided on how to handle the Irish crisis; the European Central Bank disagrees with the Commission on whether or not to establish a European monetary fund; the European Parliament is critical of the Franco-German agreement on economic governance; the Competitiveness Pact along intergovernmental lines proposed by Germany and France irks some of their partners, and so the list goes on. Rarely has the Union appeared so

14. *Financial Times*, 15 March 2010.

15. 'L'avenir de la zone euro est l'otage de la politique intérieure allemande' [The future of the eurozone is a hostage to German domestic policy], *Le Monde*, 27 January 2011.

disunited about ways of overcoming the crisis. Bailing out the euro looks more like a necessary evil than a shared political venture and a common vision of solidarity.

Above all else, however, a dangerous gulf seems to be opening up between the working world and the European institutions. What is being dubbed 'new economic governance' strikes workers, pensioners, the unemployed and the sick, primarily as an antisocial monitoring process that calls into question or weakens labour rights. Heated exchanges took place between the ETUC and the European Commission in January 2011. In a letter addressed to Commissioner Olli Rehn, the ETUC General Secretary denounced the 'diktats' and pressure coming from Commission officials aimed at reducing minimum wages and pensions; he expressed concern that the proposals on economic governance could 'reduce Member States to quasi colonial status'. Never before has this observer heard such strong language. There followed an equally robust exchange of letters between the ETUC and its 'social partner' BusinessEurope, which appealed for a sense of collective responsibility. How ironic is that?

Over and above the political consequences of the crisis, therefore, we are also witnessing a significant deterioration in the social climate. This deterioration reflects the fact that neither Europe's right-wing and centre-right governments nor the European institutions are prepared to make those who caused the crisis pay for it. As George Irvin puts it in this volume, 'It should be clear that the general public, not the banks, will pay for the crisis'. The decision is a political one, but its consequences in terms of political disaffection – especially as concerns European policies – will be disastrous.

For this reason, two issues are becoming ever more crucial as far as the future of the European project is concerned. The first relates to the Union's loss of internal legitimacy¹⁶. Although this is not a new issue, the crisis has revealed a blatant lack of a common vision, and hence shared responses, which could undermine both the prospects for

16. Ferrera, M. (2010), 'Mapping the Components of Social EU: A critical analysis of the current institutional patchwork', in Marlier, E. and Natali, D. (eds.) with Van Dam, R., *Europe 2020: Towards a more social EU?*, PIE-Peter Lang, Brussels, pp. 45-68.

integration and the EU's capacity to reduce the threat of political and economic nationalism. The second issue concerns the Union's role in the wider world. Gradual marginalisation and a loss of influence on international matters – climate change, economic governance, trade negotiations, etc. – could trigger a vicious circle of reduced external legitimacy, diminished political status and weak growth.

Climate, environment and biodiversity

Another issue is the environment and the climate. The reports from international institutions describing how the Earth is faring give greater cause for concern as the years go by. We seldom hear good news. The average temperature on Earth is likely to rise by between 1.8 and 4°C by the year 2100. A minimalist estimate is that, within just one century, this warming process will exceed any other that has occurred in the past 10,000 years¹⁷. Biological diversity is disappearing at all levels: 6 million hectares of primary forest lost every year since 2000; an average decline of roughly 40% in the numbers of approximately 3,000 wild species between 1970 and 2000¹⁸. Global demand for resources currently outstrips the Earth's biological capacity to reconstitute them by about 20%¹⁹.

Demand for resources is higher than ever before, especially owing to economic growth in the so-called emerging countries. How, in the near future, will Europe, the United States, China, Brazil, India and Russia share resources which are ever more limited and yet necessary to the western lifestyle, which has become the yardstick for economic growth? Will they manage to share without conflict, without warfare?

The optimistic scenario, apparently endorsed by virtually the entire European political class, is predicated on a two-fold gamble: firstly, that the only way forward is to roll out the industrial model of growth across the board; secondly, that once this model has become universal it will

17. http://unfccc.int/portal_francophone/essential_background/items/3310.php.

18. Secretariat of the Convention on Biological Diversity (2006), *Global Biodiversity Outlook*, second edition, Montreal.

19. *Ibid.*

be eco-friendly and climate-compatible thanks to a radical separation between growth and its energy requirements, its greenhouse gas emissions and the destruction of biodiversity. The reason why there is a virtual consensus around this two-fold gamble is that it has a considerable political advantage: it enables us not to have to negotiate our 'way of life', as former US President G. W. Bush would put it.

Yet there are various indications as to why we should not be placing our bets. To take just one example, the European Union is delighted that it is well on track to attain its target of reducing CO₂ emissions by 20% by 2020 – let us not forget that we must achieve an 80% reduction by 2050. But the Union takes no account in its calculations of the transfer of its emissions to China, India and elsewhere. A recent study found that more than 22% of China's CO₂ emissions are in actual fact generated in producing goods exported to Europe, the United States, etc. If our CO₂ emissions had to be calculated on the basis of our consumption, we would have to add no fewer than four tonnes of CO₂ per year for every European citizen²⁰ (see contribution by Béla Galgóczi in this volume). Under these circumstances, is Europe really likely to achieve an 80% reduction in its emissions by 2050, forty years from now?

If we are not prepared to enter into the two-fold gamble based on a universal industrial model of growth that does no major damage to the climate, environment and biodiversity, we will have to change tack. We should bear in mind that this pattern of growth is not a 'model' as such: it is not sustainable and nor is it open-ended. What is more, it leads to appalling social injustice. The question for policy-makers is how to bring about a transition, and what form the new model should take in the medium and long term. But does the policy-making time-frame allow for answers to this question?

The question that arises for social groups and trade unions is this: what are the social implications of such a transition? After all, the short-

20. Steven, J. D. and Caldeira, K. (2010), 'Consumption-based accounting of CO₂ emissions', Department of Global Ecology, Carnegie Institution of Washington, Stanford, CA 94305 (<http://www.pnas.org/content/early/2010/02/23/0906974107.full.pdf>).

comings in our model of production are directly connected with the social dimension. We might mention by way of example:

- the question of a 'fair transition'. If our production model is to be radically transformed, and if our economy really is to go green, questions arise about the restructuring and transition of workers' jobs (and skills). Some major sectors will be affected: transport, industry, energy, etc. How can we anticipate and prepare for a socially just transition?
- If economic growth at all costs is no longer the be-all and end-all of policy-making, that then raises the whole question of how to distribute the fruits of 'development'. To date, the social compromise in European society has been based on ongoing wealth accumulation. Such growth makes it possible to mitigate or even mask conflicts over distribution and redistribution. In the absence of any such growth, distribution mechanisms will be in need of substantial improvement.
- Then there is the question of jobs. If an alternative model of development is not to pay a heavy price in terms of unemployment, a number of conditions have to be met, including a better share-out of available employment and a reduction in working time.
- There is also the question of how to fund social protection and hence, among others, that of taxation. How will an 'economical economy', based on sustainable products, systematic recycling and a degree of outsourcing, be able to finance pensions, health care and so on? One senses that this also implies a need to narrow the colossal wage gap that has built up over the past thirty years between excessively high and excessively low earnings.

Thus the challenge is not merely ecological but also systemic, calling into question our model of growth and the attendant social compromise. If we do not gamble in the two ways outlined above, the challenge will be how we can ease back gently from the industrial model of growth; that inevitably means finding a better way of distributing time, work and wealth. Which collective players might effect such a

change? These are red-hot issues for social organisations and trade unions.

Such are the broad themes, uppermost in 2010, around which this latest edition of *Social developments in the European Union* has been shaped. In Part One, George Irvin paints a (bleak) picture of the 'balanced budget' orthodoxy adopted in Europe and explores socially acceptable alternative ways of overcoming the crisis. It is not a matter of theoretical debate for eminent economists to engage in but, in his opinion, one of deciding whether or not we are willing to sacrifice a generation of job-seekers and to 'kill' Social Europe.

Jacques Le Cacheux examines economic governance and the future of the Stability and Growth Pact in the context of the sovereign debt crisis. How can economic policies be better coordinated? Rather than introducing new rules in the hope of seeing spontaneous 'good governance' by markets and governments, he believes that the European economy can be guided along a 'path to sustainable growth' which is less dependent on imported fossil fuels.

Economic governance, however, is not the only challenge facing the European Union countries. Even though it was less talked about in 2010, climate change most definitely remains the principal challenge to our model of production. What model of sustainable development should the EU adopt? That is the main question addressed by Béla Galgóczi in his contribution.

Part Two of this year's edition analyses, from various angles, the impact of the crisis on European-level social policies. One important social policy document issued in 2010 was the European Commission's 'New Skills, New Jobs' initiative. Jacky Fayolle looks in detail at the challenges posed in terms of workers' skills and training amidst the crisis and the transition to a new model of sustainable development.

The future of pensions naturally remains at the top of the political agenda, both national and European. Marina Angelaki and David Natali conduct a critical appraisal of what is at stake and the measures contained in the Green Paper on pensions aimed at ensuring 'adequate, sustainable and safe European pension systems'. Their parallel study of trends in the debate within the EU and reforms introduced in the

various Member States shows that the austerity paradigm still has the upper hand. Nevertheless, adequacy of pension provision has begun to attract more attention. The strategy adopted by several eastern European countries reveals the first crisis since the wave of privatisation of pension systems. In this context, the contradictions of the Stability and Growth Pact are bound up with the upsurge of populism in certain Member States.

The new 'Europe 2020' agenda, following on from the Lisbon Strategy, outlines what the European Commission and the Member States regard as the main economic and social priorities for the forthcoming ten years. Bart Vanhercke carries out a critical review of this strategy document. The new strategy does have potential: the issue of poverty is put forward as a key plank of EU socio-economic governance; likewise, the Lisbon Treaty can provide support for a strengthening of the social dimension by means of its 'horizontal social clause'. Yet at the same time Europe 2020 raises a number of misgivings and inconsistencies. On the one hand, the refocusing of the Union's social policy strategy on poverty prompts one to ask what is left of the coordination processes around pensions and health. Once again, there is a real risk that the liberal paradigm will dominate the social agenda in the years ahead. On the other hand, the weaknesses connected with the 'soft' governance of EU social policies are reappearing, without any effective solution having been found. Is it still possible to envisage real progress in respect of procedures for the management, oversight and direction of macro-economic, micro-economic and social policies?

Lastly, Dalila Ghailani dissects the case law of the European Court of Justice, examining its judgements on the organisation of working time, the struggle against discrimination, equal treatment for men and women, and flexicurity. In so doing, she demonstrates the extent to which the European Union has a presence in the daily life of its citizens.

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