2010 was a crucial year for the European Union (EU) in at least three major respects. First, many EU countries began to come under increased financial strain. The eurozone (by no means Greece alone) started to feel the effects of a serious debt crisis. Second, progress was made in the renewal of the European Union. The Lisbon Treaty, which came into force on 1 December 2009, began to be implemented. The third reason why 2010 was a turning point for the EU is that the Lisbon Strategy, launched by the European Council in March 2000 as a framework for EU socio-economic policy coordination, came to an end in June 2010 with the adoption by EU leaders of the new Europe 2020 Strategy. All these elements will have a long-lasting impact on the future of social policy at both national and supra-national level.

This 2010 edition of *Social developments in the European Union* examines the ways in which the EU has handled the main challenges relating to the fiscal crisis, the initial implementation of the Lisbon Treaty and the launch of the Europe 2020 Strategy. The volume sheds light on the risks for the European social model and the EU project, the state of debate on the revision of the Stability and Growth Pact, the impact of the economic and financial crisis in respect of pensions, the new EU roadmap for employment policy and the overall tensions, risks and opportunities generated by Europe 2020.
Social developments in the European Union 2010
Social developments in the European Union 2010

Twelfth annual report

Edited by
Christophe Degryse and David Natali

European Trade Union Institute (ETUI)
Observatoire social européen (OSE)
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Two main features of the year 2010 will remain in our memories. Firstly, this has been the year which saw a huge transfer of private bank debt to public debt, in almost all European countries. Secondly, in the wake of this transfer, the governments of most Member States embarked on quasi-punitive austerity programmes targeted at both public and private sector workers, but also at beneficiaries of welfare programmes: the unemployed, pensioners, etc.

These two features show how far we have come from the glimmer of hope which encouraged those seeking progress at the height of the economic and financial crisis of 2008-2009. It was thought that maybe this crisis would trigger renewed discussions on new, fairer forms of economic governance, placing finance at the service of the real economy, which in its turn, would be built into a joint political project, and acting to promote employment and solidarity rather than speculation and greed.

The new form of economic governance, however, as it is taking shape at the beginning of 2011, seems, above all, to consist of a tightening up of budgetary rules and a strengthening of the sanctions to be applied if these rules are not adhered to. Rules are, of course, necessary, but they must serve to further some political project, and, in this sense, the European Union appears to be lacking a coordinated strategy for socioeconomic development. Budgetary consolidation, economic growth and competitiveness have become its 'new' mantras. Even its medium-term political strategy, 'Europe 2020', gives undue importance to providing a framework for national budgetary policies.

There are clearly, however, far broader issues to be dealt with. To mention just three of these, there is, firstly, the need to adapt our production systems to combat climate change. Secondly, we must provide a new regulatory framework and stability for the banking and finance sector, which must also be required to contribute financially to the costs of the crisis it generated. Finally, there is a need to strengthen
the European social model, which proved its worth at the height of the crisis, but which some are now trying to water down in the name of competitiveness.

The European Union, therefore, should concentrate on seeking a new model of development, one which will put an end to the wild accumulation and concentration of capital, engineer a return to social cohesion and justice, and encourage society to adopt a different approach to economic prosperity.

It is with this prospect in mind that the European Trade Union Institute has again worked together with the European Social Observatory to draw up this report on Social developments in the EU 2010. We hope that the analyses it contains will provide material for discussions on the future of the European model, and that these will reach a broad public.

Maria Jepsen, Philippe Pochet, David Natali and Christophe Degryse
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
Social developments in the European Union 2010

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 sector, reduced public expenditure, pension reforms, scaled-back social benefits, rises in VAT, reforms of labour legislation, rising school fees – 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.

3. See the ‘Overview of European Austerity’ drawn up by the European Trade Union Confederation (http://www.etuc.org/i/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’.

The European Commission did not mince its words when drawing up the Annual Growth Survey, published in early January 2011. 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’. 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 package. Worse still, we can only look on in amazement at a banking sector which apparently believes that we should now put the

6. Letter from ETUC General Secretary John Monks to Olli Rehn, Commissioner for Economic and Monetary Affairs, 11 January 2011.
In January 2011, the Chief Executive of Barclays Bank, Bob Diamond (2011 bonus: €7.6 million), declared that ‘there was a period of remorse and apology [for the bank], that period needs to be over’. 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 world. 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’. 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’. 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.

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’ 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.

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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 selfishly\textsuperscript{14}, 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 it\textsuperscript{15}; 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

\textsuperscript{14} Financial Times. 15 March 2010.
\textsuperscript{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 legitimacy. 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

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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 years. 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 2000. Global demand for resources currently outstrips the Earth’s biological capacity to reconstitute them by about 20%.

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

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 citizen (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-

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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
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.

February 2011
The crisis and the European social model

George Irvin

If you merge 16 small open economies, you get a large closed economy. But here is the catch. If you assemble the leaders of the 16 small open economies, you get a roomful of 16 small-economy politicians (Muenchau, 2010)

As further rounds of economic crisis unfold, Europe’s social democrats seem frozen like frightened rabbits in a car's headlights. They have nothing new to say about how to deal with fiscal deficits, except that the cuts must not occur too quickly and that the most vulnerable citizens must be shielded where possible. Otherwise, politicians on all sides appear to accept that public deficits must be slashed, failing which we will all face a massive sovereign debt crisis. Nor, fearing inflation, do they favour monetising the deficits. As for dealing with the crisis of the bond markets, Eurozone politicians cannot agree on the need for a common Eurobond backed by the combined economic weight of all its members. However, further sovereign debt crises and further deficit reduction almost certainly mean further economic slowdown and privatisations, at the cost of education, health, pensions and other building blocks of the European social model.

There is a way out. Europe can grow its way out of crisis. More growth means both a fall in government spending and a dramatic increase in tax receipts; it also means greater confidence in the Eurozone, a key element in stopping the ongoing sovereign debt crisis. Growth can provide the renewed infrastructure, energy saving technology and alternatives to fossil fuel so badly needed. But launching a growth-based strategy requires political courage. If Europe’s social model is to survive, social democrats will need to find the courage to challenge the conventional orthodoxy of public sector cuts. A common Eurobond would be an important first step; ultimately, though, social democrats must press for fiscal integration; ie, a European Treasury.
1. How we got here

The current crisis in Europe has two components: first, it is in part a private banking crisis in which governments (such as the Irish) have taken on the debts of their private banks, turning these into ‘sovereign’ debt; ie, debt guaranteed by government. In order to save the private banks, Irish sovereign debt doubled overnight. It became so large relative to the country’s output that international financial markets took fright and charged a hefty risk premium to refinance it, thus driving up the interest payments on the debt and raising the risk of default even more.

Secondly, the financial crisis of 2008 led to the most serious economic recession since the 1930s throughout the Eurozone. In a recession, tax receipts fall, social spending rises and the budget goes into deficit; such a cyclical deficit is at the heart of the ‘automatic stabiliser’ mechanism which prevents output and employment from contracting disastrously. But any serious recession may also result in a fall in the growth potential of the economy, in turn increasing the ‘structural’ component of the deficit. Without pursuing the matter in detail, suffice to say that in most OECD economies, both the cyclical and structural components grew in 2009-10: hence, the so-called ‘black hole’ in public finances. In a country like Greece, where the public current deficit was already large, tax collection was weak and the stock of debt was of short maturity and needed to be funded abroad, international bond markets panicked.

Such panic leads to the ‘contagion’ which lies at the heart of the current problem. Financial markets have reacted to countries’ budgetary problems by demanding ever-higher annual rewards for buying their bonds (6-8% yields are not uncommon). Equally, since such bond purchases are typically ‘insured’ through the purchase of Credit Default Swaps (CDSs), the perceived risk of a country going broke caused the cost of CDSs to rise as well, thus adding further fuel to the sovereign debt crisis.
Even the US is worried about the deficit hysteria sweeping the EU and its deflationary impact, not just in Europe but for the world economy. In Ireland, where the collapse of the housing bubble in 2007 led the government to underwrite the entire banking system and thus greatly increase its own indebtedness, self-imposed spending cuts contributed to an estimated 9% annual fall in GDP in 2009, a widening budget deficit and a dramatic ‘bailout’ by the EU/IMF. By 2010, its GDP had fallen by well over 10% — the official definition of a depression — and is forecast to fall a further 5% in 2011 as a result of the EU/IMF imposed cuts. In Greece, an EU-IMF imposed deficit reduction plan of 10 percentage points over two years has led to a forecast fall in GDP of 20%.

By late 2010, Spain and Italy had announced €15bn and €25bn respectively in austerity measures. Portugal had accelerated its budget reduction programme to get from 9% in 2009 to below 3% by 2013, or by about 2.5% a year. In France, where the budget deficit is much smaller than in Britain, President Sarkozy was under pressure to follow Ms Merkel’s budget balancing act. Lest anybody forget, in 2009 the CDU-SPD coalition led by Ms Merkel committed Germany constitutionally to a permanently balanced annual budget after 2016, the so-called ‘debt-brake’ law, which means extra budgetary cuts amounting to €10bn per year starting in 2011.

As though all this fiscal tightening were not bad enough, the OECD recommended monetary tightening as a precaution against inflation. Both the Bank of England (BoE) and the ECB are considering raising interest rates in early 2011, despite the ECB’s warning that the Eurozone might have contracted by nearly 5% at the end of 2010 and that the core inflation rate has been near zero.

What does all this mean for growth? Take the Eurozone-16 countries; their average current deficit in 2010 is about 7% of GDP, and it will probably be 8% in 2011. The current aim is to bring this figure within

3. See [http://www.spiegel.de/international/germany/0,1518,696760,00.html](http://www.spiegel.de/international/germany/0,1518,696760,00.html).
the 3% limit by 2013; i.e. to make budgetary savings of 5% of GDP over two years. If we assume a (small) government multiplier of 1.5 and that its impact is distributed evenly over the three years following 2013, this would mean a 2.5% annual loss in growth until 2016. But average Eurozone growth in the decade since 2001 has only been just above 1% per annum, so we can expect deficit cutting to lower future growth.

Even more contradictory is what this does to the stock of debt. Recall that the Maastricht rules require the ratio of the stock of government debt to a country’s GDP not to exceed 60%. A simple rule used by economists to forecast how the debt/GDP ratio will move is the following: the debt/GDP ratio will fall as long as the rate of interest paid on the debt is smaller than the rate of growth of GDP. If growth prospects are good and interests costs low, the debt burden will shrink. Per contra, high interest rates on government bonds and poor growth prospects will raise the debt burden, thus causing international financial markets to worry even more about the future ‘sustainability’ of the debt. So when the EU/IMF insists that Ireland, Greece or whoever should cut public spending, it reduces the country’s future growth prospects and makes bond markets even more reluctant to refinance future debt maturities.

To assuage bond markets in the short term, the ECB has tried to pump short-term liquidity into the system by buying distressed countries’ eurobonds. As a longer term solution, Germany and France agreed in May 2010 to operating a permanent bailout facility after 2013: the European Financial Stability Facility (EFSF). But because of the terms demanded by Germany, namely that bond holders take ‘haircuts’, the €440bn supplied by the EU, rather than promoting stability, has actually made the crisis worse (De Grauwe, 2010).

Moreover, since the Facility must be over-collateralised, only about €250bn of the €440bn total can be lent out (Muenchau, 2011). Indeed, having just lived through the Irish crisis, the ECB warned in December 2010 that the total cost of refinancing Eurozone sovereign debt over the next two years could reach a staggering €1tr. Unless this sum can be financed, there will be defaults and restructuring. Markets know this and, when they re-opened in January 2011, became even more worried about contagion. Eurozone ministers are now bickering about whether (and how) to raise the effective size of the EFSF (Wyplosz, 2010).
All this is happening while Europe pursues pro-cyclical budget cutting policies. Such policies make things worse. Not only will Europe suffer, but because the combined EU economy is so large, so too could growth elsewhere in the world. Prolonged unemployment means that a whole generation will remain jobless, and even when recovery takes place, they will enter the labour market without the skills they would otherwise have acquired and with little bargaining power. Industries will decline, and some will disappear altogether, as will the wider communities which they helped support. Income and wealth inequalities will grow.

Perhaps most disturbing is that Europe’s ‘social model’ will be so deeply damaged by lack of public finance that it will in effect cease to exist, or else become a patchwork of support programmes for the ‘deserving poor’ (i.e. tax-related benefits for the employed) as in the Anglo-Saxon countries. The deficit cutters are killing Social Europe.

2. Why Eurozone countries cannot all be like Germany

In its simplest form, the argument used by the deficit hawks relies on treating the budget of a national economy as analogous to that of a business or a household. Mrs Merkel today, like Margaret Thatcher in the 1980s, pretends that she is acting like any prudent housewife, restoring order to the national finances by balancing the family budget on a weekly, monthly or annual basis.

Unfortunately, a national economy doesn’t work like that. Unlike households, economies are subject to long term ups and downs or ‘business cycles’. The length of the full cycle varies, but it is typically 8-10 years; when we examine the historical record for large market economies, this cyclical pattern emerges quite clearly. The deepest cycle of the 20th century started in the USA just before the Wall Street Crash of 1929. Moreover, because of the writings of Keynes and many others who followed him, we know that governments can do a great deal to reduce the negative impact of an economic downturn.

5. On Britain, for example, see: http://www.guardian.co.uk/business/2011/jan/19/youth-unemployment-heads-towards-1-million
In a slump, as firms go out of business and unemployment increases, consumers spend less and save more while firms, aware that sales are falling, stop investing in new machines and buildings; these reactions by the private sector cause even more belt-tightening which in turn causes the economy to contract further. Moreover, as the economy turns downward, the accumulation of bad debts in the banking system can lead to a financial crisis, adding fuel to the flames as it did in 1929.

To prevent this from happening, governments must offset the fall in private sector demand by loosening both monetary policy and fiscal policy; ie, by keeping interest rates low and by spending more. To a degree, automatic fiscal stabilisers help; i.e. governments pay unemployment benefit and cease taxing those who lose their jobs. But in a serious slump such as that which we have experienced, governments must do more. It may need to ‘bail out’ failing banks and to design a large stimulus package to get people back to work.

Germany was one of the first EU countries to come out of recession, and its recovery was largely driven by an export boom (with stronger domestic demand primed by government playing a role too). Indeed, Germany experienced buoyant growth in the second half of 2010, with the end-of-year GDP growth forecast to be nearly 3%, well above the 1.4% forecast for the Eurozone-17 and bringing it back to nearly its pre-2008 level. It is expected that growth will slow in 2011, mainly because stimulus programmes will ease and fiscal stringency will start to bite. One must bear in mind that Germany sells about half its total exports to the Eurozone with which it traditionally runs a trade surplus.

But Germany’s export dominance has become a source of friction for its trading partners, particularly those in the Eurozone. For one thing, German exports have been helped by a relatively cheap euro; were the DM still in use, it would doubtless have appreciated strongly. For another thing, Germany’s exports are by definition someone else’s imports, and for one country to be in surplus, another country must run a deficit. This is precisely what happened to the so-called ‘Club Med’ countries (Greece, Portugal, Spain and Ireland). As shown by Lapavitsas et al. (2010), Germany’s trade surplus is mirrored by the Club-Med deficit.

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6. See http://www.spiegel.de/international/germany/0,1518,711679,00.htm.
Crucially important, too, is the fact that a budget deficit cannot always be eliminated simply by ‘balancing the budget’, mainly because of the way in which the budget balance relates to the other savings balances in the economy. We know from simple national income accounting definitions that the sum of private and public sector ‘savings’ must equal the external current account balance. If there are no net savings in the private sector and the external current account is in deficit, the government account must be in deficit – there is no causality implied, rather this statement is true by definition. Germany can ‘balance the books’ precisely because it runs a large external surplus.

More generally, where private savings and investment are in balance for all Eurozone countries, these same countries could only run balanced or surplus budgets if each eliminated its trade deficit and went into surplus with the rest of the world. However, as Whyte (2010) has shown, the Eurozone is simply too big for the rest of the world to be in deficit with all Eurozone members. In short, the position of the deficit hawks is not just empirically misleading, it is logically untenable (see also Wolf, 2010).

In short, in order for some Eurozone countries to run surpluses, others must run deficits; this is true whether for the Eurozone or for the world as a whole. Nor can deficit countries ‘balance the books’ and ‘regain productivity’ merely by cutting expenditure; rather, expenditure cutting can only balance the books if national income falls, in some cases with the brunt of the cuts borne by the poor as is currently happening in Greece and Ireland. Moreover, the race to the bottom this entails may have negative secondary repercussions on other trading partners; witness fears in the US that European contraction will hurt US growth.

A further problem with ‘balanced budget’ orthodoxy is that it ignores growing private sector indebtedness. Indeed, what distinguishes countries like Ireland and Spain is that it is the private sector which has accumulated debt. In the Irish case, as soon as the housing bubble burst, the burden of debt was transferred to the public sector, doubling public indebtedness at a stroke and precipitating a sovereign debt crisis and the subsequent EU/IMF ‘bailout’. As Paul De Grauwe (2010) writes: ‘From 1999 until 2008, when the financial crises erupted, private households in the eurozone increased their debt levels from
about 50% of GDP to 70%. The explosion of bank debt in the eurozone was even more spectacular and reached more than 250% of GDP in 2008. Surprisingly, the only sector that did not experience an increase in its debt level during that period was the government sector, which saw its debt decline from 72 to 68% of GDP. Ireland and Spain, two of the countries with the severest government debt problems today, experienced the strongest declines of their government debt ratios prior to the crisis. These are also the countries where the private debt accumulation was the strongest.

3. Who pays for the crisis?

It should be clear that the general public, not the banks, will pay for the crisis. Payment in most EU countries will predominantly take the form of spending cuts rather than tax increases (still less tax increases for the very rich). The deficit hawk argument is that the state is large and inefficient and so must be cut back. In the EU-27, state spending as a proportion of GDP ranges from just under 40% in Spain to over 50% in Sweden, and hawks like to compare this to a figure of about 25% in the USA. In contrast to the USA, European countries generally spend a higher proportion of their budget on ‘transfer payments’; i.e. on items such as universal medical cover and pensions for which citizens save by means of taxes and other transfers, but which they receive back in the form of entitlements.

The breakdown of government spending for the EU-27 in 2008 reveals that social transfers, including payments ‘in kind’, amount to about 30% of GDP, and that the public sector wage bill is about 10% of GDP. Everything else is much smaller: investment and interest payments 2.7% each, and subsidies 1.2%. So any major cuts in public spending are almost certainly going to hit welfare payments (financial transfers and in-kind service provisions) and public sector wages. As a matter of simple logic, the lion’s share of any meaningful cuts on the spending side will have to come from these sources, simply because of their size. The other categories are simply too small (Watt, 2010).
Figure 1 shows the breakdown by policy area of national governments’ spending as an average for the EU27 in 2003; the figures were published in 2008 and the pattern has been relatively stable. Social protection is about 40% of government spending while health, education and general public services each account for between 10 and 15%. Spending on social protection tends to rise as populations age. Equally, spending on the environment is likely to rise, although from a very low base. With the exception of ‘economic affairs’, all other items represent a negligible share of spending. In theory, scrapping the armed services of all EU countries would reduce public spending by only 3%. It is clear that meaningful cuts in public spending will almost inevitably involve ‘soft targets’ – social and welfare services in a broad sense. These are EU averages and, of course, there are some national differences. Spending on social protection varies from 9.5% in Ireland to 23.8% in Sweden. In the area of defence, spending on the British armed forces is...
ten times higher as a share of GDP than in Luxembourg. Still, the basic point is that meaningful cuts must come from spending categories of a meaningful size.

Figure 2 Eurozone budget deficits as percentage of GDP (2010)

![Eurozone budget deficits as percentage of GDP (2010)](image)

Figure 2 shows the size of government current deficits for eurozone countries. With the EU expecting all Member States to have met the budget deficit target of 3% of GDP by the financial year 2014-15, what belt-tightening measures are the countries taking?

Ireland

The huge cost of bailing out the banks increased the government’s current deficit to an astronomical 32% of GDP in 2010, while the stringent bailout conditions imposed by the EU/IMF rescue package require this figure to fall to 2.9% by 2015. To this end, Ireland has pledged

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to make €15bn worth of savings by 2014 of which €6bn in cuts are ‘frontloaded’; i.e. they will occur in 2011. Government spending has been slashed by €4bn, with all public servants’ pay cut by at least 5%, social welfare reduced, and the cutting of nearly 25,000 public sector jobs. The government also plans: €2.8bn of further savings in social welfare spending, €1.9bn to be raised from income tax changes, a reduction in the minimum wage to €7.65 an hour and a VAT rise from 21% to 22% in 2013, then to 24% in 2014. Needless to say, these changes will hit the most vulnerable hardest.

France

In order to meet the target of reducing the budget deficit from 7.7% of GDP (2010) to 3%, France has announced plans to cut spending by €45bn by the end of 2013. Some of this money is to be saved through closing tax loopholes, the withdrawing temporary economic stimulus measures and a 1% increase in tax on the highest income band. In addition, some 97,000 public sector jobs are to be axed in the period 2011-13, according to the French Prime Minister, Francois Fillon.

The most politically controversial measure, though, has been President Sarkozy's plans to raise the initial retirement age from 60 to 62 and the full state pension age from 65 to 67. This is seen as a direct attack on France’s traditionally generous system of social provision.

The Netherlands

The centre-right coalition formed in The Netherlands on 8 October 2010 said it wanted to cut the 2010 budget deficit, estimated at 5.8% of GDP, by €18bn between 2011 and 2015. But the new government will have to rely on the radical Freedom Party to enact legislation and there are doubts about its long-term viability. Nevertheless, the government

expects to narrow the 2011 budget shortfall to 4 percent of GDP, still slightly above the EU’s 3 percent ceiling.

Spain

At the end of 2010, Spain’s deficit stood at just over 9% of GDP. The Spanish government has approved an austerity budget for 2011 which includes a tax rise for the rich and 8% spending cuts.

Madrid has promised European counterparts to cut its deficit to 6% of its gross domestic product (GDP) by the end of 2011. Government workers have had their pay cut by 5% since June, and salaries will be frozen for 2011. The tax on tobacco is to rise 28%, and Madrid also plans to sell off 30% of the Spanish national lottery and a minority stake in the country’s airport authority. A tax rise of 1% will be applied to personal income above €120,000. Smaller savings include an end to a €2,500 cash payout for new mothers, known as ‘baby cheques’. Madrid will also stop paying a monthly subsidy of €426 to the long-term unemployed who are no longer eligible for the dole. Unemployment has more than doubled, to about 20% of the workforce, since 2007.

Italy

The Italian budget deficit was an estimated 5% of GDP in 2010. The Italian government has approved austerity measures worth €24bn for the years 2011-12. The cuts amount to about 1.6% of Italian GDP. Italy also aims to cut public sector pay and freeze new recruitment. Public sector pensions and local government spending are also being targeted, and there are plans to crack down on tax evasion.

Funding to city and regional authorities is expected to be cut by more than €13bn. For the next three years there will be a freeze on public sector pay rises and cuts in public sector hiring, replacing only one employee for every five who leave. Progressive pay cuts of up to 10% are

planned for high earners in the public sector, including ministers and parliamentarians. Retirement will be delayed by up to six months for those who reach retirement age in 2011. Provincial governments serving fewer than 220,000 inhabitants are to be scrapped.

Germany

Germany’s federal deficit in 2010 was an estimated 3.7%, lower than originally forecast because of the country’s relatively strong growth performance over the year. The German government has proposed plans to cut the budget deficit by a record €80bn, or 3% of GDP, by the end of 2014 and to achieve a fully balanced budget by January 2016. The plans include a cut in subsidies to parents, 10,000 government job cuts over four years, and higher taxes on nuclear power. ‘Germany has an outstanding chance to set a good example’, said German Chancellor Angela Merkel. What Mrs Merkel did not say is that German regional (Länder) and municipal governments have been starved of finance and are suffering gravely.10

At the heart of the deficit reduction plan is the ‘debt-brake’ law, introduced by Chancellor Merkel and Finance Minister Per Steinbrück, incorporated into Germany’s constitution in June 2009 and taking effect in January 2011. The federal government is expected to adhere fully to the new law by January 2016. Deep recessions and natural disasters would, however, permit higher borrowing, provided there is a 2/3 majority in the parliament. The law sets a zero limit on net borrowing for the Länder (regions) and limits the federal budget deficit to 0.35 percent of GDP. The Bund (Federal Government) and the Länder have a number of years to adjust their fiscal position. In addition, in the coming years, the richer Länder and the Bund will assist the poorer Länder to cut back their stock of debt by providing an annual amount of €800 million to them. The zero net borrowing limit for the Länder will become effective in 2020.

Portugal

At the end of 2010, the Portuguese deficit stood at an estimated 7.3% of GDP and its debt-to-GDP ratio at 84.6%. Portugal’s borrowing costs have risen as investors regard it as one of the weakest links in the eurozone, like the Irish Republic and Greece, and currently stand at just under 7% for its 10-year Eurobonds; nevertheless, in January 2011 it successfully raised €1.25bn from the international financial market. But that has not halted speculation that Portugal will need some form of bailout in the course of the year.

The social-democratic government of José Socrates has announced a range of austerity measures aimed at cutting the 2011 deficit to 4.6%. Public services, including flights and rubbish collection, were paralysed by a general strike on 24 November 2010. It was the first such joint protest by the main unions for 22 years. In the austerity drive top earners in the public sector, including politicians, will see a 5% pay cut. VAT will rise by 1% and there will be income tax hikes for those earning more than 150,000 euros. By 2013 they will face a 45% tax rate. By 2013 military spending will have been cut by 40% and the government is delaying the launch of two high-speed rail links: the Lisbon-Porto and Porto-Vigo routes.
Greece

Greece aims to slash the budget deficit from an estimated 13.6% of GDP in mid-2010 and 9.6% at the end of the year to below 3% by the end of 2014. To do this it must take nearly 2% out of GDP per annum. The Greek government has pledged to make drastic spending cuts and boost tax revenue in return for a €110bn bail-out from the EU and IMF approved in mid-2010. It is now drawing on the bail-out money because a sharp downgrade of its sovereign debt rating resulted in borrowing costs of 7.7%.

Greece received a €20bn tranche in May 2010 and €9bn in September. The lenders consider that Greece has made solid progress enabling a further €9bn to be disbursed in early 2011, despite missing its 2010 deficit target by an expected 1.5%. The country has started cracking down on tax evasion, and on corruption within the tax and customs service. It will also curb its widespread early retirement schemes. The average retirement age is set to rise from 61.4 to 63.5.

Under the plan to slash the budget by €30bn over three years, Greece has been forced to scrap bonus payments for public sector workers, to freeze public sector salaries and pensions for at least three years, to increase VAT from 19% to 23% and to raise taxes on fuel, alcohol and tobacco by 10%. Nevertheless, Greece will pay a heavy price for these cuts: quite apart from repeated political protests, Greek GDP contracted by 4% in 2010 and is expected to contract by a further 2% in 2011. In consequence, its debt-to-GDP ratio is forecast to rise to as high as 150% and unemployment to peak at nearly 15% in 2011.

United Kingdom

Although the UK’s public deficit was high in 2010 at over 11% of GDP, public sector net debt (excluding financial interventions) was equivalent to only 58% of GDP at the end of November 2010; ie, less than the Maastricht 60% target figure.\(^{11}\)

\(^{11}\) See http://www.hm-treasury.gov.uk/d/junebudget_chapter1.pdf
Nevertheless, the Con-Dem coalition government aims at reducing the budget deficit to about 1% of GDP by 2014-15. Savings of about €100bn are to be made over four years. The Chancellor, George Osborne, told parliament that 490,000 public sector jobs would be cut over four years because the country had ‘run out of money’. It is predicted that there will be a similar number of job losses in the private sector. Most Whitehall departments face budget cuts of 20% on average while the defence budget will be cut by 8%. The retirement age is to rise from 65 to 66 by 2020. Some incapacity benefits will be time-limited and other money will be clawed back through changes to tax credits and housing benefit. On the revenue side, at the beginning of January 2011, VAT rose from 17.5% to 20%.

5. The distributional impact of budget cutting

To my knowledge, there is no comprehensive study of the distributional impact of budget contraction for the whole EU. However, there is some evidence to suggest that if budget contraction increases inequality, this can have an adverse effect on fiscal discipline and adjustment. In the words of one commentator: ‘income inequality seems to dampen the effect of economic growth on the budget. As a result, income inequality can hamper fiscal discipline and adjustment’ (Larch, 2010: 6). In short, the more egalitarian the distribution of income, the more likely it is that governments will be able to keep structural deficits in hand.

In the absence of an all-encompassing EU study, it will be useful to draw on the UK debate where there is now considerable evidence that attaining budget balance through drastic spending cuts can have adverse distributional consequences.

Figure 6 shows the distributional impact by household income decile group as reported by London’s Institute for Fiscal Studies (IFS) in August 2010. Clearly, the impact of fiscal retrenchment for the period 2010-14 is regressive, hitting the poorest income group hardest and richer groups increasingly less until arriving at the richest (10th) decile group. However, there are a number of caveats.

The first, pointed out by Tim Horton and Howard Reed (2010), is that the above distributional effects include the progressive elements of tax
and benefit changes introduced or pre-announced by Labour in its March 2010 budget; e.g. the increase in the top rate of tax to 50% for incomes above £150,000 per annum and the withdrawal of personal allowances above £100,000.

Figure 4 The long-term effects of tax and benefit reforms announced in the UK June 2010 budget by household income decile group

Population by income in 10% groups

<table>
<thead>
<tr>
<th>Decile</th>
<th>% Loss in Income</th>
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<tbody>
<tr>
<td>1</td>
<td>-5</td>
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<td>2</td>
<td>-4</td>
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<td>9</td>
<td>3</td>
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<td>Richest</td>
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The second and third points have to do with the claim by the UK Treasury that the overall incidence of the coalition government’s emergency budget (EB), together with the measures announced in Comprehensive Spending Review (CSR) in late November 2010, was in fact progressive. For those who followed the debate, it will be recalled that the Deputy Prime Minister, Nick Clegg, dismissed the IFS analysis which claimed the incidence was regressive as ‘complete nonsense’. But the Treasury’s progressive assessment depended on considering only

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those aspects of the EB and CSR which took effect in 2011-13 while ignoring important benefit cuts due to take hold in the period 2014-15.

An even more debatable point is the claim by the government that raising VAT to 20% is progressive, not regressive. The simplest version of this argument is that, in absolute terms, VAT falls most heavily on the rich because they spend more than the poor. This version can be dismissed on definitional grounds: all flat-rate taxes (like VAT) are regressive since they take a smaller share of the income of the rich than of the poor. However, since in the UK some ‘essential’ items (children’s clothes, food, rent) are not VAT rated, one might make the case that UK VAT is mildly progressive. Unfortunately, this argument misses the fact that most of the things bought by the poor are VAT-rated (eg, clothes, fuel, tobacco, or even a drink at the local pub) while many of the things that the rich do with their money (buying property, for example) do not incur VAT.

The more serious point, made by the government and echoed by the IFS, is that although a VAT rise may be regressive when measured as a proportion of each decile group’s income, it is progressive as a proportion of expenditure. This is because the rich generally spend a lower share of their income than the poor (and the poor may indeed be spending more than their net income at any point in time; i.e. dissaving).

However, there is no good reason for looking at VAT or any other tax as a proportion of expenditure since what we are interested in is people’s ability to pay; i.e. their net income. A slight variant of this argument is that since over a person’s lifetime income must roughly equal expenditure, then VAT must be progressive when ‘lifetime income’ is considered rather than income at a point in time. As argued elsewhere, ‘a proportional VAT on all goods and no benefit system at all (including pensions) might be highly progressive in a lifetime incomes context, but it would also leave a lot of low-income people dependent on charities, or dead in the streets’.

6. Accelerating privatisation

One of the most discouraging aspects of budgetary rectitude is that it is accelerating the privatisation of Europe’s public services. Some will argue that there is nothing new here. Privatisation was central to the Reagan-Thatcher agenda, just as it has been a key part of the agenda of Europe’s centre-right since the 1980s.

The centre-right argues that privatisation and liberalisation are the only way to meet the needs of consumers, improve the efficiency of public finances and create a common European market allowing enterprises, professionals and workers to move freely. By contrast, the centre-left highlights the risks of privatising services that have been historically guaranteed and protected by the state, thereby depriving the public of democratic control over the way that their taxes are spent. But here is the rub: the growing fiscal-financial crisis of the EU has given the neoliberals the upper hand.

In Italy, privatisation began with the state-owned industrial conglomerates, the best-known example being that of ENI in 1955, and was then extended to essential local public services. Germany has been selling off its infrastructure since the 1980s: energy, railways, telecoms and so on. Everywhere, the views that emerged during the Thatcher and Reagan years in conservative parties have been adopted by the centre-left too.

It is in the UK that privatisation has gone furthest. The sell-off of industrial corporations such as steel and coal is today a distant historical memory. Subsequently, Britain under New Labour opened up local government, health, education and part of the criminal justice system to private business. Public bodies became ‘commissioning organisations’, purchasing services from public, private and voluntary sector organisations. They were also required, as in the case of health, to create pseudo-markets of competing providers where these did not already exist.

In theory at least, neoliberals claim to use liberalisation to stimulate competition and to make it difficult for monopolies or oligopolies to fix prices. Hence liberalisation of services is said to benefit the consumer. Privatisation, on the other hand, is the partial or complete transfer of public industries to the private sector. It was used by Margaret Thatcher in its purest form – the outright sale of those industries – to defeat the
trade unions. It has since extended to include the substitution of public delivery of services with private delivery through the process of competition and marketisation.

The way that postal services and telephone companies now operate is instructive. Eurobarometer, in a survey carried out for the European Commission, found privatised telecommunications customers to be the most dissatisfied in Europe, both in terms of services and value for money. The most favourable consumer feedback came from countries where public ownership of phone companies is still prevalent. Another classic example is the high costs and inefficient operation of public highways, which in Italy were privatised in 1999 (with most of the shares bought by Benetton).

The end of state monopoly has not translated into the realisation of a competitive market. Instead it has produced private oligarchies and massive profits for private companies, with very little going to public authorities, which continue to face dire problems of underfunding and debt. Financial institutions have been the main beneficiaries of the privatisation of infrastructure in Europe. Across the continent, privatisation has resulted in the deterioration of ‘liberalised’ services, job cuts, the weakening of trade unions and the casualisation of labour.

Another Europe-wide consequence of privatisation and liberalisation concerns the massive conflicts of interest within major telephone, media, electricity and gas networks. For example, the European Commission has separated the ownership of energy producing companies from those administering energy supply networks. It has pursued the same sort of logic in the telecoms sector.

Privatisation in Europe of industries, infrastructure and public utilities has amply demonstrated the increasing influence of financial markets in setting the direction of the economy. In many European countries, privatisation has been directly linked to ‘wider’ shareholding and ‘popular capitalism’, whereby shares in what were public industries and services are sold on the financial market and bought up partly by private citizens – but mostly by international investors such as insurance companies.
France provides a good example of this phenomenon. Here the government, after years of resisting privatisation, decided to go down the route of selling shares to the public. ‘Under the pretext of controlling the public sector, both left-wing and right-wing governments gave birth to a real transformation of public industries into industrial multinationals, with a growing quota of private capital,’ says Nicola Galepides, of France’s main telecoms union. ‘State industries like France Telecom or EDF-GDF have often bought up public companies in emerging countries,’ says Galepides, and their involvement globally will only increase with privatisation (Andruccioli, 2007). Note that Electricité de France (EDF) was part-privatised in 2005, largely to comply with EU market liberalisation laws, while privatisation of Gaz de France (GDF) followed by stages in the period 2006-08. This step-by-step privatisation strategy has previously been adopted for France Telecom (1997), for motorways (2005) and most recently for postal services (2010).

In Spain, privatisation began in 1986, when both industrial and public service sectors were privatised. The INI (National Institute of Industry) sold Seat and Puralator to foreign private companies, while 38% and 98% respectively of two important state-owned companies in the energy sector, Gesa and Endesa, were sold on the financial market. In further waves of privatisation, banks, food production companies and tobacco industries were all subject to the same treatment.

Similar examples can be cited for most other EU countries. There is little doubt that the main impulse has come from the European Commission. Below is an extract from a Commission Green Paper on telecommunications, although the broader intent of the conclusion is clear: ‘In general, an open, competitive market for new service providers … can make a substantial contribution to the rapid spread of technology and market opportunities … Given the complexity and multiplicity of the emerging … services, only the market can efficiently link the producer with the consumer. Economics knows of no other means of fulfilling this purpose and all attempts to replace it by something else have so far failed [my italics]’ (CEC, 1987: 52) [quoted from Parker, 1998: 30]
There are two strategic questions which must be addressed. The first is how to define in judicial terms ‘services for the general interest’ and ‘services for the general economic interest’; the second is the question of participatory democracy.

In relation to the first, the literature is vast, but at EU level there is no agreement. Various researchers have found that EU legislation shows ‘no awareness of the notion of public service’ but only acknowledges ‘services for the general economic interest’ (Andruccioli, 2007). One of the most urgent political tasks for opponents of privatisation in Europe, therefore, is to secure a clear and definitive directive on services for the general interest.

Democracy is another fundamental problem that needs to be addressed. Privatisation has gone hand in hand with ‘individualistic’ and authoritarian political ideologies. The EU is witnessing a disastrous lack of civic participation in its policy-making. This has been highlighted in research by Greenwich University’s Public Services International Research Unit, on behalf of the European Federation of Public Service Unions, that is highly critical of the official report of the European Commission on services and liberalisation14.

Another problem facing Europe has been the Bolkenstein directive on the liberalisation of services and the application of ‘country of origin’ labour legislation to service workers in the EU; hence the implication that ‘Polish plumbers’ working in the EU would be subject to (weak) labour law extant in Poland. Originally presented in 2000, this was probably the best-known of a series of directives that flowed from the European single market. The earlier directives were aimed at specific sectors – telecoms, energy, rail transport, waste and postal services – and required all EU Member States to commit to a deregulation timetable to open up public networks to private operators. In its 2006 version, the ‘country of origin principle’ was dropped from the directive, which otherwise would have involved a race to the bottom in protecting service sector workers. Nevertheless, the Commission insisted on reminding Member States of the importance of the free movement of labour and the applicability of the EU Posted Workers Directive which

provides that a 'hard core' of rules of the host country (country of destination) needs to be observed.

At present, a key area of privatisation is that of health services. Britain provides an excellent example of ‘privatisation from the inside’, a process by which health provision, while retaining the outward appearance of a publicly funded service, is gradually turned over to private sector firms from any member-state to be run on a ‘for profit’ basis. New Labour (1997-2010), far from reversing John Major’s introduction of a pseudo-market in health care (the so-called internal market), speeded up the process, decentralising the National Health Service (NHS) and reorganising hospitals into regionally based ‘primary care trusts’ (PCTs) while contracting in everything from managers to cleaning services. At present, the Con-Dem coalition in Britain is in the process of abolishing the PCTs and handing over their funds to general practitioners (GPs), who in turn will be free to hand on management operations to private conglomerates, often headed by US-style Health Maintenance Organisations (HMOs). In the words of the Guardian columnist, Polly Toynbee: ‘GPs are camouflage for the true Cameron revolution. Consortia must now commission services from ‘any willing provider’. Naive GPs who fondly imagine they can choose where to send patients may get a nasty shock. Monitor, whose role was limited to scrutinising foundation hospitals, has been re-born as a regulator whose first task is ‘to promote competition’. For the first time the NHS is opened to EU competition law. If a consortium keeps a relationship with a trusted local hospital, it may find itself challenged in court by any private company claiming the right to outbid. Neither GPs nor patients will control who is treated where: the law will decide’\(^\text{15}\).

Much the same can be said of the financial services industry. When, famously, Northern Rock was taken under UK government control in 2008 after the housing bubble burst, the new publicly owned-company was prevented from offering cheap mortgages to stricken households on the grounds that to do so would constitute ‘unfair competition’ with the private sector.

\(^{15}\) See http://www.guardian.co.uk/commentisfree/2011/jan/17/free-market-bill-blow-nhs-apart?
Or again, one can cite the example of state pensions in which the squeeze on government budgets has been used as a reason either for reducing pension provision, increasing the pensionable age, or both. French street protests in 2010 provide a good example of just how volatile an issue pension entitlement has become. But neoliberal logic dictates that Europe can ‘no longer afford’ generous pensions, and thus that entitlements must be reduced – or more precisely, that individual responsibility must replace state responsibility as far as possible.

Another example is that of higher education. In Britain, budgetary austerity has been cited as the reason for raising the cap on university fees from £3000 per annum to £9000 per annum. It is argued that such increased fees, particularly when repaid over a number of years, are justified because university education provides access to higher future income for graduates. What is notable is that the notion of ‘public good’ – ie, that access to higher education should be available to all as a matter of principle – has been replaced by the instrumental notion of education as a means of promoting economic efficiency and faster growth.

7. Neoliberal ideology

Why has it come to this? In part the answer lies in the growing power of the financial sector, a key force in contributing to the near-universal acceptance of neoliberal economic ideology.

Like Britain and America, Europe has poured vast sums (in excess of a trillion euros) into bailing out its banking sector. Doubtless this was needed to avoid complete financial collapse. But as the recent sovereign debt crisis has shown very clearly, the very same financial markets that governments bailed out have raised sovereign borrowing costs to exorbitant levels for Greece and others while making fistfuls of money short-selling the weaker countries’ Eurobonds.

Although there has been fresh impetus for greater regulation of financial markets – led to their credit by France and Germany – there has been little corresponding change in ideology. The orthodox ideology is not so much monetarist or even Austrian; it is quite simply the ‘common sense’ notion of bankers and shopkeepers alike that an economy’s budget is no different from the family budget. They assert
that a sound budget, whether private or national, must balance. As the US economist Bradford DeLong has noted about the orthodoxy prevalent in the 1920s: ‘the hard-money lobby [ruled]: a substantial number of rich, socially influential, and politically powerful people whose investments were overwhelmingly in bonds. They had little personally at stake in high capacity utilization and low unemployment, but a great deal at stake in stable prices. They wanted hard money above everything’.

Both Friedman and Keynes would have agreed that the financial crisis required the banks to be bailed out, which the EU has done generously. Where Keynes disagreed with the prevailing orthodoxy during the Great Depression was on the question of balancing the budget. Keynes argued famously that when the private sector was rebuilding its savings, government must spend more; otherwise, aggregate demand would fall leading to falling output, employment and tax revenue.

Some of Ms Merkel’s slightly more economically literate followers (eg, George Osborne in the UK) would argue that more state spending leads, via inflation or increased borrowing, to higher interest rates which ‘crowd out’ private sector investment. Unfortunately, for this argument to be true, one would need to show that ‘full’ crowding out takes place, something which according to this theory can only happen at the ‘natural’ rate of unemployment. Since the ‘natural’ unemployment is unknowable, the argument fails. Indeed, even if it were ‘knowable’, since real wages are stagnant or falling, it would surely be lower than the current unemployment level.

As for ‘Keynesian economics’, despite the Great Recession of 2008-09, many of Europe’s finance ministers appear blissfully ignorant of the subject. As Keynes explained in his ‘paradox of thrift’, although saving may be a good thing for individuals and businesses, the more a country tries to save, the more income falls and the less it can actually save. A good example of economic illiteracy is the oxymoronic title of a recent piece published by two journalists in the influential magazine, Der

17. See http://www.project-syndicate.org/commentary/delong108/.
Speigel, ‘European austerity is the first step to recovery’\textsuperscript{18}. As the Berliner Zeitung put it, the end result of this sort of nonsense is that: ‘Europe will save its way into the next recession’\textsuperscript{19}.

8. Growing out of the crisis

There are three components to avoiding further euro meltdown: growth, funding and dealing with financial services.

Take growth: as Keynes warned, when aggregate demand is depressed over many years, private capitalists loose their ‘animal spirits’, their will to invest, so the state must ‘socialise’ investment – at least for a time. What and where to build is hardly a problem: everything from social housing to a new, green infrastructure is needed. Nor is there anything very radical about doing so: the two main ‘Keynesian’ countries driving the world economy at the moment are the United States and China. The US ‘fiscal stimulus’ package – cumulatively some 4\% of GDP since 2008 – is far greater than anything the EU has done.

How is a further EU stimulus to be funded? First, progressive tax reform is needed; most urgently, in the most unequal countries such as Greece, Portugal and the UK. It has been shown, for example, that Britain’s structural deficit could be largely plugged by redistributive tax measures designed to rebalance the growing gap between the highest and lowest income deciles\textsuperscript{20}. Moreover, there is now ample evidence that inequality carries high social costs (see for example Wilkinson and Pickett, 2009; see also Irvin, 2008).

Secondly, while awaiting reform of the Eurozone’s fiscal and monetary arrangements, the European Bank for Reconstruction and Development (EBRD) could be used much more actively to fund infrastructure and energy projects. After all, the EBRD (unlike the ECB or non-existent Euro-Treasury) can borrow actively on international markets (see for example Irvin, 2006).

\textsuperscript{18}. See http://www.spiegel.de/international/europe/0,1518,697098,00.html.
\textsuperscript{19}. See http://www.spiegel.de/international/europe/0,1518,697098,00.html.
Crucially, Mr Juncker’s proposal that a new European agency be empowered to issue a commonly backed eurobond, so far dismissed by the German government, makes good sense. It does not remedy the problem of the Eurozone trade balances discussed in section 2 above, but it does constitute an important further step towards developing institutions and policies that reflect solidarity amongst Eurozone Member States.

The term ‘eurobond’ is currently used in a confusing manner since it also describes bonds denominated in a currency not native to the country where it is issued; eg, a Eurodollar or Euroyen bond sold (primarily) on the London market. In our discussion, the term ‘eurobond’ refers to a fixed income security denominated in euro to be issued by a new European debt agency and backed by all the Member States together.

Mr Juncker has proposed the following. At present, Eurozone countries raise money in the international market by selling euro-denominated bonds issued by their own central banks; the more indebted a country, the more difficult it will be to raise money this way.

The proposed new eurobond would remedy this problem since the instrument would be backed collectively by Europe. Initially, EU countries could borrow up to half their required capital or more from the new agency, the total not to exceed 40% of a Member State’s GDP. Mrs Merkel’s objection is that while this might lower borrowing costs for indebted nations, it might raise them for ultra-prudent Germany.

A further tool for reducing pressure on Eurozone member-states is for the ECB to make greater use of quantitative easing (QE): the ECB has already used this means to finance bank bailouts. The typical objection that unsterilised QE would be inflationary simply doesn’t stand up to scrutiny. With core inflation below 1% in 2010 (and actually negative is some Eurozone Member States), the danger facing Europe is deflation, not inflation.

As Daniel Pfandler, former head of economics at Kleinwort Benson, has noted: ‘Eurozone break-up remains highly unlikely. Rather, the current path will continue to be taken up until a large country (probably Spain) needs a bail-out and the capacity of the EFSF is being used up.'
At that stage the political will to start with joint Eurobond issuance or the consensus within the ECB to engage in massive quantitative easing are likely to form, i.e. I think that the most likely scenario is the one of ECB QE (done in conjunction with a topping up in the EFSF), followed by joint Eurobond issuance. Together, I would assign these scenarios a probability of around 60-70%. Up to that point we can continue to watch the dominos fall\(^{21}\).

Happily, at the time of writing, no further dominos have fallen, although the omens for 2011 are not promising; in particular, both candidates currently thought likely to succeed Monsieur Trichet at the ECB are considered hardliners\(^{22}\).

On the fiscal side, there is no longer any reason why the EU should not introduce a Tobin Tax. A 0.1% tax on euro forex transactions (€1 per €1000) would bring in €220bn per annum, just over twice the value of the EU budget, and would lay the basis for funding a European Treasury\(^{23}\).

In summary, I have argued in this paper that pro-cyclical ‘budgetary retrenchment’ policies being pursued in Europe are neither necessary nor likely to prove efficient. Indeed, their most lasting impact will be raising unemployment and further undermining Europe’s social model. This model has already been badly compromised by the European Commission’s pursuit of ‘competition’ policies designed to deregulate and privatise state-owned firms, utilities and services throughout the EU. Informed by neoliberal economics, the European centre-right (and part of the centre left) denies the distinction between public and private goods and services, thus enabling a growing share of the public sector either to be privatised outright (as has been the case with telecoms, public transport, utilities, and in some cases even pensions and prisons) or, as with the National Health Service in Britain and now with higher education, privatised from the inside. In this respect, one might recall the warning of the late Tony Judt, perhaps the pre-eminent historian of

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post-war Europe. ‘This is the second generation of people who can’t imagine change except in their own lives, who have no sense of social collective public goods or services, who are just isolated individuals desperately striving to better themselves above everybody else’.

The major beneficiary of this process has been the private sector where a new class of large conglomerate has been formed, largely with the aid of private capital injections from the financial services sector. But we are coming to a stage when the breakdown of social cohesion associated with the disappearance of social protection is proving deeply damaging. If one includes the opportunity cost of bailing out the banks to this, what emerges is a picture of Europe run for the benefit of a narrow business and financial elite at the expense of ordinary citizens.

Today, the financial sector is simply too big and too unstable to be left to its own devices. The main points which social democrats need to make clearly are two. First, the dismantling of Social Europe must be halted and reversed. Secondly, finance has become a public good and it is time to say so clearly.

References


Should there be a ‘Competitiveness Pact’ to replace or work together with the ‘Stability Pact’? This was, in essence, the proposal made by the German and French governments, half way through February 2011, to their European partners. The proposal was intended to ensure the survival of the eurozone, at risk, maybe not of collapse, but suffering severe tensions and drastic budget consolidation policies, at a time when economic growth in the European Union (EU) remains below that observed in all other parts of the world, and when unemployment rates are very high in most Member States. The recession which, in 2008-2009, followed the bursting of the US housing bubble and the collapse of the financial markets, in the wake of the default of the Lehman Brothers bank in September 2008, has ultimately hit Europe harder than the United States. Despite a certain recovery in 2010, most EU economies have not yet returned to the levels of activity reached in 2008. 2011 is not looking particularly promising for the economy, except for Germany. It is true that the financial markets have recovered, that the banks and large companies are announcing profit-figures comparable to pre-crisis levels. However, whilst the budgetary stimulus plans implemented during the crisis are having their final beneficial effects and all European governments are introducing austerity measures; whilst there is a risk that the renewed increase in inflation resulting from the rise in commodity prices may cause the European Central Bank (ECB), in the near future, to toughen up its monetary policy, so that the inflation rate will not, in the long term, remain above the 2% objective which it deems necessary for monetary stability, growth prospects are insufficient to ensure any rapid drop in unemployment or increase in purchasing power. Germany alone, with relatively high growth rates in 2010 and probably in 2011, a low and decreasing unemployment rate, and record trade surpluses, seems already to have surfaced from a crisis still affecting the other European economies. It is, for this reason, tempting to follow the German example.
Maybe budgetary discipline and wage moderation, practised in Germany for around a decade, in such vivid contrast to developments elsewhere in Europe, particularly within the eurozone, could be the secret of success and point the way out of crisis for the other European economies? The logic underlying the still vague ideas for ‘economic government’ of the eurozone, under discussion at the beginning of 2011, is that of an extended set of rules, applying not just to the public finances falling under the reformed Stability Pact, but also to the factors determining the competitiveness of the national economies of Member States. Can this new form of economic governance help to overcome the difficulties facing the European economy? Can it restore in the EU, particularly in the eurozone, the economic consistency which has been lacking since the launch of the single currency, thus hindering the conduct of monetary policy and giving rise to lasting differences in national macroeconomic results? What, moreover, might be the social cost of this sort of collective adjustment strategy, focused on competitiveness and budgetary austerity?

This chapter analyses the macroeconomic policies implemented in the EU in recent years, and the prospects opened up by the reform of ‘economic governance’ now underway. This analysis focuses mainly on the eurozone, since it is subject to a single monetary policy and specific tensions. The first section emphasises the differing national macroeconomic developments to be observed within the zone, and shows how the 2008-2009 crisis has accentuated those differences. In a second section, we analyse the costs of non-coordinated national budgetary consolidation policies, and in the third we highlight the deflationary risks and incentives to non-cooperative national strategies which could result from the proposed reform of European economic governance. In section four we sketch out an alternative strategy, which would aim to correct macroeconomic imbalances and restore European public finances while facilitating economic recovery, in order to direct the European economy towards a path of greater and more sustainable potential economic growth. Finally, in our conclusions, we stress the link between sustainable public finances and the sustainability of economic growth.
1. Divergences within the eurozone

The 2008-2009 crisis, followed by the public debt crisis in 2010, exposed acute differences between national macroeconomic situations in the eurozone. These had existed previously and had been exacerbated during the first ten years of the single currency. Many people had believed that belonging to a monetary union, subject to monetary policy and to a certain discipline imposed either by the financial markets – in relation, particularly, to interest rates, with the intervention of rating agencies – or by common rules and ‘flexible’ coordination mechanisms, introduced at the beginning of the year 2000, would naturally produce a genuine convergence of national economies. However, contrary to their hopes, most macroeconomic indicators highlighted an increasing divergence of national paths, brought to light when accentuated by the crisis (Le Cacheux, 2009).

Failure of economic governance of the eurozone

The choice made when forming the economic and monetary union, later consolidated by the Growth and Stability Pact adopted at the Amsterdam Summit (1997) and by the provisions of the ‘Lisbon Strategy’, launched in spring 2000, favoured decentralisation of economic policy powers (in accordance with a narrow interpretation of the principle of subsidiarity), the adoption of common general objectives and rules governing national policy, in preference to a more ‘federal’ structure, in which a common European budgetary policy or, at least, more coordinated national policies, would be a counterpoint to the ECB single monetary policy. In the absence of joint institutions and instruments (especially with an ever-decreasing European budget, focusing solely on agriculture and regional policies) or any real coordination of national policies, what has been established is governance by rules and competition between Member States.

As could have been predicted, this method of governance has not encouraged true economic convergence between the economies of the monetary union countries, but has had the opposite effect. Rules can provide an appropriate framework when national economies are interdependent in a largely negative way; in other words, when the aim is to avoid individual economies adopting strategies which are likely to
produce negative effects on their partners. This is why national budgetary policies have been subject to certain restrictions in order to avoid ‘excessive deficits’, but have never been encouraged to follow strategies of benefit to all. Likewise, the governance instruments created by the ‘Lisbon Strategy’ have promoted competition between national governments, the main thinking being that each one must implement, independently, the national policies most likely to achieve general goals set for each national economy, regardless of any potentially negative repercussions of these national policies on the economies of their partners. The natural consequence of this has been competing national strategies with no cooperation.

The choice of indicators focusing almost exclusively on global macro-economic performances, (growth and employment rates), or on the state of national public finances, resulted in a failure to take account of worrying signs that imbalances were building up elsewhere, whether private debt, external imbalances or loss of competitiveness, at a time when national economies were becoming increasingly polarised, during the first ten years of the eurozone. With such diverging national economic situations and, in particular, consistently high inflation in countries where domestic demand was strongest, ECB single monetary policy was bound to create a variety of monetary conditions, which were too lenient where more rigour was required and too restrictive where more flexibility would have been desirable. At the same time, lack of judgment by rating agencies and resulting weaknesses in market discipline were keeping long-term nominal interest rates low in countries where the rate of private indebtedness was thus pushed upwards by real interest rates of 0% or even lower.

The public debt crisis

The ‘heroes’ of the Lisbon Strategy, whose annual results, published by the European Commission, told a glowing story, unfortunately proved in practice to be the weakest links in the 2010 crisis in public finances. Seriously hampered by banking rescue packages and Keynesian-style recovery plans, pursued in each country, with very little coordination (Le Cacheux, 2010) during the 2008-2009 crisis, European public debt became, in 2010, the target of speculative attacks which exposed the weaknesses of the eurozone. Even in countries like Spain with lower
than average debt (well below the 60% of GDP threshold at the beginning of the crisis), doubts as to the sustainability of public debt levels led to further rises in interest rates and seemed to jeopardise the very existence of the eurozone.

2. The risks of budgetary consolidation

At the height of the ‘Great recession’ of 2008-2009, the Stability Pact was suspended and national governments were encouraged to implement budgetary policies to stimulate the economy. 2010, however, saw renewed concerns to gain control of public finances. Under pressure from the rating agencies, which were more concerned by the sustainability of public debt than they had been by that of private debt accumulated before the crisis, and from the financial markets, speculating on the default risks of the ‘weakest links’ in the eurozone, all European countries, some as of 2010, embarked on drastic budgetary consolidation policies, designed to meet the commitments of the Pact by bringing down budgetary deficits to below the level of 3% of GDP, by 2012 or 2013.

The requirement for sustainable public finances

The risks of unsustainable national public finances should not be ignored: even public authorities, which, unlike private debtors, are able to raise taxes and have no deadlines as such, must not allow the public debt ratio to increase indefinitely, otherwise default becomes inevitable. It is therefore vital to aim to stabilise the debt ratio; but at what level? Economic analysis provides no answers, except to show that the interest levied on public debt represents a burden on future tax-payers, and thus prompts a ‘reverse’ redistribution of wealth, from young working people to ‘pensioners’, the holders of the debt, and acts as a severe constraint on the spending choices of governments. So does the need to stabilise the public debt ratio not, then, imply a rapid downwards adjustment?

Sustainability of a debt depends on the difference between the interest rate and the rate of growth of the economy (both taken in either nominal or real terms). If the former is higher than the latter, the debt
ratio is heading for disaster; in the opposite case, it is sustainable. The expectations of the financial markets thus play a crucial role in the whole process, since interest rate rises, triggered by fears of future default, may render unsustainable a debt which could have been manageable in a context of lower interest rates. Future growth, moreover, is of course a vital ingredient: if the adjustment policies implemented end up placing a long-term dampener on economic growth, they may turn out to be ineffective and costly in terms of well-being and employment.

The Stability Facility, renewed Pact, macroeconomic surveillance: ‘punitive’ governance

In spring 2010, the Greek public finances crisis obliged European governments, following a certain amount of procrastination, which helped to stir up speculation and fears as to the future of the euro, to adopt certain rescue measures. These began with ad hoc measures for Greece (115 billion in conditional loans, in cooperation with the IMF), and then took a more institutional form, with the setting up of the European Financial Stability Facility (EFSF). Member States contribute to this fund – although there is no joint and several guarantee, and each country guarantees only its share of the amount to be called upon in case of a crisis – as well as the European Commission, and the IMF. The maximum amount available is 750 billion euros, of which 250 would be provided by the International Monetary Fund (IMF), 60 as a direct loan from the European Commission via the European Investment Bank (EIB), and 440 would come from EU Member States (with the exception of those, such as the United Kingdom, which have refused to take part), broken down between them using a key reflecting their weight in the European economy. With this facility, the EU would seem to have gained an instrument for emergency intervention sufficient to deal with any crises affecting the other weaker members of the eurozone. However, its structure, and the way in which it is financed, show clearly that no attempt is being made to establish true European financial solidarity, since no joint debt would be taken on, and any intervention would be subject to the agreement of the IMF. The ECB, which decided to buy government bonds from Member States suffering speculative attacks, was the only institution to react speedily and pragmatically to the situation.
The Irish crisis, in November 2010, provided the first chance to implement the assistance mechanisms set up a few months previously: around 90 billion euros were finally provided in aid to a government which, having until 2008 shown budgetary surpluses and a level of public debt among the lowest in the eurozone, suddenly experienced a debt explosion resulting from the combination of a deeper recession than elsewhere, and a very serious banking crisis: the new bank rescue plan announced in October 2010 provided a cash injection to the banks of around 50 billion from public funds, thus bringing about a massive increase in the public deficit for 2010, from 12% to 32% of GDP! However, the hesitations and long negotiations resulting from this new crisis also highlighted the fragility of the European consensus on crisis management policies and on possible future developments in macro-economic policy.

The conditions relating to EFSF intervention, and its short-term nature – it was set up for a three year period – do not allow it to do more than provide a palliative response to the public finance difficulties of the Member States concerned. The terms of funding are tough: they are admittedly lower than market rates for countries subject to high risk premiums, but are still not sufficient to guarantee the sustainability of their debt, particularly since the conditions set by the donors seem bound to engender a recession in the countries concerned (see below).

In parallel, the European Commission, and the Task Force set up by the permanent EU presidency, have drawn up proposals for reforming economic governance, which, particularly for the eurozone, amount to a tightening up of the disciplines contained in the Stability Pact. Thus, in particular, sanctions would be applied more automatically in the case of an ‘excessive deficit’, and tighter restrictions are introduced on the pace of public debt reduction (for countries whose public debt ratio exceeds 60% of GDP, i.e. practically all of them), and on increases in public spending, which the Commission would like to see limited to the rate of growth of GDP, thus preventing any future increase in their share of GDP. There is also a proposal for extended and reinforced macro-economic surveillance, in order to prevent the emergence of imbalances similar to those which arose during the first decade of the euro’s lifetime. In principle, such surveillance seems hard to argue against, yet in practice there is a risk of it becoming very asymmetrical, and systematically requiring adjustments to be made in countries running a
current account deficit and/or whose pay increases seem greater than average.

The European institutions, Commission and Council, strengthened in their views by the determination of the German government to avoid the ‘no bail-out’ rule in the Maastricht Treaty being replaced by lasting and more-or-less automatic financial solidarity arrangements, seem, first and foremost, concerned to reduce to a minimum any moral hazard problems. This seems to be the logic behind the decision taken that the European Stability Facility should only grant aid at terms nearly as tough as those set by the markets, and with severe conditions attached, as well as explaining the hypothesis, referred to in autumn 2010, that ‘creditors should be involved’ in the funding of the financial assistance plans. Although the concern is a legitimate one, overemphasis of this point results in greater distrust among investors, as well as in more costly consolidation policies.

Such initiatives are not innovations in the area of economic governance, but rather an extrapolation of the rules and sanctions approach which existed before the crisis. It is hard to see how this approach could be applied in a more credible way. If, however, that were to be attempted, it would be subject to a strongly restrictive bias, even more now than in the past, and this, without guaranteeing far greater real convergence, would favour restrictive macroeconomic approaches and encourage limits on national public spending, on public services or social protection.

3. Non-cooperative national strategies

The only change made to the institutional framework for European economic governance which might lead to greater coordination of the thrust of national economic policies is the establishing of a so-called ‘European semester’, during which national governments, working to a tight timetable, will be required to put their choices up for discussion by their peers and the European Commission. This requirement for upstream consultation may, in principle, result in more cooperative policies. It could equally, however, suffer the same fate as the Broad Economic Policy Guidelines (BEPG) set up by the Maastricht Treaty for the same purpose, and which ended up playing only a very minor role.
The new structure proposed for European economic governance, particularly for the eurozone countries, is basically a continuation of the discipline-based approach of the Stability Pact, to which the German and French governments recently suggested a new strand should be added concerning ‘competitiveness’, and largely targeting, in its most recent version, wage restraint. These features, together with the emphasis placed on early budgetary consolidation, will strengthen the trend which already exists towards favouring non-cooperative national strategies, although these are unable to resolve the challenges facing the EU.

The costs of early consolidation

The most problematic aspect of the guidelines imposed on European governments since the end of the ‘Great recession’, relates to the pace and nature of budgetary consolidation policies. Those countries, it is true, which suffered speculative attacks on their public debt have been obliged rapidly to apply austerity measures, whereas the others feared that they would be subject to higher risk premiums if they too failed to embark straight away on budgetary austerity programmes. However, as was recalled earlier, the financial assistance measures taken did not really reduce the pressure, and the parallel implementation of national austerity policies is very likely to have disastrous consequences on the speed of European economic recovery. This, in its turn, will hamper the aim of reducing, even stabilising, public debt ratios, according to a well-known Keynesian mechanism (Anyadike-Danes et al., 1983).

Champions of this rigorous approach base themselves on optimistic macroeconomic forecasts. Some of these take as their starting-point the ‘Ricardian equivalence’ type of argument, which contends that private agents, anticipating a future reduction in public debt, and thus of their future taxes, will decide to save less and consume more, which would, in its turn, offset the recessive impact of a reduction in public spending – since, in theory, this is the only case where such ‘equivalence’ exists. Empirically, however, there seems to be little evidence supporting this hypothesis.

The other argument favouring this optimistic view of the macroeconomic effects of consolidation policies is based on certain ‘anti-
Keynesian’ consequences observed during similar cases in the 1980s and early 1990s, principally the policies followed in Ireland, Scandinavia and Canada. All these examples, however, concerned small, open economies, which made individual decisions to pursue austerity policies, in a generally promising international context; since they had their own currency, they also benefited – as has, in part, the United Kingdom since the beginning of the crisis – from its external depreciation, stimulating external demand, and from a reduction in interest rates. The current simultaneous European budgetary consolidations, however, can reckon with neither a reduction in interest rates, nor with depreciation of the external value of their currency.

In a recent empirical study, moreover, comparing a large number of national experiences in reducing budget deficits, the IMF (2010) presents a diagnosis far more in line with the traditional – Keynesian – view of the macroeconomic effects of these policies. They generally have, it suggests, recessive consequences, at least in the short and medium term, and these effects are only partially offset by reductions in interest rates or the external depreciation of the national currency, where these occur.

The content of national austerity plans

Just as national recovery policies might have seemed to be addressing the crisis in a relatively coordinated way, while in fact there were considerable differences between them, and they contained measures which were deliberately non-cooperative (Le Cacheux, 2010), national policies aimed at reducing budget deficits tend to use competitive type instruments.

Almost all the national plans announced up to now contain measures to reduce public spending – particularly civil service job cuts, often reductions in the pay and retirement pensions of civil servants, as well as sometimes severe cuts in social expenditure, and measures to increase revenue. The former may result in competition between social systems; the latter tend to target taxes on consumption (notably VAT). These guidelines, it is true, reflect recommendations from IMF economists, which identify generally less negative effects from this type of measures, but they place most of the burden of adjustment on consumers,
A different approach to reforming EU economic governance

particularly the poorest sections of society – although in some countries, such as France, basic benefits and the minimum wage are indexed to consumer prices. VAT increases, moreover, which affect imports but not exports, are equivalent, especially within a monetary union, to a devaluation of the ‘national currency’, which shifts the burden, to some extent, onto the producers in trading partner countries, in this case largely within Europe.

Debt deflation on top of wage deflation

The banking, then financial, and finally economic crisis has left all developed economies in a situation in which many private individuals, companies, financial institutions or households have excessive levels of debt, particularly due to a serious decline in the value of certain assets, or to a need to revise downwards expectations of potential future revenue or income, because of the recession. In certain countries – one recent example is Ireland, but others such as Germany have also carried out a large-scale nationalisation of banking losses – some of these debts have been taken on by the public sector, sometimes within defeasance structures, in order to avoid the bankruptcy of the private institutions which held them previously. Households, when attempting to reduce private debt levels, reduce consumption and increase savings, while companies invest less and take steps to reduce their production costs: staff cuts, pressure on earnings, increasing working hours without increasing pay, even the relocation of certain activities. This phenomenon, described by Irvin Fisher as early as 1930, at the beginning of the Great Depression, and referred to as ‘debt deflation’, played a key part in passing on the financial crisis to the real economy, both in the 1930s and over the last two years. Indeed, all these private debt-reduction strategies result in a contraction of private demand.

It was in this very context of deflationary pressures that countries, under pressure from the financial markets, embarked on budgetary consolidation policies, as mentioned above, such as public spending cuts or tax increases, which also result in a reduction of private demand.

If, on top of these deflationary pressures, the new European economic governance guidelines were to add incentives for wage deflation in
countries suffering from competitiveness problems, the ensuing dampening consequences on EU economic activity could contribute to a significant extension of the period of low economic growth. This is a particular risk for the eurozone, where there is no possibility to modify exchange rates, and where recent price increases could move the ECB towards an early introduction of tougher monetary policy measures, whilst the external value of the euro is tending to remain high.

4. **Restoring competitiveness while maintaining cohesion**

Although we clearly need more credible rules concerning national budgetary policies, to avoid persistent macroeconomic imbalances in the eurozone, these will only have lasting results if they are tenable, and if they provide incentives for national governments to adopt economic policy guidelines which are more conducive to more sustained potential growth. If we do not see renewed growth in Europe, attempts to stabilise, or *a fortiori* reduce public debt ratios are doomed to failure, particularly in those countries with the highest ratios, where policies have become geared towards a rapid reduction in budget deficits and towards wage deflation as a way of restoring competitiveness, which has been gradually eroded over the last decade. Experience with the ‘initial style’ Stability Pact (1999-2005, in which year it underwent certain reforms) shows that a rule which is not tenable has no credibility, so is of little use.

Emergency measures, to provide aid to governments struggling to finance their debts, are necessary but insufficient, for they leave these countries with levels of debt which are difficult to manage. Other possible ways of reducing the pressure on policymaking in these countries deserve further consideration: partial mutualisation, for example, of eurozone public debts, by the issuing of Eurobonds, with a common sinking fund, as well, perhaps, as debt rescheduling procedures negotiated with the main creditors, particularly European banks and insurance companies. A number of ideas have been raised, but have come up against strong resistance from parties emphasising the attendant moral hazard problems, despite the fact that these are inherent to any rescue mechanism.
Another competitiveness strategy

Countries which have suffered a cumulative loss of competitiveness, since the setting up of the eurozone, need to reduce their relative unit wage costs. This does not, however, mean that they need to cut pay, nor that they should leave the eurozone: such drastic measures would be extremely costly in terms of economic growth and social wellbeing. In order to treat the condition effectively, a precise diagnosis must take place of the nature of the macroeconomic imbalances affecting the eurozone, rather than giving in to the 'dangerous obsession' with competitiveness (Krugman, 1994).

It should firstly be emphasised that current account balances not equal to zero do not necessarily point to imbalances. On the contrary, they may, within a financially integrated monetary zone, reflect different saving and investment choices: the very purpose of financial integration is to permit such divergences, in the long term. Given, in particular, the differing demographic trends observed and forecasted within the eurozone – for although all EU countries are ageing quite significantly, they are not doing so at the same rate and in the same ways – it is not surprising, in the light of lessons learnt from lifecycle analyses, that some countries have very high rates of private saving and low rates of investment, whereas others are in the opposite situation. The former group will tend to accumulate assets vis-à-vis the rest of the world – and thus to have a current account surplus – whilst the latter will tend to gather debts from the rest of the world, thanks to a current account deficit. Within Europe, the wish of some countries to keep a current account surplus can be reconciled with persistent current account deficits in others, as long as the financing channels are able, in the long-term, to carry out such financial transfers, as would probably be the case between regions in countries which have gone through a process of economic, monetary and financial integration. According to this sort of reasoning, it would be preferable, rather than condemning any current account balance other than zero, to fine-tune the diagnosis to take account of the potential reasons behind it.

It is nevertheless true to say that a large proportion of the on-going, significantly negative current account balances seen in several eurozone countries over the last decade are clearly indicators of a loss in competitiveness. This is not really a problem of excessive pay rises.
Those countries with relatively low competitiveness within the eurozone are paying the price, above all, for having specialised in sectors where labour productivity levels are increasing only slowly – particularly the construction sector, where property bubbles resulted in a type of growth with a strong bias towards the construction sector and related services. Real wages must, of course, evolve in line with labor productivity gains. The balance can be restored, however, not by cutting wages, but rather by increasing productivity. Such an aim would require, in the countries concerned but also throughout the EU, the implementation of ambitious programmes to increase R&D, train up workers, and invest in promising sectors, in order to speed up the transformation of the national economy and increases in the productivity of the labour force. There is, however, every reason to fear that budgetary austerity plans and the EU’s new rules on economic governance will end up having the opposite effect.

In conclusion: a new type of growth

So the discussion on new forms of economic governance for the EU, and in particular the eurozone, highlights once again the question of coordinated European growth policies. There are two possible strategies, but they take very different paths, and imply very different social costs. One calls for immediate budgetary consolidation policies, and wage deflation to help correct internal eurozone imbalances; the other creates the conditions for correcting macroeconomic imbalances and for a credible management of national public finances by means of a coordinated growth strategy.

Growth policies, however, tend to involve positive externalities, and are unlikely to gain the upper hand in a situation where governance arrangements are rule-based and promote competition between countries (Le Cacheux, 2005; Laurent and Le Cacheux, 2010). Following a strategy based on rules would amount to repeating past errors, relying on spontaneous ‘good governance’ by the markets and governments. Rules should go hand in hand with common economic policies, designed to ‘align incentives’ – to use the expression coined by Joseph Stiglitz (2010) – for national governments, aiming to promote growth throughout the eurozone, and, at the same time, to reduce the barriers to competitiveness suffered by its most vulnerable members. Taken
together with the objectives of the 2009 ‘Energy-climate package’, the Europe 2020 strategy, which is to be developed in parallel with discussions on reforming the European budget, is in a position to reconcile these objectives and to strengthen the economic cohesion of the eurozone. European budgetary resources – as well as loans from the European Investment Bank (EIB) – should be resolutely targeted on supporting the conversion of European economies, especially those of the South of Europe, towards low-carbon modes of production and lifestyles. Such an approach would help to resolve all problems at once, directing the European economy towards sustainable growth, and, moreover, growth which is less dependent on imported fossil fuels, and less vulnerable, therefore, to inflationary crises resulting from an increase in the prices of these fuels. Another step in the right direction would be to promote a sufficiently uniform and stable carbon price within the EU to ensure the effectiveness of conversion incentives. Such consistent measures would particularly benefit economies in the South of Europe, currently all extremely dependent on fossil fuels, all trailing behind in the reduction of the carbon-intensity of consumption patterns and the development of renewable forms of energy, and all blessed with abundant sunshine.

It is vital to find a way of keeping European public debts under control. Such control is necessary, in order to restrict costs to the budget, and restore room for manoeuvre to national governments, in order to reassure the financial markets, which are prone to worry and now focused on the risk of sovereign defaults, and to reassure those, both national governments and the ECB, who fear that the public finance crises in certain countries, and the need for financial assistance, may ultimately jeopardise the ‘culture of stability’ acquired at such cost with the setting up of the eurozone. The sustainability of public debt ratios, however, is in no way guaranteed by a reform of governance which risks triggering a long-term slowing down of European economic growth. A better guarantee would be provided if greater coordination of policies were to bring the EU to a situation of more sustained, and more sustainable, growth.
References


Climate change and sustainable development after the crisis

Béla Galgóczi

Introduction

During the great recession of 2008-2009, short-term rescue operations (stimulus packages and specific labour market programmes) became the focus of policy making, with priority given to minimising social and human costs in order to preserve human resources for after the crisis. With the gradual easing of the severe and extraordinary pressures exerted by the crisis, medium-term sustainability came to the foreground. Restoring economic sustainability, in terms of restoring economic equilibrium through de-leveraging and debt consolidation, became the top priority for both national and European policy making.

Long-term social and economic sustainability remained in the background. This is the unfortunate reality, even if declarations and policy intentions may seem to reflect a more balanced approach. Although the Europe 2020 Strategy (CEC, 2010) strives for a longer term vision based on social and environmental sustainability, actual practices are subordinated to the dictate of economic, or more precisely fiscal, sustainability.

The long-term challenge for Europe and the world is undoubtedly the reversal of global climate change, a goal which calls for a fundamental restructuring of economic activity. The transition towards a low-carbon economy, also referred to as the ‘green transition’ or, by certain authors, as the ‘third industrial revolution’ (Jänicke and Klaus, 2009) will be the decisive process of the future.

The aim of this chapter is to show the inconsistency of European climate change policy, which lacks the instruments for managing a socially balanced green transformation process for the future. We will
argue that this is not a sustainable practice in the long term, and that a fundamental revision of the policy framework will be necessary.

In section 1, we will describe the basic context of climate change mitigation policies in the European Union, pointing to the contradiction between declared objectives and applied policy instruments. Section 2 will review European performance in fulfilling climate policy targets, showing that Europe, on the basis of the current policy framework, will fall short of its long term objectives.

Section 3 takes stock of the available estimates concerning the employment effects of the green transformation and will argue that most forecasts are not taking account of the full consequences of a properly-implemented climate policy agenda. In the concluding section we will make policy recommendations for a more comprehensive climate change policy, which also integrates elements of a socially balanced transformation process.

1. Policy background of climate change mitigation

The International Panel for Climate Change (IPCC, 2007) and the Stern Review (Stern, 2006) provide convincing evidence that the world is already experiencing global warming and that the human impact on climate has greatly exceeded the impact from natural factors since the onset of the industrial era. As a result, deep and significant cuts in anthropogenic greenhouse gas (ghg) emissions are urgently needed if we are to avoid dramatic, irreversible and self-reinforcing changes in the world’s climate.

In order to set an appropriate policy agenda, an emission target should be agreed, and then, based on the current position, the trajectory for reaching this target can be calculated. The G8 group of nations agreed in 2009 that the increase in global temperatures should be no more than 2°C above pre-industrial levels. To achieve that, according to the models on which the IPCC bases its calculations, global emissions will have to be cut to half their 1990 levels by 2050. For industrialised countries this would mean an 80% cut in their emissions by that date, a reduction to two tonnes of CO₂ equivalent per head per year. At present,
emissions in America are around 24 tonnes per head; in Europe they are ten (Duncan, 2009).

According to the ‘road map’ drawn up at the UNFCCC conference in Bali, developing countries are not required to come up with numerical targets for cuts, but they are required to propose ‘nationally appropriate mitigation and adaptation actions’.

The European Union is committed to a 20% cut of ghg emissions by 2020, rising to 30% if the rest of the world promises significant cuts. Japan’s new government has promised a reduction of 25% on 1990, but has revealed little about how it might meet such a target. Australia’s government struggled trying to get its legislation through parliament. Canada’s emissions continue to grow. The US would offer a 17% cut in 2005 emissions by 2020 – the figure in the Waxman-Markey bill, which is around 4% below 1990 levels – well below the figure of 25-40% that is expected of developed countries. China has offered a 40-45% cut in the carbon intensity of its economy by 2020.

Developing a globally applied and binding strategy for mitigating the effects of climate poses an unprecedented governance challenge. This is what we saw at the failure of the Copenhagen COP-15 Summit in December 2009, while the relative success of the Cancun summit was merely due to the correspondingly diminished expectations. Still, it is important that the commitment to the 2°C limit for global temperature increase was confirmed by the fact that the basic framework of climate policy ambitions for developed economies (80% decrease of greenhouse gas emissions by 2050) still applies.

Disappointing past performance in global emissions

Past performance at a global level is rather alarming. CO₂ emissions from developed countries did not decrease in the period 1990-2008, while those of developing countries have substantially increased. The overall global balance is a 41% increase of emissions between 1990 and 2008 (IGBP, 2008).
On the other hand, it would be possible to meet the necessary emissions reductions target using current technology. Economic history also provides evidence to show that adjustments in economic performance of this magnitude have taken place in the past.

Grossmann and Krueger (1995) adapted the Kuznets curve (originally interpreted in the context of equity) for environmental pollution during different stages of economic development, by identifying phases, as ‘clean and poor’, ‘rich and dirty’ and ‘rich and clean’. This inverted U-shape curve does not seem to apply to greenhouse gas emissions. The most developed country, the US, is the greatest emitter of greenhouse gases. Economic history also shows that while labour productivity in developed economies has grown rapidly since the Industrial Revolution, resource efficiency has not followed this trend. Compared to the huge increase of labour productivity during the industrial era, the current target of increasing resource efficiency by 20% does not sound extremely ambitious, or impossible to achieve.

The fundamental problem is that there are no inherent market economy incentives to raise resource efficiency. In order to correct this market failure, such incentives should come through regulatory intervention. The ultimate policy challenge is to integrate the (full) costs of resource and energy use into market prices, through proper regulatory measures.

The European policy framework

With all the uncertainties which exist concerning global implementation, Europe must remain committed to its targets and apply the necessary policy measures to meet its promised goals.

The Europe 2020 Strategy with its triple priorities ‘smart, sustainable and inclusive growth’ has formulated its headline targets as a 20% reduction of ghg emissions (rising to 30% if the rest of the world promises significant cuts), increasing the share of renewable energy to 20% of all energy generation and a 20% increase of energy efficiency. It has devoted one of its ‘flagship initiatives’ to ‘resource efficient Europe’.
2. European performance since 1990 – crises have had a greater effect than has climate policy

Regarding the performance of the EU, while the EU is still among the few regions that has achieved a reduction in greenhouse gas (ghg) emissions compared to 1990, it is substantially lagging behind its long term commitments.

Whereas ghg emissions from developed countries (subject to the Kyoto Protocol) showed no decrease, the EU succeeded in significantly cutting its emissions during this period. However, the rate of reduction is too low and the EU is still lagging behind the proportional fulfilment of the 2020 targets, with EU15 ghg emissions down by 6.5% during the period 1990-2008 and EU27 emissions by 11.3% (Figure 1).

Figure 1  Reduction of greenhouse gas emissions in the EU15 and EU27, compared to 1990 levels (%)

Source: EEA dataservice.

A breakdown shows that a significant proportion of the cut in emissions was achieved during the first decade of the observation period, as in 1999 ghg emissions were 9.1% below the reference level of 1990 in the EU27 and 5.3% below this level in the EU15. The period 2000-2007 saw no more than a marginal decrease in emissions (0.4% in EU27 and 1.4% in the EU15). The single crisis year of 2008 contributed a larger decrease than the preceding eight years together, amounting to 1.8% in both the EU27 and the EU15. The good performance during the 1990s was mainly attributable to the collapse of the traditional industrial base of the Central and Eastern European countries (CEEC) and of eastern
Germany during the initial phase of the post-1989 transformation. The wider post-unification recession in Germany in the early 1990s also contributed to emission reductions of the EU15. Out of the EU27’s total 11.3% reduction in emissions between 1990 and 2008, 7.3% had already been achieved in 1994 (at the lowest point of the transformation crisis in the CEE), showing clearly that the bulk of the emission cuts was attributable to output contraction and economic crisis.

Resource productivity—a measure decoupling economic growth from resource use—shows only a marginal improvement. While labour productivity in the EU27 grew by 14.2% during the 1999-2007 period, resource productivity improved by just 7% (Eurostat, 2010). Resource efficiency has not yet become a driver of economic decisions.

The differences in resource productivity characteristics displayed by individual Member States is frequently overlooked (Figure 2). The gaps are enormous as, for example, the level of resource productivity in Luxembourg is thirty-fold what it is in Bulgaria; this gap is thus far wider than corresponding gaps in GDP/capita or wages. Even if Europe, as a whole, is currently profiting from the huge ‘emission drops’ in the CEE new Member States, caused by the collapse of their traditional industrial base in the early nineties, these countries face particularly severe challenges when it comes to the need to increase resource productivity in the future. At the same time, it is important to note that it is not production alone that determines the resource efficiency—in a wider but more relevant sense—of a given country or region. What matters above all is consumption. A country might, after all, specialise in economic activities with low-resource use and emissions, while importing resource-intensive products.

One study conducted, using consumption-based CO₂ accounting, finds that Europe should add net imports of 4 tonnes CO₂ equivalent per person to its per capita production-based CO₂ emissions. The latter were 10 tonnes CO₂ equivalent in 2008, so this would mean 40%
additional emissions (Davis and Caldeira, 2010)! This is also an important policy implication for the future.

**Figure 2** Resource productivity in the EU by Member State

![Resource productivity in the EU by Member State](image)

Source: Eurostat, 2010 online database.

The European Environment Agency (EEA) report tracking the European performance in meeting the Kyoto targets (EEA, 2010) reckons with a possible fulfilment of the EU Kyoto targets by 2020. However, this envisaged meeting of the ghg reduction target, even if achieved, will be predominantly due to one-off events associated with economic crises, and is not based on a sustainable implementation of measures aimed at achieving policy targets.

Even if Europe is performing better than the rest of the world, it is not on sustainable track towards fulfilment of the ambitious 2050 targets. The target of an 80% cut in emissions for the industrialised economies by 2050 means a cut in emissions to two tonnes of CO$_2$ equivalent per head per year. In 2008, emissions in Europe were ten tonnes, with an extra 4 tonnes CO$_2$ equivalent of imports. There is thus a long way to go to meet this long-term objective.

**Implementation and economic instruments**

Implementation is however the cornerstone of achieving climate policy targets. What we have now at European level, are mostly declared objectives, without a concrete roadmap or instruments of implementation. While economic actors are becoming aware that the costs of using
environmental resources will be increasingly important in their business operations, they are unable, in the absence of a concrete policy framework, to plan any necessary adjustments.

The central issue is how to achieve the right ‘carbon price’. Economic policy instruments determining the effective carbon price include ‘cap and trade’ policies (such as emissions trading), a variety of carbon-related taxes (Cottrell et al., 2010) and the direct involvement of the state through steering mechanisms (e.g. emission standards, levies on carbon-based energy generation and use, while providing subsidies for environmental innovation). These instruments, taken on their own, would be incapable of translating policy targets into business reality. What is needed is a co-ordinated policy mix of these instruments, with a clear implementation agenda at European level, and this is largely missing.

The European Emission Trading System (ETS) clearly demonstrates the uncertainties and distortions of implemented policy instruments. The current form of the EU ETS has been criticised in several respects, as it fails to give proper incentives to economic actors to reduce CO₂ intensity (Le Cacheux, 2010). It has been also subject to wide-scale manipulation and fraud and has thus become a source of uncertainty for economic actors (cf. ETUC, 2010).

Generally speaking, the potential exposure level of industries or sectors to EU ETS can be assessed through three major factors: the CO₂ intensity of production, the opportunity to abate carbon within the sector, and the ability to pass along carbon cost increases to output prices. The economic impact of the EU ETS scheme hinges to a certain extent on whether carbon costs are reflected in output prices, while the overall emission cap is of greatest importance in achieving lower emissions.

The Commission is currently finalising the design of the third trading phase of the ETS, which will begin in January 2013 and last until 2020. The Commission’s stated objective is to increase the share of emission permits that are auctioned rather than allocated for free to installations covered by the ETS. A key concern will be the potentially negative impact of the next phase of the ETS on the competitiveness of affected businesses. Evidence from interviews with almost 800 managers in
Europe shows that most industry sectors that will still be entitled to free emission permits would not face an increased risk of closure or relocation outside of the EU if they had to pay for permits (CEP, 2010). Another study on the potential effects of the EU ETS for industrial branches, carried out by the ZEW Institute, concludes that some of the sectors analysed have the ability to pass through a portion of their carbon costs to consumers. However, the results also indicate that sectors cannot achieve a complete pass-through of their costs into output prices, with the exception of ceramic goods. Moreover, although generally accepted as an important indicator for the competitiveness implications of EU ETS, the ability of sectors to pass on costs also has its limits. The longer term impacts, in particular, of sectors and firms attempting to passing through carbon costs, and the consequences for leakage remain uncertain (Oberndorfer, 2010).

The CEP paper argues that European governments should improve the design of the ETS by limiting existing exemptions and raising additional income of up to €7 billion annually. Rather than providing an unspecific subsidy for industry, this money could be earmarked to finance investments and R&D crucial for the transition to a low-carbon economy. It could equally be used to mitigate the possibly regressive effects of higher carbon prices on low-income groups.

There is thus substantial uncertainty about the third phase of EU ETS, with a hardly calculable increase in EU ETS costs driven by an assumed increase in the price of allowances. Capital intensive industries need time to plan investments and to respond to policies where they can.

According to a study by the WWA consultancy group, commissioned by the EIUG and the TUC, the forecasted increase in the total energy bill, taking electricity, gas and emissions reductions schemes together, is projected to be between 18% and 141% by 2020. These figures include the costs of EU ETS phase III and show an incredibly wide range (EIUG-TUC, 2010). Companies participating in this study reported increasing reluctance by their owners to commit to any investment, given not only the scale of climate change costs, but the ongoing uncertainty surrounding the climate change regime and its impact on energy prices.
Europe thus has a controversial emission trading system covering a fraction of economic activities, no carbon tax at European level and a number of sector-related policies at national level. This existing policy framework does not provide a sound foundation for achieving Europe's announced climate policy targets.

3. Employment effects

Under such circumstances, it is somewhat difficult to discuss the employment effects of European climate policy. We are attempting to do so here only in order to highlight the contradictions between targets, intentions, implementation and reality.

It is important, at the outset, to distinguish between discussing the expected effects of intended climate policies (i.e. those formulated in terms of promises and targets) and a climate policy that is actually being implemented by means of effective and binding policy instruments. The same inconsistency affects employment forecasts. Most of the literature assumes the fulfilment of declared climate policy targets when calculating positive employment effects, but tends to downplay employment risks, because it does not (or cannot) fully take into account the effects of measures that have not (yet) been implemented but would be required for the achievement of long-term targets.

With all the uncertainties of policy tools and the implementation of climate change mitigation policies, it is important to examine the potential effects of these developments on industrial activity and employment in Europe, both in quantitative and qualitative terms. If we look at the possible social consequences of a climate mitigation policy that is indeed being implemented, and where the assigned economic instruments are actually applied (not the case up to now), we can identify two major impacts. The one is the effect on employment, the other is the way in which a higher carbon price affects different income groups in society and has an influence on equity.

One thing is sure: with the implementation of climate targets, industry and industrial jobs will be genuinely transformed, in both quantitative and qualitative terms.
There is a broad consensus in the literature (e.g. CEDEFOP, 2010 and further studies cited in this section) that although climate policies would have no major aggregate impact on the number of jobs, a massive redistribution of jobs is to be expected:

- new jobs are being created;
- existing jobs will be transformed (‘greened’ jobs in existing industries);
- jobs will also disappear.

There will be huge differences between regions, branches and sections of the labour market.

There is also a clear consensus in the literature that jobs identified as ‘green jobs’ will be net beneficiaries of the process, although the contours of this category are not clearly defined (often referred to as jobs that contribute to preserving or restoring environmental quality; jobs that reduce energy, materials, and water consumption; jobs that contribute to de-carbonising the economy and minimising all forms of waste and pollution). High energy intensity and carbon emission activities are, on the other hand, expected to suffer a decline and substantial losses of employment. This might affect regions, countries and industries unevenly and the resulting tensions need to be addressed.

In general, there is too much focus on the positive side of the green restructuring process on employment (‘green jobs’) but less on employment risks and negative impacts involving a potential reduction in some activities. This is typically true for the Communication of the Commission, ‘7 measures for 2 million new EU jobs’ (CEC, 2009b), which calculates the employment creation effect of the measures contained in the European Energy Efficiency Action Plan. The ‘Employment in Europe 2009’ report takes a more nuanced approach but puts green job creation in the foreground (CEC, 2009b). A study by the UNEP and ILO (UNEP, 2009) takes into account the job creation potential of the green economy, branch by branch. It draws an important distinction, by saying that jobs which are ‘green’ in terms of the end product are not always green in terms of procedure, because of the environmental damage caused by inappropriate practices (e.g. in
the recycling industry). The report also addresses the issue of job quality in the context of green jobs.

A discussion paper by the King Baudouin Foundation goes further, as it addresses the implication of individual climate change mitigation measures on social justice and employment (Schiellerup et al., 2009).

Mapping branch-level employment effects

When examining branch-level employment effects of applied and planned climate policy measures, the uncertainty is even greater than for higher level economic activities. One key question concerning climate policy is how it aims to achieve emission cuts; whether by reducing activities that are energy intensive or by increasing the efficiency of these energy intensive activities.

Government policies often do not explicitly target energy inefficiency, but rather the amount of energy used. By doing so, they do not recognise that many energy-intensive products have a low life cycle carbon footprint, mainly due to their durability and recyclability. Energy-intensive sectors, such as steel, chemicals and ceramics, provide many of the materials and products that are essential for the transition to a low carbon economy (wind farms, for example, need steel, cement, carbon fibre and aluminium). These materials and industrial products may also help to reduce energy use by providing homes with energy efficient glass and insulation.

Energy intensity is not in itself bad for the environment, while energy inefficiency definitely is. Europe cannot produce low carbon energy or consume energy more efficiently without energy-intensive products.

Consequently there is a great difference between potential adaptation strategies: do we wish to downsize energy and resource intensive industrial activities (e.g. by concentrating on financial services instead of manufacturing), or to increase energy and resource efficiency while maintaining core industrial activities. These questions have remained open until now.
We need to bear in mind, however, that most manufacturing emissions originate in primary production while most valueadded is concentrated in downstream processing and application. According to a 2007 study by the UK based Carbon Trust, the impact of carbon costs on these higher value added manufacturing activities is small compared to differences in labour, energy and other input costs between EU and non-EU countries (Carbon Trust, 2007).

Significant impacts on international trade outside the EU need to be seriously examined only for a highly concentrated number of industries eg. the lime, cement, basic iron and steel sectors.

A study commissioned by the ETUC and prepared by the Syndex consultancy agency (Syndex, 2009) took stock of potential employment effects for existing industries, emerging industries and major infrastructure projects in Europe.

Energy generation plays a crucial role in climate policy, and the renewable energy sector will be a future source of employment growth. Developing, installing, operating and maintaining renewable energy systems will create a vast number of new jobs, which are both local in nature and not subject to relocation. According to the forecast made in the study, the 1.4 million jobs accounted for by the sector in Europe in 2005 are likely to increase by a further 760 thousand jobs by 2020. The Commission reckons on 2.3-2.8 million jobs in the renewable energy sector in Europe by 2020 (CEC, 2009b). The UNEP-ILO study on green jobs calculates a potential 20 million new jobs in the renewable energy sector worldwide by 2030 (UNEP, 2009).

The Syndex study warns, however, that the net job generation effect will be lower, as jobs in traditional forms of energy generation will be downscaled (e.g. by 80 thousand in coal mining and 20 thousand in related power plants).

There is great employment creation potential in reducing emissions in the housing and construction sector, as the operation of buildings accounts for 40% of all energy use. Jobs are mostly to be created in the construction sector and in the industries delivering the necessary technology overhaul. The Commission’s Employment in Europe report estimates that the directive on Energy Performance of Buildings will
create between 280,000 and 450,000 new jobs in the mid-term. New jobs are linked to activities in retrofitting of buildings and energy management including related services (facility management, maintenance and control). Industries delivering domestic appliances, office equipment, air-conditioning, lighting and heating systems, as well as related ICT services, will also benefit from the programme. It is estimated that each 1 million euro invested in energy efficiency creates 12-16 new jobs. The proportion of stimulus packages spent on such projects has a high rate of return, not only in terms of lowering emissions but also in creating jobs. The only question is how long these public resources will remain available.

The information-communication technology (ICT) sector will play a key role in improving energy efficiency, with a potential 15% reduction in global CO₂ emissions by 2020. De-materialisation of products and production processes is a key element in increasing resource efficiency: software is replacing mechanical devices (embedded software), miniaturisation is driven by nanotechnology and fixed networks are exchanged for wireless networks. These processes will, however, also have employment consequences, as ICT manufacturing is being replaced by ICT services, with software specialists replacing hardware production workers.

Manufacturing industry as a whole is responsible for a third of global energy use and for 36% of global CO₂ emissions (International Energy Agency 2007).

Within manufacturing, the steel industry accounts for 30% of industrial CO₂ emissions and employs 550 thousand employees in Europe, now that excess capacities have been eliminated through decades of restructuring. The steel industry is also a key innovator and supplier of several products of the green economy (wind mills), with lightweight steel solutions contributing to long-lifetime buildings and better energy performance.

Over the past 40 years, the unit CO₂ and energy consumption of the European steel industry have decreased by 50% and 60% respectively. Almost all the steel from cars is being recycled, and by 2015 95% of all car materials must be completely recycled.
The proportion of electrical mills producing steel from scrap has grown to 41%.

Even though the steel industry is one of the most energy-intensive industrial activities, the lifecycle CO₂ footprint of its products has decreased dramatically and its energy efficiency has also improved. The industry’s contribution to further emission reduction is expected to be made by further energy efficiency improvements and not by further downsizing. The post-2012 EU ETS regime will be crucial for the steel industry in Europe. In the current circumstances, future effects on employment in the industry can not be predicted.

For other energy-intensive sectors beside iron and steel, such as aluminium, cement and lime manufacture, pulp and paper making, basic inorganic chemicals, and nitrogen fertilisers there is even greater uncertainty. Many of these industries are based in regions of relatively high unemployment, and their continued operations are vital to the economies of these areas.

**Transportation** is a particularly critical industry both in terms of its climate effect and of its key role in the European economy. While efforts are being made to reduce the footprint of cars, public transport systems offer lower emissions and more green jobs.

Railways can generally be regarded as sources of green employment. In many countries, however, the trend over the last few decades has been away from rail, and towards cars, trucks, and planes, a trend which takes us further away from achieving a sustainable balance between modes of transport. Employment – both in the operation of railway lines and in the manufacture of locomotives and rolling stock – has fallen accordingly.

In the EU-25, a total of 8.2 million people were employed in all transport services combined in 2004. Railway transport accounted for just 11%, or 900,000 jobs. Rail employment has fallen in the last few decades: in just the short period of time between 2000 and 2004, the number of jobs was cut by 14%. Road passenger and freight transport, in contrast, account for some 4.3 million jobs, and air transport jobs number 400,000 (Syndex, 2009). According to the International Association of Public Transport (UITP), an estimated 900,000 people...
are employed in urban public transport in the 25 Member States of the European Union.

The automotive industry and its supplying industries employ a total number of 12 million people in Europe, making it the backbone of the European manufacturing industry. 2.3 million employees are directly involved in the production of vehicles while the supplying industry has 10 million employees (ACEA, 2010). According to the already cited UNEP report, only some 250,000 jobs are directly involved in the manufacturing of fuel-efficient, low-pollution and low-emission cars and can be considered as green jobs within the European automotive industry (UNEP, 2009).

The automotive industry faces particularly high challenges over the next few years, in the course of the transformation to a low carbon economy. The key process of the next decades will be the restructuring of the industry through environmental modernisation. Greening of the automotive industry by low-emission cars and its integration into an all-inclusive mobility system are the decisive elements of this strategy. The aim is to promote innovation in products and services by deploying intelligent communications technologies, producing electric vehicles and exploring renewable energy sources (CLEPA and EUCAR, 2009).

There are two key objectives for the automotive industry in regard to lower CO₂ emissions: the reduction in CO₂ emitted by cars and commercial vehicles in operation, and the reduction of CO₂ emissions in the production process of vehicles. Overall CO₂ emissions resulting from the manufacture of passenger cars increased between 2005 and 2007 at a rate of 1.4%, due to the growing number of passenger cars produced. Efficiency rates, measured by the amount of CO₂ emitted per vehicle produced, fell by 5% to 0.83 tonnes CO₂ over the same period (Syndex, 2009).

The greater challenge for the industry is, however, to meet the binding CO₂ emission limits for passenger cars and light duty vehicles. The European regulation sets a binding limit for CO₂ emissions from an average new car fleet at 130g CO₂/km by 2012, with premium fees imposed if the average CO₂ emissions exceed the limit value in any year from 2012. The Commission’s long-term target is 95g/km, specified for the year 2020.
It is worth mentioning that the binding regulation of 2009 was the result of 13 years of discussions on the reduction of CO₂ emissions from passenger cars. In 1995, the European executive body had indeed announced a 120g CO₂/km target for 2005. In following years, the target was postponed twice, once to 2010 and then to 2012. The automotive industry failed to meet it voluntary targets, hence the binding regulation.

Under these circumstances it is extremely difficult to give a forecast for the likely development of employment in the automotive industry in the next decade. The Syndex study calculated the employment effects of the conversion of car engines from conventional to electric engines. This calculation resulted in employment gains of between 80,000 and 160,000 jobs by 2010 (Syndex, 2009). The conversion of conventional to hybrid engines was found to be neutral for employment. In the absence of a European concept for a sustainable balance of modes of transport, this calculation could not take into account possible shifts between modes of transport, whereby, for example, the share of road and individual transport would certainly lose out to rail and public transport, with corresponding consequences for employment.

The uncertainty surrounding potential employment effects of the green transformation applies not only to the automotive industry but to the entire manufacturing industry. Most available forecasts have assumed at least a neutral overall employment effect, while putting the creation of new jobs in the green industries in the foreground.

Still, a recent CEDEFOP study estimates a loss of nearly 2 million manufacturing jobs in Europe by 2020: ‘although there might be expectations of an increasing share in manufacturing at national level, the total share of jobs in manufacturing and construction in EU-27 will decrease from 22.9% in 2010 to 21.3% in 2020’ (CEDEFOP, 2010).

**Conclusions**

There is a consensus in Europe that reversing climate change is the overall policy priority of the next decade and that the transformation towards a resource-efficient and low-carbon economy will be the decisive trend of the future.
Even if Europe seems to be on track for formal fulfilment of some of its medium-term emission-cutting objectives, this is by no means the result of a thoroughgoing reorientation of economic activity, but rather of the one-off effects of crises. The paradigm shift is still to come. For it to take place we need a more comprehensive climate policy and one that is implemented effectively.

There are also fundamental gaps in the overall climate policy framework, as regards, for example, how it aims to achieve emission cuts – whether by reducing activities that are energy-intensive or by increasing the efficiency of such activities. The current track record shows that achievements have so far largely been a result of the former option. To the extent that this ‘success’ is based on carbon leakage – importing energy-intensive goods previously produced in Europe from outside the EU – it brings no real benefit at global level.

The process largely lacks specific economic tools and foundations. Examples of existing economic instruments (such as the EU ETS) clearly demonstrate this absence, which means that it is still not possible to calculate effective future carbon prices. We have ambitious targets and promises, but it is still uncertain by what means and at what price these objectives could be achieved.

When addressing the employment impact of this transition process, the focus is generally put on job creation and new green jobs. It is not enough to talk about green jobs only; the challenges of transforming existing industrial jobs need also to be addressed.

As we have shown in the case of the automotive industry, and with a view to energy-intensive industries, the current policy framework and implementation practice do not allow proper exploration of all potential risks and challenges. If there are 10 million jobs in the automotive industry in Europe, out of which some 240 thousand can currently be classified as ‘green jobs’, it is absolutely crucial to discuss how the transformation of the remaining jobs would proceed.

Sustainable achievement of the 2020 climate targets, and any possible achievement of the longer-term targets, will require tougher measures (including completion of the ETS, introduction of a European carbon tax and development of a sustainable European transport concept). The
effects of these measures would, however, have a more serious impact on employment than is assumed on the basis of current implementation practice.

In this scenario, the transition to a low-carbon economy will encompass a full-scale transformation of the whole European economy, with wide-ranging impacts on employment.

As is the case with major restructuring processes, managing the transformation with appropriate policy instruments, with the involvement of social partners, will be a decisive factor in its final success. One crucial question is how the costs of the transition will be shared among the various actors and within society.

This future restructuring process will also be unique, in that it will be directly induced and shaped by explicit policy targets to mitigate climate change, implemented by means of a policy mix. This is genuinely different from restructuring processes driven by market forces (e.g. globalisation), where policy making played a more indirect role, by promoting liberalisation and deregulation (without explicit policy targets). For this reason, changes relating to this new wave of restructuring can be more easily and clearly foreseen, so that responses to the challenges it brings (above all related to employment) can be planned and integrated into the policy framework right at the outset. Such planning would, above all, include the design of targeted labour market policies to ease necessary transitions, and matching education and training measures. The most urgent step would be a proper assessment of specific and planned climate mitigation policy measures for employment.

It is also crucial to determine how to manage this process in a socially sustainable way, the role to be played by trade unions and the strategies these should follow. One thing, however, is clear: the progress made in Central and Eastern Europe, and the UK, in emissions reduction, resulting from the collapse or downsizing of industrial activity, is not the path that Europe should follow.
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New Skills for New Jobs: an area for trade union involvement

Jacky Fayolle

The New Skills for New Jobs initiative was launched in a Communication from the European Commission in 2008, with a view to evaluating skills needs up to 2020 and combining the response to these needs with the declaration of a new industrial policy (CEC, 2008). The stated purpose was to go beyond defensive restructuring measures, instead adopting a pro-active strategy for developing individual skills and providing options for productive specialisation.

The European Trade Union Confederation (ETUC), in conjunction with its affiliated sectoral federations, has begun a process of constructive criticism of this initiative. This article highlights, firstly, the key points in the initiative, which emerge clearly from the available forward studies. It continues by analysing the European Commission’s proposal to set up Sector Councils on Employment and Skills at European level, and then considers the possible implications of these for the labour markets and the development of lifelong learning. In conclusion, the article identifies certain conditions which must be met if these initiatives are to help consolidate Europe’s international competitive position and to improve social justice within European societies.

1. The title of the New Skills for New Jobs initiative was surreptitiously changed by the European Commission to New Skills and Jobs. The original name places greater emphasis on the need for innovation.
2. This article is based on work done by the Alpha Group’s Centre Études & Prospective (Centre for Studies and Forecasting) for the European Trade Union Confederation. The team in charge of this work, led by Jacky Fayolle, was made up of Odile Chagny, Sonia Hacquemand, Mathieu Malaquin, Antoine Rémond, Natacha Seguin and Sabine Vincent.
1. **Jobs and skills: a European strategy still at an embryonic stage**

1.1 Obstacles and major challenges

The crisis of 2008-2009 has confirmed conclusively that the results of the Lisbon Strategy do not live up to the hopes invested in it. The difficulties with this strategy, however, cannot be attributed solely to the impact of the crisis. There were indications that the strategy was not going to plan well before this crisis took hold:

- lack of investment in training and R&D;
- poor matching between sectors, jobs and skills;
- quality of employment no longer being viewed as a key factor in productivity.

Since these trends pre-date the crisis, indeed, there is now a risk that the crisis itself, if not adequately addressed, may lead to a deepening and cementing of European weaknesses. The practices of companies prioritising cuts in labour costs and Member States making indiscriminate cuts in public spending may hinder any pro-active attempts to overcome these weaknesses.

The increase in unemployment, which varies between countries, but which is very high in some, does not encourage the development of skills, which are considered a lower priority when the job market is sluggish everywhere. Yet the combination of demographic and economic changes creates as many pitfalls as it provides opportunities. In sectors where the crisis has led to long-term overcapacity with an ageing workforce, the risk of a silent but irreversible industrial decline needs to be taken seriously. Man and machine may end up retiring together. Preventing this from happening involves encouraging skill renewal and transfer between generations, in particular by making industrial trades more appealing to young workers. This involves much more than just making workers adapt to fit existing jobs. If industries do not make their jobs and careers more attractive, many may see their future under threat from the fall-out of demographic change.
The crisis has therefore increased the need to clarify which steps must be taken. The New Skills for New Jobs initiative has become one of the seven ‘flagship initiatives’ proposed in the Europe 2020 Communication (CEC, 2010a) from the European Commission at the beginning of 2010. However, the terms and methods contained in this new 10-year strategy are still hesitant. The Open Method of Coordination, (OMC), promoted in areas which remain primarily under national competence, has failed to foster the active commitment of public and private national players. The Lisbon Strategy is dead and the Europe 2020 strategy is still at an embryonic stage.

Awareness of the challenge facing European countries, however, is becoming more widespread and acute: the ability of these countries to play an effective role in the new competitive and environmental context of the global economy, relies on improved and appropriate skills being made available to all. If European citizens are to maintain their standard of living and quality of life, this challenge must be met and certain clear obstacles overcome:

— Too many of today’s workers are low-skilled. The crisis has highlighted their particular vulnerability on the labour market, when this market is hit by serious, enduring difficulties. In spite of ever-improving standards of education amongst younger generations, it is not enough to be a young European to be sure of having the top-level know-how and skills demanded in today’s world. There are a number of European countries which do not rank highly in international comparisons of educational levels and performance.

— The spread and growth of precarious employment and work encourages neither employees nor employers to develop skills. Young people in particular are affected by this. Finding a way into the workplace is often difficult. In order to improve skills for all, we must fight against such instability, in an inclusive labour market. The social partners have reached agreement on the principles governing such an inclusive market and on their respective roles in ensuring these are upheld (BusinessEurope et al., 2010).
Competition between companies and countries to attract talented people is one facet of globalisation. If this competition leads solely to better pay for such talented people, further dividing the labour market, it will ultimately benefit neither lower-skilled workers nor the overall competitiveness of the European economy. Public and private training initiatives must contribute jointly to the improvement and greater use of skills, maintaining a balance across generations, between women and men and between workers in large and small companies. People threatened by social exclusion, be they early school-leavers or low-qualified migrants, must not be left out of this general bid to upgrade skills. The social cohesion and economic effectiveness of European societies is at stake.

1.2 The contributions made by forecasting work

In recent years, EU bodies have encouraged systematic efforts to explore the future dynamics of employment and skills. Two main sets of forward studies are available at European level: the forecasts carried out by CEDEFOP (the European Centre for the Development of Vocational Training) and the sectoral surveys coordinated by the European Commission (see below).

**The CEDEFOP forecasts and the sectoral surveys**

CEDEFOP (2009 and 2010a) makes quantitative forecasts on the supply and demand of jobs and skills from country to country (for the 27 EU Member States, Norway and Switzerland). These forecasts are broken down by sector (into 41 sectors, in accordance with NACE, the statistical classification of economic activities in the European Communities), by occupation (into 27 occupations, in accordance with ISCO, the International Standard Classification of Occupations), and by qualification (in accordance with ISCED, the International Standard Classification of Education, using three broad levels of formal qualification). The forecasts, which use complex modelling techniques, provide useful information on the relationship between potential routes for economic growth and the structural dynamics of employment and qualification. They measure, in summary fashion, the imbalances between the qualifications needed for jobs and the formal skills of individuals. This ambitious project inevitably comes up against obstacles making it difficult to use such forecasts in the context of social dialogue:
– the standard classifications cannot be applied homogeneously in all countries;
– a sound assessment of imbalances between supply and demand for skills requires both formal and informal skills to be properly reported. It is still difficult to do this within a uniform framework. Better knowledge is also required of the hiring sources and the recruitment methods used by different sectors and professions;
– forecasts combine a reasoned extrapolation of long-term trends with the explicit consideration of key economic factors: sectoral redeployments, international trade and the way in which technological and organisational changes interact to determine the demand for skills from companies. The correct interpretation of these results requires the methods used to be transparent, something which is made more difficult by their technical nature.

In parallel to the quantitative forecasts of CEDEFOP, the Commission has coordinated a series of surveys in 19 sectors, using a common methodology which sets out a series of steps towards a consistent well-grounded forecast: mapping the strengths and weaknesses of each sector; identifying the change factors and emerging job profiles; qualitative scenarios; the impact on employment and skills; companies’ strategic options; implications for education and training; recommendations. A summary is available, which reflects the diversity of sectoral situations and paths. Consequently, the overall changes affecting the European economy will depend greatly on the nature of any sectoral redeployments: if the trend towards relative growth of the service sector persists, the fate of industrial specialisations will be uncertain.

As these surveys are not based on the same methodology as the work done by CEDEFOP, it is only to be expected that the results are not identical, even on some important points (such as the expected development of intermediate-skilled jobs). If these differences are to enrich discussions rather than act as a source of confusion, they must be interpreted rigorously, since the sectoral area, the classifications and economic assumptions used etc. can differ greatly between the two approaches.

CEDEFOP’s baseline scenario for 2020 highlights the scale of expected job mobility, as a result of the disparity between low net job creation (7.2 million between 2010 and 2020) and the high number of vacancies (80.3 million, i.e. the 7.2 million new jobs plus 73.1 million posts which will become vacant). This is the result of the expected renewal of the working population, allowing for significant numbers of workers retiring. This renewal will open up many new job opportunities, mainly for medium-skilled workers. Medium-skilled workers will still make up half of Europe’s working population in 2020, even if their number is not increasing as fast as is the number of the highly-qualified.

The twin trend towards an increased level of education and training in the working population and a greater number of jobs demanding higher qualifications is a major trend expected to continue. The question of how many jobs will be created requiring medium-level qualifications is one which appears to be more sensitive to the degree of optimism in the scenario than for jobs requiring high or low skill levels. It is related to changes in the demographic and sectoral structure. The proportion of people with medium-level qualifications is higher among the over-40s, compared to younger workers. These older workers can be found in industrial jobs under threat. If such threats materialise, the net creation of jobs in industry will drop further.

Sectoral surveys conducted by the Commission reflect the sharp decline, prior to the crisis, in the employment of skilled manual workers in industrial production and the energy sector. In the coming decade, the combination of technical progress favouring the highly-qualified and the relocation of medium-skilled production jobs risks accentuating this trend in these sectors. The synthesis document summarising the 19 sector studies identifies those sectors particularly severely affected: the automotive industry, shipbuilding, the IT and electro-mechanical industries as well as the chemical and textiles sectors etc. Only a minority of sectors seem able to combine increased employment with significant upskilling; these are mainly service sectors such as healthcare and telecommunications.

Gender also plays a role in the dynamics of qualifications: qualification levels of women are rising at a faster pace than those of men. In terms of labour supply, women are now practically at an equal level with men at high qualification levels. The changes in activity rates of women and
older workers will therefore have profound effects on the dynamics of qualifications. The replacement of older male workers by new generations of women is a factor pushing up qualification levels. In an optimistic scenario, where the job requirements of the whole population are met, this development may amount to a smooth adjustment in favour of gender equality at work. However, in a less favourable scenario, skilled women risk being confronted by imbalances in the labour market hindering full recognition of their qualifications.

The CEDEFOP forecasts do indeed point to the threat of a polarised net expansion of jobs, mainly benefiting highly-skilled occupations, but also an increase in so-called ‘elementary’ jobs, consisting of routine tasks requiring little personal initiative. Such polarisation brings with it a twofold risk: that qualified people could be ‘relegated’ into elementary, low-qualified jobs, and, secondly, that they would thus prevent the low-qualified from taking up these jobs. The scale of this risk becomes clear if we think that in the baseline scenario, European employment figures for 2020 are not expected to return to their 2008 peak. For a European working population approaching 250 million people in 2020, the crisis is expected to have caused the loss of around 10 million jobs (compared with a fictitious non-crisis scenario). This loss, according to CEDEFOP’s baseline scenario, will not be reabsorbed before 2025.

The assumption made in the CEDEFOP forecasts that a significant proportion of the workforce will be overqualified, is based on two distinct but interlinked developments:

— the continued growth of ‘elementary occupations’ calling for people with medium or high levels of qualification. The transport sector, hotels and catering, healthcare and social care, maintenance and cleaning services are particularly affected by this trend. These are also sectors requiring high levels of qualification and thus likely to fuel the above-mentioned polarisation. CEDEFOP’s baseline scenario gives some idea of the foreseeable scale of this phenomenon: some 3 million jobs for people with medium or high-level qualifications are expected to be created in

4. These so-called elementary occupations exist in most sectors. A typical example is the job of labourer, but there are other occupations of this type.
‘elementary occupations’, with around one million jobs for the low-qualified disappearing in the same occupations. In comparison with a net creation of 7.2 million jobs between 2010 and 2020, this is no small figure.

— imbalance between supply and demand of qualifications in different occupations, measured according to the three levels of the ISCED classification. Supply and demand are forecast separately, then adjusted in an attempt to eliminate the discrepancies not likely to mean a real imbalance. The supply of medium and high-level qualifications is growing faster than the corresponding demand expressed by employers. This discrepancy does not solely affect elementary occupations.

The continuing existence of high rates of unemployment, resulting from the crisis, is giving rise to fears that the less-skilled may experience major difficulties, as they will have to compete with more highly qualified people for jobs considered as elementary. The 2010 unemployment rate for people with qualifications no higher than the first cycle of secondary education is over 18% throughout the European Union (as opposed to around 10% for the whole of the working population). According to the CEDEFOP baseline scenario, this rate is expected to decline slowly, remaining above 16% in 2020 (8% for the whole working population). The recession is having a particularly severe impact on employment of the lower-skilled, thereby undermining social cohesion. Risks of labour shortages in certain highly qualified occupations will exist side by side with a long-term deterioration of the situation for the least qualified.

Supply and demand for skills, however, are not two independent variables. Interaction between them leads to adjustments which can temper initial imbalances, by means of, in particular, on-the-job learning and training measures targeting job-seekers. More information is necessary on this point. The survey of European companies planned by CEDEFOP, investigating recruitment and training practices, is one step in this direction, towards gaining a better understanding of how these companies view and handle tensions relating to skills.
recognize informal, and therefore less visible, skills introduces greater flexibility, contrasting with the rigidity of a logic based solely on skill-matching\(^5\).

1.3 Joining forces: social dialogue and public policy

The report of the expert group tasked by the Commission with drafting a balanced and coherent action programme defines four paths of action (CEC, 2010b):

- the introduction of the right incentives for both individuals and employers to upgrade skills and make better use of them;
- getting the worlds of education, training and work to cooperate more closely;
- developing the right mix of skills;
- better anticipating future skill needs.

The European trade union movement is giving these issues top priority, asking how to better equip workers for more frequent and more risky job changes. The upgrading of individual skills throughout our working lives is a key component of such equipping, helping to achieve more secure careers and greater choice when it comes to mobility. This approach addresses all possible transitions, from entry into the labour market until retirement.

Such an approach is not an individualistic one: solidarity between salaried workers requires greater access of as many workers as possible to maintaining and developing their skills. Those least equipped to start with are not naturally those who tend to benefit from additional training during their working lives, and discrimination all too often

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\(^5\) The skill-matching approach attempts to fit the post occupied by an individual with the training which this individual has received. Yet the relationship between training and employment is a flexible one: individual choices take account of labour market dysfunctions, experiencing them as restrictions, but also of the degree of flexibility that this market can offer, which acts as an opportunity.
affects women and migrants. Equal rights to training, in particular through access to public funding and under the responsibility of employers, still need to be asserted.

The obstacles to such an approach should not be underestimated: they relate to the complex nature of skills themselves. Skills can be individual, or collective, within the work organisation. Companies treat the skills available to them as private goods and strategic assets which they are unwilling to make available to competitors. State policies and social dialogue need to take account of these obstacles in order to set realistic objectives and to introduce the right incentives for companies and individuals. If skills are to be a ‘public good’, the following are required:

- the right balance between specific skills (exploitable at a given workplace) and transversal skills (exploitable in a whole range of jobs) within an individual mix of skills;
- the transferability of individual skills between companies, sectors, territories, enabling workers to expand their opportunities for mobility and enabling companies to benefit from skills acquired elsewhere.

2. Sector Councils on Employment and Skills

2.1 A tool complementing sectoral social dialogue?

Seen in the light of the issues raised above, the Commission’s proposal to set up ‘Sector Councils on Employment and Skills’ at EU level touches on a sensitive point: the need for fora where social dialogue and public policies can interact in a constructive way to promote the individual and collective development of skills.

The feasibility report carried out by ECORYS for the Commission provides a comparative review of institutions and current practices in the EU countries (ECORYS, 2010). Based on this review, the authors make pragmatic recommendations concerning the setting up of these Sector Councils:
— the setting of realistic objectives and expectations;
— reliance on the voluntary participation of stakeholders;
— provision of temporary and conditional support by the Commission, on the basis of an agreement on objectives, a careful monitoring of progress and serious evaluation of results;
— initial priority to be given to the sharing of information between social partners;
— creating networks of national bodies with a view to forging communities of best practice.

This pragmatic approach has been confirmed by the Commission. In a working document dating from July 2010, looking at the functioning and potential of sectoral social dialogue, the Commission sets forth its point of view (CEC, 2010c). Calling for a new impetus to be given to this dialogue, it sees the Sector Councils for Employment and Skills as an instrument complementing it, open to other stakeholders besides the social partners. The Commission emphasises the autonomous desire of the social partners to launch and subsequently manage the Councils; it nevertheless sets forth its own vision of the Councils’ missions, hoping that its ideas will spread among sectors.

2.2 Trade union points of view

The ETUC member federations have expressed common interest in the proposal for Sector Councils, with a wide range of subtle differences. There is still a widespread feeling among trade unionists that employers are often more reluctant than unions to move in this direction, particularly since employers prefer to manage skills at company level.

The trade union federations welcome the New Skills for New Jobs initiative, in the light of the challenges facing Europe. In this context, the Sector Councils could become interesting resource hubs for:

— developing operational forward studies, and better coordinating the quantitative and qualitative methods used in these studies;
— creating networks of national councils to enable exchanges of experience.

At present, levels of commitment to the process of setting up Sector Councils vary from one sector to the next. Work is already in progress in a number of sectors (the commerce sector; textiles, clothing and leather; metalworking etc.), but the process is still at an embryonic stage in many others. The situation is on-going. The same questions are being put by trade unionists in various sectors:

— What is the right sectoral scope to be covered by one Sector Council? Should the scope be wide, to encourage transferability of skills and individual employability? Or should it be limited, thereby fitting professional realities?

— How would these Councils relate to the Sectoral Social Dialogue Committees (SSDC)? There is a consensus among trade unions that leadership of the Councils must be in the hands of the social partners. Questions still remain, however, as to how the Councils would relate practically to the SSDCs. Emphasis is given to the need to avoid bureaucratic overlapping and seek complementarity of tasks. Should the Councils be independent or should they be subordinated to the Committees, with the latter playing a steering role in setting the Councils’ work programme and supervising their work? At present the set-up is not yet clear.

— What is the right level of involvement of civic and social players other than the social partners? There seems to be a certain consensus concerning the involvement of vocational training institutions, contributing expertise and activities in this crucial area. But we need to tread carefully with regard to the involvement of other players, with trade unionists frequently questioning the legitimacy of such involvement and the representativeness of these players.

6. To avoid being ambiguous and long-winded, this article will use the term 'Committees' or the acronym SSDC to refer to the existing committees for sectoral social dialogue, and the term 'Councils' to mean the future Sector Councils for employment and skills.
2.3 Mobilising know-how and practical experience

These institutional questions have a political dimension, and must be dealt with wisely if the Sector Councils are to get off to a good start. They have the potential to become a privileged forum for fully using the practical experience of social players. On the basis of this experience, trade unionists are putting forward a series of questions which should be dealt with openly:

— Economic globalisation is resulting in a standardisation of skills on a global level. This in turn is making it easier for companies to relocate operations, and is contributing to the segmentation of value chains. Each business unit is skilled in its own area, but things can change. The availability of specific high-level skills is likely to be a factor influencing the geographic location of business operations. Individual creativity, as an innovation factor, is not easily replicated elsewhere; system-related skills, i.e. the ability to design not just basic products but whole systems consisting of goods and services responding to customer expectations, favour the concentration of operations in local clusters.

— The tension between the on-site development of workers’ skills and the use of external resources (through outsourcing or relocating operations, or the recruitment of skilled non-EU workers) is to be seen in a range of business areas. Decisions between these different possibilities should be governed not solely by considerations of direct cost, but should consider training costs as an investment, making a fair assessment of progressive returns. The so-called sectoral approach to migration, establishing separate legal frameworks for different categories of migrants, and the Blue Card directive, adopted in May 2009, on conditions of entry and residence of highly skilled workers, facilitate a utilitarian recourse to selective immigration. Such an approach can discourage the introduction of training measures targeting the low-skilled, people who have long been living on European soil, including those with migration backgrounds.

— The combination of an ageing workforce and the restructuring of industrial processes raises the question of attracting new categories of manpower as a way of ensuring the long-term prospects of the...
business activities involved. These include young people entering the labour market, women gaining easier access to certain activities, etc. Achieving the right work/life balance is a key factor in opening certain professions to women. Wages and working conditions, as well as the quality of work, are key factors in attracting manpower into sectors with the potential to create jobs.

- The skill mix required in any given work is influenced by organisational and institutional factors: in healthcare, by the role of the publicly financed sector; in social services by the professionalisation of social care; in the financial sector by the changes in regulation introduced since the crisis; in the retail trade and transport sector by the defining impact of ‘business models’.

3. Learning outcomes, evolution or revolution?

3.1 An evolution taken on by the trade union movement

The idea of making better use of learning outcomes, highlighted in the expert group’s report to the Commission, has been well-received by the trade unionists surveyed. The purpose is to give on-the-job development of vocational skills a greater role in the acquisition and validation of skills, as well as to focus attention on skills gained throughout a worker’s professional career, rather than just on diplomas gained at the end of formal initial education. Even so, this approach raises a series of questions:

- its compatibility with a company’s business model, which will determine how improved skill levels of employees are rewarded: better pay and/or better employability. These aspects do affect an employee’s levels of motivation. Collective bargaining on these issues remains limited, but trade unionists from a range of sectors agree strongly on the need to make training a mandatory point for these negotiations;

- the nature and degree of responsibility to be shouldered by trade unions in the areas of training and skill assessment. Should they merely participate in the partnership, sectoral and transversal bodies promoting and regulating initial and continuing training, as
well as the identification and certification of skills? Should they become more closely involved in the negotiation of training programmes within companies and sectors? Should they go so far as to provide training services to employees?

The answers to these questions depend on the sensitivity of the trade unions to these issues. One of the tasks of the unions, however, is to be involved in the negotiation and monitoring of training, since the skills acquired and recognised help to form the working environment. This area must not be left to commercial operations selling training courses.

In a number of sectors, trade unions are working with partners to develop ‘occupational profiles’. These profiles are for the use of private and public institutions acting as intermediaries, bringing together those offering jobs and job seekers in the labour market. When the work concerned requires mobility, it can call on the support of EU public instruments (the European Qualifications Framework, the European Credit Transfer System for Vocational Education and Training, etc.).

The European Qualifications Framework (EQF) is a sort of ‘Esperanto’, a common language, setting down useful principles for the recognition of qualifications. It works as a translation device which, via its eight-level scale of increasing qualifications, is intended to give a transparent picture of the equivalence of national qualifications systems. However, such translation is far from automatic. Any given EQF level is characterised by a combination of knowledge, skills and competencies. The situation is complicated by the fact that a person may have, for example, a higher level of knowledge and a lower level of skills or competencies.

The EQF is not yet an operational instrument determining practical equivalence or enabling workers to move around freely on the European labour market. It remains too distant from the terms used and representations made by national players. The European instruments are often perceived as useful reference frameworks, but as still too abstract or top-down for normal use.

In sectors of which mobility is a ‘natural’ part, frameworks for recognising and certifying skills are more easily included in social dialogue, although they are not easily dealt with. The transport sector provides a number of examples. Significant steps forward can be seen, such as the
compilation by the social partners of ‘professional passports’ in the areas of agriculture and tourism. Eurocadres, an organisation which has done a great deal of work on the mobility of managers and highly-qualified professionals, is suggesting that as well as the EQF, there should be a second stage, a ‘European grid for the recognition of professional qualifications’ based on a sectoral approach and a multi-stakeholder dialogue and including different types of learning – formal, non-formal and informal (Tratsaert and de Smedt, 2009).

3.2 Major implications for regulation of the labour market

The learning outcomes approach could contribute to a more balanced concept of ‘flexicurity’ on the labour market:

— recognition of skills acquired on-the-job improves employability, thereby better equipping people for successful changes of job;

— it also gives the labour market greater ‘depth’: generic skills acquired at specific workplaces become available to other employers;

— imbalances between the supply and demand for skills are less rigid than when only taking account of formal school curricula and initial diplomas: a clearer picture is given of the skills actually available.

A labour market recognising the different forms of learning requires suitable rules and players committed to respecting them:

— transparent methodologies and the clear responsibility of accreditation bodies, in order to guarantee the effective equivalence of skills, whether acquired formally, non-formally or informally;

— cooperation between the social partners and public and private employment services with a view to promoting uniform qualifications frameworks for initial and continuing vocational training;

7. The topic of flexicurity is revisited by the European Commission in its communication An Agenda for new skills and jobs: A European contribution towards full employment (CEC, 2010d).
— receptiveness of educational and training systems to the idea of diplomas and certificates being worded in terms of vocational skills and competences; this should make it easier for young people to enter the labour market.

The Sector Councils could play a useful role in evaluating learning outcomes. They can offer a stable forum for analysing specific changes within occupations affected by economic, technological and environmental developments, balancing direct observations, statistics and forecasts. They will contribute to improving European programmes by taking account of real developments in specific occupations. They will make it possible to carry out a rigorous comparison of national systems for the acquisition and validation of skills, and thus to move towards mutual recognition. On the basis of this knowledge, issues of normative efficiency, such as responsibility for accreditation, professional passports and quality assurance criteria, can be addressed more easily.

3.3 From EQF to ESCO

Convergence, i.e. the process of referencing National Qualification Frameworks (NQF) to the EQF, is in progress. The expected completion date of 2012 was confirmed by the EU Council at its Employment and Social Policy meeting held in June 2010, which described the form this convergence was expected to take:

— encouraging a common trend towards comprehensive NQFs, covering all types and levels of qualification and defined in line with national traditions;

— implementing the learning outcomes approach;

— promoting integration between academic and vocational education by the use of consistent descriptors covering all levels of qualification, or through the introduction of parallel strands of qualifications for the highest EQF levels (6-8): one for academic qualifications, one for vocational qualifications.
The announcement of these orientations by the Employment Council gave rise to a number of reactions. The European Trade Union Committee on Education voiced concerns about the risks of a possible ‘over-standardisation’ of educational systems (ETUCE, 2010): educational policies cannot be solely geared towards the current and future state of the labour markets, which are, moreover, unpredictable. School, higher education and life-long learning are there to enable people to achieve their goals in life. They are not intended as a substitute for the social protection required to cushion against fluctuations in the labour market.

The practical limits of the EQF justify the ongoing development of the ESCO programme (European Skills, Competencies and Occupations Taxonomy) (CEC, 2010e). The objective of this programme is ‘the development, at a European level, of the first ever multilingual dictionary linking skills and competencies to occupations’, including several thousand descriptors. The aim is to improve practical interoperability between labour market players and those working in the field of education and training. Employers and employment services are expected to use ESCO ‘to define a set of skills and competencies required when they are developing a job description’.

Implementation of the ESCO programme is moving swiftly ahead, with the launch phase, consisting of the introduction of a complex system of governance, expected to be completed by the end of 2010. It is important, however, not to be over-hasty: the Sector Councils could inject a useful bottom-up approach into the development of ESCO with a view to taking account of changes affecting the skills required in given occupations. The agenda should be adapted to the emergence and contribution of the Sector Councils. It is also important to avoid a detailed classification becoming too rigid, and thus soon rendered obsolete by changes in the various occupations.
3.4 National systems encouraged to change

If national training and education systems are to take European frameworks and programmes into account, their internal consistency and dynamics are bound to be affected. Such systems are extremely diverse, and have no common understanding of the concept of skills and competences. Some systems, such as the British NVQ (National Vocational Qualifications) system, focus on ‘skill granularity’, defined as the ability to perform a range of elementary tasks associated with a given workplace. Others, such as the German or French systems, take a more integrated approach to skills, understanding them as the command of both theoretical and practical knowledge. In the Netherlands, there is a particular focus on the inclusion of civic and moral aspects. To ensure transparent correspondence between national qualification systems, it is not sufficient to have careful and pragmatic European reference frameworks. The conceptual differences between these systems are anchored in national customs and institutions.

The European schemes have an ambitious goal: to encourage the free movement of Europeans both within training systems and on the labour market, by ‘decompartmentalising’ general education and vocational training, and integrating initial and continuous training into a unified qualifications framework. Without losing sight of this ultimate goal, it might be more realistic to set a more modest intermediate goal: to use the European frameworks as a heuristic tool to reveal the differences and tensions existing between national approaches, in a spirit of mutual trust. The problems posed by the discrepancies between countries need to be resolved, without being artificially swept under the carpet.

The national qualifications frameworks are themselves often far from being perfectly homogeneous. They sometimes show a more or less pronounced internal pluralism or heterogeneity, covering principles and logical structures which differ from one trade to the next. The hierarchy of skills put forward by the EQF could potentially collide with

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8. This study is based on a study by Philippe Méhaut and Christopher Winch, ‘Le cadre européen des certifications: quelles stratégies nationales d’adaptation?’ (Méhaut and Winch, 2010), which is part of a book entitled European Skills and Qualifications: Towards a European Labour Market, Brockmann, M., Clarke, L. and Winch, C. (eds.) (2011), Routledge, London.
the classification systems now accepted and used at national level. A more explicit acknowledgement of learning outcomes in skill frameworks provides an incentive for education systems to ensure that the diplomas they issue are defined more in terms of the skills which they show to be present (the results or outcomes) than in the ways in which these have been obtained (the inputs). The EQF is not an indisputable reference-point, but, if used wisely, with the right critical distance, it can act as a lever for bringing about national developments involving the social partners.

4. Vocational training, life-long learning: work in progress

4.1 An already substantial EU acquis

The promotion of life-long learning is a longstanding European ambition dating back to the 1970s. In the course of the 1990s, thanks to the momentum given by the Commission under its then President, Jacques Delors, a series of programmes (Erasmus, Comenius, Leonardo da Vinci) and processes (Bologna, Copenhagen) were launched with a view to promoting life-long learning and encouraging individual mobility.

In the 2000s, the Lisbon Strategy included training as an essential field, subject to the Open Method of Coordination. Guidelines were set out and strategic objectives listed: quality and effectiveness of education and training systems, access to education and training for all, an opening up to the world. Detailed objectives and indicators were drawn up to benchmark and influence national practices.

In June 2010, a communication from the Commission set out the key issues in education and vocational training (CEC, 2010f). Though not truly innovative, it gives an up-to-date list of EU objectives and instruments. It reaffirms a number of objectives and principles for action supported by European trade unionists, who are calling for a proper right to training, accessible to all citizens and workers (ETUC, 2009). The communication contains a number of key ideas:
— Equipping people with the right mix of skills and enabling them to update these, through initial vocational education and training (IVET), and continuing vocational education and training (CVET), while attempting to strike a balance between key competences (the basis for life-long learning) and professional capabilities, and between standardised skills and individual creative skills.

— Encouraging systems favouring life-long learning, by facilitating easy access to CVET; providing people with guidance services; enabling individual learning paths; ensuring transparent and consistent recognition of learning outcomes.

— Modernising vocational education and training systems (VET), by developing national qualifications systems and bringing them closer together by referencing them to the EQF, thereby encouraging permeability between VET and higher education, and removing barriers thanks to the transparent certification of learning outcomes; using cross-border mobility as a way of upskilling, via the system for transferring VET credits (ECVET); by promoting a culture of quality, by means of a quality assurance policy based on a European reference framework (EQAVET); using Sector Councils as a tool for mobilising social partners with a view to comparing practices (organisation, delivery and funding of VET).

4.2 Achievements falling short of ambitions

The constant promotion by the EU of its life-long learning goals emphasises even more the distance between these ambitions and the real situation, which is far less positive. The resources devoted to this ambitious goal, and the results obtained, are too limited to satisfy individual and collective needs for training in the EU-27. There is too little real access to life-long learning overall, and this access is too unevenly spread between countries and individuals.

A number of salient features emerge from European statistical sources, in particular the Continuing Vocational Training Survey (CVTS) and the Adult Education Survey.
The intensity of training efforts within companies varies greatly from country to country and company to company, with the size of the latter being a key factor. Workers may be disadvantaged on two fronts: access of workers in SMEs to training is even more difficult if they live in countries where companies do little in this area. SME workers may be completely excluded from access to training. Central and Eastern European countries are at a particular disadvantage: training is still often seen as a secondary issue by the social stakeholders, despite the support provided by Community funds. A comparison of adult participation in formal CVET confirms the scale of inequalities between countries.

A comparison of the 1999 and 2005 CVTS surveys points to certain progress made towards convergence of training practices in European companies. If we extrapolate the current trend, however, for compared levels of qualification of the working population, it seems unlikely that the less advanced countries will catch up with those furthest ahead. If we rely on CEDEFOP forecasts of the supply of skills in 2020, the expected increase in the proportion of people with high levels of qualification (ISCED levels 5 and 6) is no greater in countries currently lagging behind. This failure to catch up does not affect only the more recent Member States, but also Italy and Portugal.

4.3 The hesitant search for the right incentives

This rather lacklustre picture calls for progress on three fronts: training incentives; increasing the resources available for vocational training; and improving the effectiveness of training programmes. The expert group mandated by the Commission to make proposals for an action programme to give substance to the New Skills for New Jobs initiative considers that the improvement and strengthening of training incentives is one of the four priority lines of action:

- Incentives targeting individuals must provide extra motivation to develop skills: better recognition of acquired skills in terms of pay and employability. The quality of guidance and advisory services can also act as a motivating factor. The combination of motivation, incentives and services offered must speak to individuals, enabling
them to plan their future. On this basis, training co-investment schemes can be set up, giving shared responsibility to individuals, companies and employment services (*learning accounts, learning vouchers*);

- Incentives targeting companies depend on peer pressure to spread best practices. When increased investment in training acts as a competitive advantage, this acts as a powerful motivation. Such benefits are not automatic: investment in training will contribute to competitiveness where the company is able to foster a form of work organisation which is more focused on leveraging skills than on narrowly matching skills to workstations. Where work is organised in this way, financial incentives (incentives targeting certain categories, such as low-skilled or older workers; tax provisions allowing training investments to be included in depreciation) will be more effective;

- Improved incentives could also be offered to private and public VET players. This requires assessment systems which favour the most effective organisations.

The debates and reforms underway in a number of countries show how difficult it is to find the right mix of incentives. The wide range of national modes of organisation, moreover, does not make it easier to come up with common guidelines.

4.4 Persistent structural differences between national systems

In simple terms, it is possible to identify several groups of countries, using two criteria (Lefresne, 2007):

- the relationship between initial vocational education and training (IVET) and continuing vocational education and training (CVET): integration or separation;

- the nature of regulations governing CVET: centralised, decentralised or weak.
A system which integrates CVET into IVET (as is the case in the Nordic countries) is probably at an advantage when it comes to promoting life-long learning, as there is a uniform framework for recognising and certifying skills. In continental Europe and the Mediterranean countries, IVET and CVET tend to be separate, with CVET subject to contractual provisions, with a greater or lesser degree of centralisation. The gradual emergence of an individual right of workers to training and the introduction of an operational qualifications framework enhancing the transferability of individual skills are important issues in collective bargaining in these countries. Where CVET regulation is weak, as in the United Kingdom, the level of training depends largely on efforts made by individual companies. Finally, there are serious shortcomings in the availability of vocational training and in social dialogue on training in many countries of Central and Eastern Europe.

This simple classification is sufficient to illustrate the variety of situations within Europe, without being exhaustive. A more thorough comparison of national vocational training systems would involve a study of industrial relations and public policies in each country. The researcher Éric Verdier suggests a classification of ‘education and training systems’ which combines political principles, stakeholder strategies, modes of governance, regulations and instruments used (Verdier, 2009). Taking account of the ‘principle of justice’, a key criterion underpinning these systems, Éric Verdier distinguishes between the following possibilities:

— decommodified regimes: corporatist (basic principle: access to a professional community); academic (school-based merit system); universal (compensation of initial inequalities);

— market regimes: pure competition market (usefulness of services provided for individual human capital); organised market (fair price and quality of services developing skills as social capital).

National systems are the result of specific compromises, now enshrined in national customs, between these types of regime. The current European approach could be understood as an attempt to move towards a new combination of systems: corporatist, since the Councils are sectoral in nature; universal, since there is a clearly-stated concern to provide fair opportunities and transitions for all; an organised market,
since there are plans to provide a framework for European providers of training. Acceptance of this European regime could, subject to the principle of subsidiarity, help to correct any national shortcomings and to spread best practices.

4.5 Sector Councils and vocational training

If VET is to be a key issue for the Sector Councils, made up of national stakeholders and bodies, these Councils will have to take account of the structural differences between countries, in order to understand them better and assess their implications.

The survey of social partners carried out by ECORYS in the context of the report on the feasibility of Sector Councils led the authors to the logical conclusion that these Councils should place an emphasis on issues relevant to both employers and employees. A large majority of respondents (72%) were in favour of a dual focus for the Councils: initial vocational education and training (IVET) and continuing vocational training (CVET). Even so, there was one significant difference: employers were primarily interested in the responsiveness of IVET to their demands for skills; while trade unions were concerned first and foremost with promoting CVET, considered as a form of protection for workers and companies.

The relationship between IVET and CVET should therefore legitimately be a core topic for the Sector Councils, with a focus on the following points:

— striking a right balance between trade union and employer priorities, thereby actively involving both group;

— establishing relationships of trust between the worlds of education, training and business, seeking to identify and support future occupations, at all skill levels. Nothing would be worse than a low-end balance between a mediocre training system producing generalists lacking occupational skills and companies clamouring for labour from an atrophied production system;
— defining an institutional framework to provide guidance to training providers, making effective use of available private and public funds. This is particularly important since there are already service-providers attempting to organise the entire ‘value-chain’ of training, certification and mobility.

The system of vocational training, whether initial or continuing, needs to combine an awareness of signals from the labour market with the foresight to perceive shifts in society. Research and development clusters linked to universities thus have a role to play in identifying and developing promising future core occupations, at all skill levels.

**Conclusions**

European societies are actively engaged in seeking a balance between two needs which are difficult to reconcile:

— the priority which must be given to improving basic training and enhancing the skills of workers of all ages. The extent to which this need is met will determine both the employability of low to medium-skilled workers and Europe’s role in innovative fields, particularly in industry;

— investment in training of extremely high quality, attractive to potentially talented individuals, in order to ensure the availability of creative skills in high-tech fields and to strengthen Europe’s position at the cutting edge of knowledge and technology.

Europe’s ability to play an active role in the new competitive and environmental context of the global economy will depend on whether it can strike this balance, working towards an inclusive labour market with reduced levels of wasteful and demotivating precarious employment. The world of work is currently increasingly subject to the forces of dispersion and fragmentation. We must maintain cohesion, not only social cohesion. Our ability to do so will also determine the effectiveness and sustainability of economic development, which can not rely, in the long term, on too small an elite, seizing too great a share of the benefits of an unequal form of growth.
In this context, the Sector Councils for employment and skills can be a useful forum for the interaction of social dialogue and public policies. In a field where responsibility is still exercised predominantly at national level, one of their tasks is to create networks of national and regional players, with a view to creating a community sharing best practices and experience. Leadership of the Councils should be in the hands of social partners, so that these Councils can become an instrument complementing the Sectoral Social Dialogue Committees. With this leadership in place, the Councils can be opened up to other players, particularly to training organisations. The Councils could foster and coordinate forecasting-work with an operational focus, relating directly to the practical experience of the parties involved. Studies targeting occupations undergoing radical changes would be particularly useful, in order to create relevant training programmes.

Trade unionists welcome the plans to take account of learning outcomes, i.e. results of on-the-job learning throughout working careers, when recognising and validating skills. If this development is to become more widespread, there must be a change in the business models used by companies, to ensure that recognition of skills is rewarded in terms of pay or employability. The trade unions too would need to take on greater responsibility, to ensure that skills and training become a mandatory issue for collective bargaining.

The learning outcomes approach should lead to a more balanced notion of flexicurity. By improving recognised employability, it should better equip people for job changes; by extending recognised skills beyond those attested by initial educational or training diplomas. This approach should give employers a clearer view of the skills on offer; by encouraging education systems to better describe the skills associated with the diplomas delivered, it should enable young graduates to find jobs more easily.

For labour markets to function properly, working with learning outcomes, suitable regulation is needed: uniform frameworks, transparent methods, accreditation bodies responsible for the certification of skills. Although European programmes, such as the European Qualifications Framework and the detailed taxonomy of skills and occupations currently being compiled, take this approach, their practical acceptance and use by stakeholders is weak and difficult. The
operational studies carried out by the Sector Councils on specific occupations would help develop these tools by making use of practical experience.

The long-proclaimed European goal of life-long learning contrasts sharply with the poor level of what has been achieved. Access to CVET remains low overall, and is unevenly spread from country to country and group to group. To date, there seems to be no real sign of the less advanced countries being able to catch up. It is still difficult to strike a proper balance between advisory and guidance services offered to individuals, financial incentives to companies, and changes in work organisation allowing for a better use of skills.

Far-reaching differences between European countries in the design, organisation and regulation of national VET systems make it difficult to set down common guidelines, yet these differences can not be artificially quashed. By organising networks, as one of their core tasks, the work of the Councils should provide a better understanding of these differences, and allow for an assessment of their implications. In this way, the Councils could contribute to the promotion and dissemination of positive experiences, with a special focus on the consistency of IVET and CVET. Another of their tasks is to clarify the institutional framework guiding the activities of training service providers already operating at European level.

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The financial and economic crisis which has affected the global economy since 2007 has resulted in one of the most pronounced recessions in post-war economic history, with profound and lasting effects on Europe’s economies. Public finances have been hard hit, with government deficits in the EU set to increase and peak at 7.25% in 2010, a level three times higher than in 2008, while public debt is expected to reach 79.5% over the same year. Nonetheless, economic recovery is underway in the EU, with GDP forecast to grow by 1% in 2010 and 1.75% in 2011, although this growth may be slower than in previous upturns (CEC, 2010a).

In the case of pension systems, the crisis has added further pressure to the difficulties already caused by significant ageing of the population. PAYG systems have suffered losses of financing and contributions, due to the effect of the crisis on employment, while funded systems have become more vulnerable on the financial markets. The impact of the crisis, coupled with the reforms undertaken over the past decades in the majority of Member States, has also resulted in a more complex understanding of pension policy.

Against this background, the present chapter provides an overview of developments at both EU and Member State level, and assesses the shift (if any) in policy discourse and measures. The chapter considers these issues in the following way. Section 1 will focus on EU-level developments, analysing the impact of the crisis on the interplay between the core issues of adequacy and sustainability. It will look at EU initiatives such as the Commissioner’s Group on pensions, the publication of the Green Paper on adequate, sustainable and safe pensions and the implications of the economic governance debate for pension policy. Section 2 will focus on pension reforms undertaken over the past year in three EU Member States – Greece, France and Hungary – and assess the extent to which a similar
A shift in emphasis can be observed. Section 3 will draw some preliminary conclusions as to how the crisis has affected EU-level developments as well as pension reform patterns in Member States. An analysis of EU interventions shows the coexistence of two different approaches. The first – concentrates on financial sustainability, and is consistent with the need to pursue cost-containment (as a consequence of the increase in financial tensions); the second focuses on the need to address adequacy gaps, which are particularly in evidence since the crisis. While the former approach is still more common, the latter has gained momentum. Examination of the situation in the countries in question, however, shows that reforms have been prompted by the crisis, although the extent of the pressure felt and the actual nature of the reforms have differed depending on the country’s initial situation and on whether a consistent message has been received from the EU level. The financial sustainability argument has been used either as an external constraint (Greece) or as a vehicle to speed up the reform process (France). It has also, however, had some unexpected consequences, as in the case of Hungary, where Parliament voted through the re-nationalisation of private pension funds in order to reduce budgetary strains and avoid retrenchment.

1. **Key messages from EU institutions on pension reform**

Responsibility for social security rests with the Member States. Nevertheless, pensions have been addressed at EU level through groups or networks working on three different areas. They have, firstly, been discussed in relation to the development of an internal market, then with reference to Economic and Monetary Union (EMU), and finally in connection with the adoption of the Open Method of Coordination (OMC)\(^1\). Each group has developed its own policy approach to pension reforms. While, in last year’s contribution (Natali, 2010), we focused on the interaction of the different EU networks relating to pensions, here we look at the broad EU policy approach and how it has evolved (if at all) over the past year\(^2\).

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1. For a more detailed analysis see Pochet and Natali (2005).
2. In line with Barbier (2008; 2010), due to budgetary restrictions, EU action in the social domain has been centred around regulation and discourses.
This section provides a critical analysis of the key initiatives undertaken at EU level. Reference is made to the Commissioner’s Group on Pensions, the Green Paper on Pensions (1.1) and the debate concerning the need for strengthening economic policy coordination and its implications for pension policy (1.2).

1.1 The Commissioner’s Group on Pensions and the Green Paper on adequate, sustainable and safe pensions

Following the publication of the Interim EPC-SPC Joint Report on Pensions, which took stock of the progress made in pension reform over the past decade in the EU and reassessed the advances made in light of the crisis, Jose Manuel Barroso, President of the European Commission, sent out an invitation in early June 2010 to eight Commissioners to meet in a special group devoted to pensions. The purpose of the Group was ‘to develop, outline and communicate an EU approach for adequate, sustainable and safe European pension systems’ (CEC, 2010b). The initiative was placed within the context of the Europe 2020 strategy and the need for fiscal consolidation, taking also into account the demographic challenge, the need for social inclusion, ensuring fiscal sustainability and stable macro-economic conditions and the functioning of the single market. As set out in its mandate (lasting until the summer of 2012) the Group will not take decisions, but will instead prepare issues for collegiate discussion.

The first task of the Group has been to reach agreement on the Green Paper on adequate, sustainable and safe pensions. The Green Paper launched a consultation process (which ended in November 2010) on the key challenges facing pension systems and ways to update the pension framework at EU level, whilst respecting the fact that Member States are primarily responsible for the organisation of their pension systems. As highlighted in the Paper ‘following a decade of reforms that have altered pension systems in most Member States, there is now a

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3. The group will be chaired by the Commissioner for Employment, Social Affairs and Inclusion and will also comprise the Commissioners for Economic and Monetary Affairs, Internal Market and Services, Fundamental Rights, Industry and Entrepreneurship, Education, Health and Consumer Policy and Financial Programming and Budget.
need to thoroughly review the EU framework’ (CEC, 2010c). The Green Paper was a joint initiative of DG Employment, Social Affairs and Equal Opportunities, DG Economic and Financial Affairs and DG Internal Market and Services, thereby bringing together the DGs involved in the pensions debate. The Paper therefore aimed at taking a holistic approach centred around three themes: achieving a better balance between periods spent in work and those spent in retirement, removing obstacles to mobility in the EU, and ensuring safety and transparency through better awareness and information.

Having discussed the key challenges facing pension systems (namely demographic ageing, changes in pension systems and the impact of the financial and economic crisis) it put forward a series of proposals. The Paper discussed the impact on the old-age dependency ratio of different average exit ages (67 and 70 years) and highlighted the fact that a painful combination of lower benefits and higher contributions would be inevitable if the steep rise in old-age dependency ratios were not coupled with measures to promote longer working lives. The introduction of an automatic adjustment system to increase the pensionable age in line with future gains in life expectancy was presented as a ‘promising policy option for strengthening the sustainability of pension systems’. The greater individual responsibility resulting from recent reforms implies, it states, that future pension adequacy will rest upon labour market opportunities and returns in financial markets. The Paper also focused on the performance of pension funds and the need for more efficient regulation and better governance, to reduce costs and risks for the insured\(^4\).

EU institutions and players have reacted to the Green Paper. The Council had already pleaded for a reform of social security systems in order to cope with population trends, to ensure fiscal sustainability and to create incentives for taking up a job, while it had also made clear that measures taken during previous crises, such as early retirement, ought to be avoided (Council of the European Union, 2010). In addition, by

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\(^4\) Within this framework hybrid schemes, such as a DC scheme with a minimum return guarantee, or a part-DB and part-DC scheme which could alter the current trend towards individualised DC schemes, were also discussed. This simultaneously raised questions about the need to close gaps in the current fragmented and incomplete European framework.
adopting a set of conclusions on minimum pension and income provision, it sent out a political signal regarding its intention to concentrate on citizens’ concerns from the perspective of social protection.

The AGE Platform, while welcoming the debate launched by the Commission, stressed that policymakers need to demonstrate that they are fully aware of the social impact of the reforms proposed. According to the Platform, pension systems must not only be financially sustainable but also socially sustainable and adequate in the long-run, otherwise reforms risk increasing the feeling of insecurity and creating reluctance towards the proposed initiatives (AGE, 2010). The ETUC urged the Employment and Social Affairs Ministers to recognise the principle of solidarity, in order to ensure that pensioners can maintain a decent and independent existence. For the ETUC, the purpose of pension schemes is to guarantee a decent living to retired people and not to sustain financial markets (ETUC, 2010a). John Monks, ETUC General Secretary, went a step further by questioning the existence of evidence supporting the idea that employers want to keep older workers at work, describing the Commission’s ideas for a higher retirement age as unrealistic (ETUC, 2010b). UEAPME, on the other hand, welcomed the Green Paper as a good starting point for a crucial debate that must take place, supported its overarching objectives, including the reference to prolonging working life and avoiding early retirement, as well as the horizontal approach of the Paper (UEAPME, 2010).

Following the publication of the Paper, a conference was organised by Commissioner Andor, aimed at deepening discussion of the issues raised. While no firm conclusions were reached, interesting points were made. The issue of adequacy, and the difficulty in agreeing on a common EU definition, has been raised once again. Agreeing on minimum standards of adequacy was extremely difficult; while some see a role for the EU, on the basis of the provisions of the Lisbon Treaty, it was nonetheless stressed that decisions on such issues should be left at Member State level. A further interesting proposal relates to the introduction of a European (minimum) pension scheme, as an instrument for strengthening European citizenship as well as for the economic and political reasons usually put forward.
1.2 The economic governance debate and its implications for pension policy

The economic and financial crisis, followed by the debt crisis in the eurozone, has called into question the current system of economic policy coordination at EU level, underlined the interdependence of the EU’s economies and generated a debate on the need for reinforced economic governance. The European Council of 25-26 March 2010 acknowledged that macroeconomic stability and sustainable public finances are prerequisites for jobs and growth and called for the establishment of a task force that would present measures for strengthening economic governance in the EU. This section examines the debate on economic governance, focusing, in particular, on its implications for pension policy.

The basic components of the new approach were initially presented in two Commission Communications (CEC 2010d and 2010e), while a policy package of legislative proposals was adopted by the Commission in late September. The proposals cover, in particular, the following three themes: reinforcing Member State compliance with the SGP and deepening fiscal consolidation, broadening economic surveillance and strengthening of enforcement mechanisms (see contribution by Jacques Le Cacheux in this volume).

The preventive arm of the SGP is strengthened through the introduction of the new principle of ‘prudent fiscal policy making’, aimed at ensuring that prudent fiscal policies in good times allow the building up of a buffer for bad times. This approach is expected to guarantee convergence towards the medium-term objectives. The corrective arm is also amended, so that debt developments are put on an equal footing with deficit developments. The changes in both the preventive and corrective parts are backed up by a set of gradual financial sanctions. In assessing the soundness of national fiscal policies, the Commission will examine the sustainability of pension systems, while giving consideration to the partial or total reversal of previously implemented systemic pension reforms during both the launch and the abrogation of the excessive deficit procedure.

The establishment, on the other hand, of a ‘European Semester’ for economic policy coordination – beginning in January 2011 – is expected
to allow Member States to benefit from early coordination at European level, by synchronising assessment of their fiscal and structural policies. Economic surveillance will be further enhanced by means of a new regulation on the prevention and correction of macroeconomic imbalances. The excessive imbalance procedure will comprise a regular assessment of the risks of imbalances based on a scoreboard of economic indicators, both external (e.g. current accounts, real effective exchange rates) and internal (e.g. private and public sector debt).

Germany insisted on tougher sanctions, arguing in favor of expelling eurozone members, as a last resort, in the event of their repeatedly failing to respect the SGP, notwithstanding the fact that such a proposal requires a change in the EU treaties. In a joint proposal with France on the topic, acknowledging that a mechanism entailing suspension of voting rights would have to be included in a revision of the Treaty, the two Member States argued for a political accord that would enable eurozone Member States either to bar an offending State from taking part in specific votes or deliberations, or to make a political commitment to neutralise the effect of that member's vote. The joint statement also argues in favour of taking more explicitly into account implicit liabilities such as pension reforms when assessing the fiscal sustainability of a Member State.

In August, the Ministers of Finance of nine Member States (Poland, Bulgaria, the Czech Republic, Hungary, Latvia, Lithuania, Romania, Slovakia and Sweden), in a letter addressed to the Economic Affairs Commissioner and the President of the European Council, stressed that the coordination of national economic policies should take into account pension reforms. They demanded to be allowed to exclude the cost of pension reform from public debt and deficit figures, in order to avoid EU disciplinary actions. Commissioner Olli Rehn, in a letter to these countries, said that while the request was ‘justified’, it was ‘not possible’ to accept it under the current accounting system (Euractiv, 2010). The Commission, however, offered these countries a five-year leniency period if their budget gaps exceeded the EU’s ceiling of 3% of gross domestic product and/or their debt exceeded a cap of 60% of the same. Poland, Slovakia and the other countries considered this proposal inadequate and raised the issue again at the EU summit held on 28-29 October. The October meeting’s conclusions merely invited the EU Council of Ministers to speed up work on ways to integrate pension
reform into the EU’s revised Stability and Growth Pact. As we will show in Section 2 below, this then resulted in the progress of reforms in Hungary⁵.

Summing up, the initiatives undertaken over the past year have confirmed the impression that greater attention has been paid to financial sustainability than to adequacy. The question of the long-term financial viability of pension systems has been raised as part of the debate on economic governance taking place over the year, and during discussion of the effects of debt and deficit reduction (cf. Pochet, 2010). An emphasis on the adequacy of pension benefit, however, though still not widespread, has gained momentum. The Green Paper, in particular, has taken a more cautious approach to the role of the markets, thus generating a discussion of possible measures to alter the current trend in favour of individualised pension schemes and to provide further regulation of funded schemes.

2. National pension reforms as a response to the crisis?

Having examined the basic initiatives which have taken place at EU level relating to the pensions debate, Section 2 focuses on developments at national level, analysing the reforms that have been implemented over the past year. We examine the impact of the crisis on arguments used to justify reform, as well as on the reforms themselves. The section focuses on three countries: Greece (which has been under extreme budgetary and economic pressure), France and Hungary (countries which, in the Commission’s understanding, have fewer budgetary difficulties) (EPC, 2009). While the question of financial sustainability has been raised in all three countries, there has been greater criticism of past choices in Hungary than in the other two Member States. In Hungary, the government has tackled budgetary tensions by re-nationalising private pension funds. Our analysis shows that while the crisis has prompted reforms in all three countries, the actual reform measures have differed

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⁵ In December, after the Hungarian reform, Poland reached an agreement with the European Union aimed at loosening public finance rules in order to take into account the costs of pension reform. The Polish Prime Minister stressed that the Commission was no longer refusing to allow account to be taken of these costs when calculating public debt and deficit (Simon and Rozlal, 2010).
according to national factors (e.g. the country’s initial situation) and to the consistency or otherwise of the EU response.

2.2 Greece: the end of a long refused reform process?

Over the past decade Greece displayed exceptional growth rates, reaching almost 4% of GDP between 1999 and 2008, compared to the EU27 averages of 2.2%, and 2% for the then 15 eurozone countries. Nonetheless, these rates have failed to translate into an increase of productivity and competitiveness, because of an unwillingness to carry out structural reforms, especially in the post-EMU accession period, and an inability to exercise fiscal discipline. The revision of fiscal data, following the October 2009 elections, revealed an alarming situation: the Greek government deficit for 2008 was revised from 5.0% of GDP to 7.7%, while the Greek authorities also revised the planned deficit ratio for 2009 from 3.7% of GDP to 12.5% (CEC, 2010f).

The initial uncertainty as to the availability and modalities of financial assistance, the leaking of scenarios concerning government default and voluntary exit from the eurozone, came to an end following agreement on a rescue package with the International Monetary Fund (IMF), the European Commission and the European Central Bank (ECB). Since the largest overruns in the state budget concerned the social security funds, and given the projected increase in public pension spending, of more than 12ppt, between 2006 and 2050, the Memorandum contained specific provisions for the reform of the pension system.

The policy package had an immediate effect on pensions. The 13th and 14th month pension payments were abolished, and replaced by a flat-rate bonus of €800/year for pensions below €2,500/month, a tax was introduced on pensions exceeding €1,400/month, and all pensions were frozen over the next three-year period (IMF, 2010). More importantly, though, the policy package speeded up the long-refused reform process (cf. Carrera et al., 2010; Sakellaropoulos and Angelaki,

6. Financing to the tune of €110 billion supports the policy package provided by the eurozone Member States (€80 billion), in the form of bilateral loans centrally pooled by the Commission and the IMF (€30 billion).
Following a series of amendments, the Greek Parliament approved Law 3863/2010 in July 2010. The innovative character of the latest reform is shown by the introduction of a ‘new architecture’, whereby assistance and insurance functions are separated. From 2015, pension benefits will be made up of the newly introduced basic (flat-rate) component, amounting to €360 in 2010 prices and granted on a 12 month basis, and a PAYG element based on life-time earnings, which will require a 40 year employment history. This will replace the current best five out of the last ten years rule which required a 35 year history. While the system retains its PAYG structure, future pension benefits have been estimated at between 25% and even as much as 50% lower than is currently the case (INE, 2010). Overall, the reform establishes a closer link between employment history and pension levels. The law also introduces a safeguard clause, whereby if actuarial analysis suggests that the reform falls somewhat short of curtailing increases in future pension costs to 2.5 ppts of GDP (taking 2009 as the reference year) a Ministerial Decree will introduce certain necessary measures. This clause, coupled with the pending assessment of the sustainability of supplementary pensions, has given rise to speculation concerning possible further future interventions (Tinios, 2010).

The President of the General Confederation of Labor (GSEE) described the law as ‘unfair and anti-social’, despite the concessions which trade unions had managed to obtain. GSEE claimed that future pensions would be as low as 50% of current levels, with the new system clearly favouring sustainability over adequacy.

As to the effects of the reform, current pensioners have already seen a drop in their income, as a result of the abolition of the Easter, summer and Christmas bonuses, while the three-year pension freeze, and the introduction of a contribution towards the Social Insurance Solidarity Account, will result in further cuts. The impact on future pensioners is, however, somewhat more complex to assess. The impact is clearer for women, who are among the losers of the reform. The current system allows mothers of dependent children to retire ten years earlier than men, if covered by the IKA, or 15 years earlier, for public sector workers and those covered by the special funds of state-owned enterprises. This provision has been abolished and replaced by the introduction of care credits.
The impact of the crisis on pension reform is most evident in the case of Greece, where the system’s unfavourable long-term projections have played a key role in the evolution of its public finances. The latest reform, described as far-reaching by international standards by the joint IMF-EC-ECB mission to Greece, has clearly concentrated on safeguarding the system’s long-term sustainability. There are still unanswered questions, however, related to the current, and more importantly the future adequacy of benefits provided by the system.

2.3 France: a pension system crippled by the crisis?

While France has received less attention than other European countries such as Greece or Ireland, its public finances have also been under strain, with the public deficit standing at 7.5% of GDP and debt at 78.1% of GDP in 2009, according to Eurostat figures. The crisis did not leave the pension system untouched, despite the fact that EPC (2009: 26) has classified France among those countries with a moderate increase in age-related expenditure, as a result of the implementation of substantial reforms.

In April 2010, against this background, the Pensions Advisory Council (COR), a government-appointed body, presented its updated projections, taking into account the impact of the crisis in the short, medium and long terms. The Council examined the impact on the French pension system, basing itself on three alternative scenarios, due to the uncertain long-term effects of the crisis. These ranged from optimistic to pessimistic, and were influenced by two factors: the unemployment rate and growth in productivity. The system’s financial requirements in 2050 would vary between 1.7% and 3% of GDP depending on the scenario (COR, 2010).

A few months later, President Sarkozy presented a plan to increase retirement age from the current 60 to 62 by 2018. Despite the strikes and demonstrations that paralysed the country on several occasions, and following minor concessions and amendments made to the pension proposals, the bill was voted through by the French Parliament and approved by the National Assembly in late October 2010. The reform was deemed essential as it would erase the growing deficit in the PAYG system, curb rising public debt and preserve the country’s coveted AAA
credit rating, enabling it to borrow at the lowest market rates (Euractiv, 2010). The reform was also a key test for President Sarkozy; failing to go through with the proposed reform would have had an impact on his credibility and would in turn have raised doubts about the government’s plan to carry out the promised budget cuts.

The key elements of the law entail an increase in retirement age from 60 to 62 years between 2011 and 2018, an increase in the contributions required for the award of a full pension from 40 in 2008 to 41 in 2010 and 41.5 by 2020, while the age at which workers who have not made full contributions can receive a pension without penalties will be raised to 67 years. The reform also foresees changes in the amount of income tax payable on certain levels and types of income, such as increases in the highest band of income tax, on the levies on stock options, on supplementary pension schemes, capital income and inheritance income. While it introduces measures that promote the employment of older workers, it also includes solidarity elements targeted at young people in precarious situations, farmers and women. The reform is expected to bring the system back into balance by 2018.

The reaction of trade unions was largely negative. The General Confederation of Labour (CGT) described the law as a brutal reform resulting in an unprecedented blow to social progress. Trade unions have not given their support to the bill and four of the five large trade unions have expressed outright opposition. The General Confederation of Labour – Force Ouvrière (CGT-FO) – called for the withdrawal of the bill while the French Democratic Confederation of Labour (CFDT) demanded that it be rewritten, since the costs of the changes were being met largely by employees (to the tune of an estimated 85%). It also commented that the government had failed to take into account the reduced life expectancy of workers in certain occupations. CFDT stated that the law penalises those who have entered the labour market at an early age and those in precarious work situations, while it does not take into account the consequences on workers’ health of continuing work after the age of 60.

Doubts have also been raised as to the impact of the reform on the pension reserve fund (FRR) set up in the late 1990s, so as to prepare for the demographic change after 2020 and the system’s sustainability in the post-2018 period. In November, the French Parliament decided to earmark €33bn from the FRR fund to reduce the short-term pension scheme deficit. In this way, the retirement savings intended for the years 2020-2040 will be used earlier, that is in the years 2011-2024, and the government will spend the resources it has been saving up on purposes other than those which were originally planned.

The General Confederation of Labour (CGT) complained that the bill represented an unprecedented blow to social progress, and its leader stated that ‘the bill should not be examined in its current form by the Council of Ministers on 13 July, but there should be proper negotiations’. The French Christian Workers’ Confederation (CFTC) deplored the universal increase in the retirement age and the fact that capital income will contribute only 10% of the financing. CFE-CGC, which chairs the national pension insurance fund, pointed to the lack of finance designated for the pension system, but greeted as significant the measure whereby maternity leave will be taken into account for the calculation of the state pension (Jean, 2010).

2.4 Hungary: stepping back from privatisation

Hungary was the first Central or Eastern European country to introduce a multi-pillar system in 1997. The reform led to a reduction of pension benefits, resulting from a thorough reworking of the assessment base, a new defined-benefit formula and less generous indexation. Since 1998, assessment has been based on average wages earned since 1988. The degressive benefit formula is due to become linear in 2013, and different treatment will be given to those participating in the funded tier and those remaining in the public tier only (Guardiancich, 2010). The mandatory supplementary fully-funded schemes introduced in 1998 consisted of 19 mandatory pension funds. These insured almost 3 million members (71% of the economically active population) and, by mid-2009, had collected the equivalent of 6.8% of GDP. The operational structure of
these pension funds is a uniquely inefficient feature of the Hungarian pension system. Financial holdings dominate the market, while the decentralised collection of contributions, introduced in 1998, was finally centralised and delegated to the Tax Office (Guardianicich, 2010: 2).

As a consequence of increased budgetary tensions since the crisis, Hungary has re-nationalised funded pension schemes and excluded the cost of the reforms from its public debt figures. Many commentators consider the EU decision to reject the CEE governments’ demand for special treatment of pension reform costs to be one of the reasons why the Hungarian government pushed through the new legislation at such speed (Simon and Rozgal, 2010). In December, Parliament voted to roll back the 1997 pension reform: the pension legislation was adopted with 250 votes in favour, 58 votes against and 43 abstentions. The reform effectively allows the government to seize up to 10 billion euros in private pension assets, in order to cut the budget deficit while avoiding austerity measures. The legislation imposes penalties on workers who do not transfer their pension assets back into the state system by the end of January (Bryant and Cienski, 2010).

The government will sell these assets and use the income to reduce debt, to plug holes in the state pension fund and create room for tax cuts for households and small companies. Through this strategy (and the parallel increase of taxes on banks and mostly foreign-owned businesses) Prime Minister Orban has promised to end years of austerity and has bolstered the popularity of his right-of-centre Fidesz party in opinion polls. But the strategy – which also includes regaining ‘financial sovereignty’ by ending a €20 billion safety net deal with the European Union and the International Monetary Fund – has resulted in reductions in the value of Hungarian assets, and prompted a downgrade by Moody’s ratings agency. As a consequence of the reform, the Hungarian government will cut the deficit to below 3% of gross domestic product next year. But long-term budgetary tensions (with a public debt of 80% of GDP: just above the EU average but higher than any other Central or Eastern European country) are expected to remain.

8. The funds are mutual associations jointly owned by members. This system conceals profit-making organisations within a non-profit governance structure.
Several trade union federations reacted negatively to the government’s budgetary proposals. In November the joint committee of unions sent a document to the centre-right government, stressing that most of the new bills submitted to parliament violate legal security and endanger the interests of employees. The committee also protested that the government is seeking to divert the savings in private pension funds.

Hungary’s choice of policies is not unique in the EU. Bulgaria has in fact come up with very similar initiatives. Both countries have chosen to re-nationalise their pre-funded pension schemes, thus reducing public deficit and debt. These policies have surprised the European Commission, as the latter is attempting to provide an EU-wide solution to pension reform in its revised budget rules. The Commission, and especially the Economic and Monetary Affairs Commissioner, expressed its concern regarding the innovations in the pension system announced by the Hungarian authorities. Following the Hungarian vote, moreover, the Commission struck a deal with Poland aimed at loosening public finance rules in order to take into account the costs of pension reform (Euractiv, 2010).

Conclusions

This chapter has shed light on the pension debates at EU and national level over the past year, in an attempt to highlight the shift (if any) in policy discourse and reform measures. Evidence from EU and national discussions since the crisis shows that the dominant issue is still the financial sustainability of pension schemes. More attention is being paid, however, to the whole question of adequacy. These two trends reflect the inconsistencies and ambiguity existing at EU level.

The reforms instituted in Greece, France and Hungary have confirmed the predominance of budgetary concerns. Greek and French policymakers have introduced new pension cuts as part of broader strategies to reduce public budget deficit and debt. In Hungary, by contrast, budgetary stability has been pursued through an about-turn in pension policy. After the EU Commission rejected its request to exclude the cost of pension reform from public debt and deficit figures, the Hungarian government reversed the radical reforms of the 1990s.
The first part of this chapter focused on developments at EU level. Certain new initiatives over the past year – such as the setting up of the Barroso Group on pensions and the publication of the Green Paper – have attempted to provide a holistic approach to the pension debate, while underlining the interdependence of the goals of adequacy and sustainability. If we examine the actions taken by the EU, we can identify two parallel approaches. One concentrates on financial sustainability, and reflects the need to pursue cost-containment (as a consequence of increased financial pressures); the second focuses on the need to address certain shortcomings in the adequacy of pensions, which have become particularly evident since the crisis. The former approach is still predominant, although the latter, while less widespread, has gained momentum.

The second section focused on developments at Member State level. Our analysis has shown that reforms have been prompted by the crisis, but that the extent of the pressure varied according to the country’s initial situation. The Greek crisis resulted in a reform which has been more radical than those implemented in the other countries studied. Reform measures implemented in France were also prompted by the crisis and by the need to reduce deficit levels and appease international markets. In sharp contrast to the Greek case, however, the pressure was lower, as a result of reforms that had already been implemented over the past decades. The measures taken, therefore, did not fundamentally alter the system, but were primarily aimed at making it more sustainable, though at the expense of the adequacy of pension levels. Overall, it could be argued that in the case of France, the crisis speeded up the reform process. In Hungary, however, there was no such trend towards reform involving the further containment of public pension spending. The most recent reform represented a step back from the partial privatisation of the system carried out in 1997. It allowed the government to keep the budgetary deficit at a generally lower level, while watering down austerity measures. This is not an isolated case in Central and Eastern European Member States. Bulgaria has followed suit, and the debate in Poland shows a similar trend towards reversing the previous move towards multi-pillar systems. While many national factors may help to explain this sort of about-turn, commentators have stressed the direct effect of the EU debate on economic governance. We can safely assume that the Hungarian reform was the unintended consequence of SGP rules for deficit and debt calculation. The pension
private pension policy pursued by some EU members over the last decade has resulted in an increase in short-term costs. The EU’s decision to reject the request from Member States to take account of the cost of transferring pensions into private hands contributed to the country’s decision to reverse pension reforms, in order to meet EU budgetary requirements.

This parallel focus at EU and national level demonstrates that the crisis has had a direct but contradictory impact on pension policy and discourse. On the one hand, EU (and especially eurozone) members with severe pressure on public state budgets (and with social insurance pension systems) have pursued reforms aimed at reducing spending on pensions. On the other hand, some countries which had already introduced a multi-pillar system in the past have reversed the trend through the re-nationalisation of private pension funds. While this chapter has not aimed to carry out a systematic assessment of the possibility of formulating pension policy at European level, evidence from the EU countries examined shows that the crisis, and the approaches taken to it at EU level, have had a two-fold and somewhat contradictory effect: new cutbacks have been introduced, while some countries have reversed previous privatisation measures in order to prevent further retrenchment and/or tax increases, and to avoid EU sanctions.

References


Is the 'Social dimension of Europe 2020' an oxymoron?

Bart Vanhercke

Introduction

In a decade from now linguists may use the phrase 'Social dimension of Europe 2020' as an example of an oxymoron. At first sight, the mere idea that the EU’s new Strategy for the next decade could be a vehicle to develop Europe’s (weak) social dimension, would indeed seem quite a contradiction. After all, a first reading of the Strategy’s ambitions and governance arrangements suggests that issues such as employment, social protection and social inclusion are far from central, and that they seem to be largely dominated by economic and budgetary ambitions. And yet this chapter argues that Europe 2020 also provides some significant opportunities which can – and should – be seized by political entrepreneurs and other actors to pursue their social ambitions, even if there are clear risks associated with such a strategy.

This chapter is structured as follows. Section 1 briefly presents some of the assessments made of Europe 2020’s predecessor, the Lisbon Strategy, which is seen by many (but not all) as a ‘failed’ strategy. Section 2 describes the political objectives and the governance architecture of Europe’s new strategy for growth. Section 3 argues that, when Lisbon and Europe 2020 are compared, some progress can be identified with regard to the development of Social Europe. And yet there is no room for complacency: Section 4 explains why social actors should be careful what they wish for when they seize on the new strategy. Section 5 suggests some ways forward to strengthen the social

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1. The author wishes to thank David Natali and Philippe Pochet for their suggestions on an earlier draft, Cécile Barbier for thought-provoking discussions about the new European economic framework, and Lena Wegener for her invaluable research assistance.

2. An oxymoron is a figure of speech, or a phrase, that combines two notions that seem to be the opposite of each other. Examples are ‘deafening silence’, ‘extremely average’, ‘virtual reality’ and ‘known secret’.
dimension of European integration. On the one hand, some (admittedly, small) improvements could result from safeguarding the role of Social Affairs Ministers and strengthening the instruments of the Social OMC in the context of the Europe 2020 Strategy. A second, more radical strategy could be to alter the logic behind Europe 2020 by choosing a new pathway, namely a ‘Social Stability Pact’. As difficult as its realisation may seem at the moment, such a Pact could be a more effective alternative to soft social policy coordination. A summary of findings and tentative conclusions are presented in the final section.

1. Prelude: from Lisbon to Europe 2020

1.1 Lisbon weighed on the scales... and found wanting

The Lisbon Strategy, which was launched by the European Council in March 2000, formally ended in June 2010 with the adoption by the European Council of the new Europe 2020 Strategy. The original Lisbon Strategy laid out a broad, ambitious agenda aimed at making the EU by 2010 ‘the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion’ (European Council, 2000). This inclusive agenda was based on the concept of a ‘socioeconomic policy triangle’, with equal weight given to European objectives for more and better jobs and social cohesion, alongside others relating to economic growth and competitiveness. In 2001, under the Swedish Presidency, environmental sustainability was added as a fourth ‘pillar’ or core strategic objective. The Lisbon Strategy was formally relaunched in 2005, with a sharper focus on growth and jobs (Zeitlin, 2010). As a result, the second phase of Lisbon was much more neoliberal in orientation than the first (Daly, 2010).

Several attempts have been made to assess the Lisbon Strategy. It seems fair to say, in a nutshell, much of the economic literature weighed the Lisbon Strategy on the scales and found it wanting, as it failed to deliver on its key targets. In a critical review of the multidisciplinary literature that has dealt with the Lisbon Strategy in the past decade, Natali (2009) points to those authors who have stressed that the Strategy has suffered from the ‘wrong policy agenda’, and to those
who have advanced explicit doubts on the worldview underlying the Strategy (e.g. the potential contradiction between the Lisbon and EMU projects). Other scholars have questioned the belief in deregulation and flexibility (of labour markets) as the right path towards further economic growth. Still according to Natali (2009), another strand of the Lisbon related literature has agreed with the politico-economic foundations of the Strategy, but has discovered major institutional shortcomings related to EU governance and to the OMC in particular. Thus, analysis of individual OMC processes has resulted in a rather sceptical understanding of the participatory dimension. Kröger (2009) contends that the OMC does not satisfy requirements for a learning-friendly environment and that the Social OMC is sometimes less open than the Community method as it involves a rather closed circle of ‘non-accountable bureaucrats’. One author even dubbed the Lisbon Strategy the European Union’s ‘Titanic 2010’ (Tausch, 2009).

While economists have, in general, been sharply critical of the Lisbon Strategy and have stressed its lack of efficacy, others have advanced a more optimistic view. According to Natali (2009) much of the literature has focused on the innovative aspects of Lisbon’s mode of governance (especially the OMC) and the potential implications for the future of the EU project. Hence there seems to be a widespread agreement among political scientists, international relations theorists and lawyers that the OMC constituted an important change for EU policymaking and administration. Goetschy (2008), for instance, has stressed the Lisbon Strategy’s influence on the EU’s role in social policies. The Strategy has been assumed to have helped ‘enlarge the EU employment and social agenda on matters of national priority’ (ibidem), a point that is largely shared by (Lisbon-critical) researchers such as Magnusson (2010). While Begg (2010) refers to the underestimated learning dimension of the Lisbon Strategy, a variety of authors (see Marlier and Natali, 2010; Heidenreich and Zeitlin, 2009; Hamel and Vanhercke, 2009; Vanhercke, 2009 and 2010), provide empirical evidence of both the

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3. The ‘Community Method’ refers to the classic EU decision-making process in which the Commission has the right to initiate a legislative proposal that is later decided on by the Council and – in most of the cases – the European Parliament (‘co-decision’). In contrast to ‘soft governance mechanisms’ (such as for example the OMC), the Community Method produces legislation that is binding (‘hard’) for the Member States, and its non-application can be challenged before the Court of Justice of the European Union (CJEU).
procedural and substantive impact of both the EES and the Social Protection and Social Inclusion OMC.

Note that some of the so-called assessments of the Lisbon Strategy can be said to be rather ‘lightweight’ themselves. Thus, the official European Commission mid-term review of the Lisbon Strategy in March 2005 (strongly influenced by the so-called Kok (2004) Report) chose to ignore much of the available evaluation evidence, both official and academic, which suggested that the OMC should be considered a qualified success in some key policy fields, while in others no definitive assessment was possible since the method had not yet been systematically implemented (Zeitlin, 2010). Similarly, the Commission’s final evaluation of the Lisbon Strategy (CEC, 2010a) was published after this institution had written its plans for the Europe 2020 project (and even after it launched a public consultation on those plans, cf. infra). All of which raises doubts about how seriously these evaluations should be taken.

With that cautionary remark in mind, it seems that many of the supporters as well as the critics of the Lisbon Strategy would agree with the more general conclusion from Vandenbroucke and Vleminckx (2011): that ‘Open co-ordination did not prevent national and regional governments and social partners from buying in selective bits and pieces of the new paradigm, but not its gestalt’. And so it did not come as a surprise that when the Lisbon Strategy came to its end in 2010 the European Council – far more rightwing than in 2000 – asked the European Commission to propose an ‘EU time for submitting replies 2020’ agenda which would avoid some of its predecessor’s mistakes, by creating, among other ideas, greater ‘national ownership through more active involvement of social partners as well as of regional and local authorities’ (European Council, 2009).

1.2 A Commission proposal, and a broad but contested consultation

Perhaps this wish to create stronger ‘ownership’ is why the European Commission launched a broad consultation (CEC, 2009) regarding its initial ideas on the new strategy, in November 2009. Even though the number of replies received (some 1,500 in total) by the European Commission was rather impressive, the social stakeholders, at least, were
far from satisfied with the way the European Council mandate to ‘create ownership’ was being implemented; thus, the time for submitting replies was seen as far too short. For this reason, the Platform of European Social NGOs (Social Platform, 2009) asked Commission President Barroso to ‘postpone the adoption of the Europe 2020 agenda to allow a genuine democratic debate to take place’. In substantive terms, the Commission was quite optimistic when it concluded, in its overview of responses to the Europe 2020 public consultation, that social actors by and large agreed with the proposed objectives.

This claim was indeed rather bold in view of the fact that Social NGOs, trade unions and many centre-left MEPs were critical of the draft plans, arguing that the proposal lacked a social dimension to deal with the crisis and repeated many of the mistakes of its predecessor, the Lisbon Strategy. While the European Trade Union Confederation insisted that a paradigm shift is necessary, the European Trade Union Institute (ETUI), for example, labelled the proposed European headline targets and flagship initiatives ‘something of a window-dressing exercise’ and formulated four main points of criticism: (1) no fundamental reflection whatsoever has been given to the question of why Lisbon failed (2) few lessons have been drawn from the economic and financial crisis on the one hand and from the ecological crisis on the other (3) no reflection is given to the tensions or contradictions between the different aims and (4) a central role is given to the Ministers of Finance at both national and European level, while the European Parliament and the social partners are marginalised in the initial choices made (Pochet, 2010a). The European Social Platform was ‘concerned that the growth and competitiveness paradigm is coming back on the agenda’, stated that ‘social civil society does not buy into this Europe 2020’, and therefore formulated proposals for improvement (Social Platform, 2009). The European Women’s Lobby (EWL), as did many other social stakeholders, questioned the proposed ‘exit strategy’ from the economic crisis: the Commission’s Working Document, they said, overemphasised short-term economic recovery at the expense of long-term objectives such as welfare, social inclusion and environmental sustainability (EWL, 2009). It is interesting to note that at the same time, the EWL subscribes to the Strategy’s instruments, by proposing a variety of new

\[4\] The consultation was launched on 24 November 2009 and officially closed on 15 January 2010.
equality targets\(^5\) (Ibid). In the European Parliament, strong criticism was voiced by the President of the Social Affairs Committee, Pervenche Berès, who referred to the fact that ‘the social inclusion dimension looked too much like charity’ and pays ‘nothing more than minimal lip service to the fight against poverty’ (Euractiv, 2010). Importantly, the Employment Committee\(^6\) equally presented its concerns about the new strategy, even at this initial stage, notably with regard to the role that would be left for the EPSCO Council formation, which is composed of the EU ministers responsible for social affairs, employment and health (EMCO, 2010a). Finally, the European Economic and Social Committee argued that the EU budget should be reformed according to the priorities of the new Strategy, while claiming a bigger role for regions and local authorities in the Strategy itself. For Business Europe, the weak means of delivery and lack of ownership are the root of the problems experienced by the Lisbon Strategy: the new Strategy should include robust benchmarking and monitoring systems while the EU budget should be overhauled to promote competitiveness. Flexicurity remains a key objective, while more attention should be given to education and skills (CEC, 2010b).

Whether it was the voices of these ‘social affairs’ players, the ambitions of Barroso (who was working hard to secure his second term as Commission President), or the influence of the new President of the European Council, Herman Van Rompuy, who was keen to secure the ‘social’ face of the new Strategy, remains to be established. But the fact is that the Europe 2020 proposal published by the European Commission in March 2010 (CEC, 2010c), and especially the Strategy which was ultimately adopted in June 2010 by the Heads of State and Government (see below), was somewhat stronger than what had been on the table until then (including, for example, the introduction of a ‘poverty target’). The next section describes the new Strategy.

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5. The EWL (2009) proposes quantified targets on equal pay, women's entrepreneurship, % of women on the Board of enterprises, share of part time work done and parental leave taken by men, etc.

6. The Employment Committee was formally established in 2000 and is one of the two advisory committees of the EPSCO Council (together with the SPC). The EMCO consists of 2 representatives of each Member State as well as of the Commission and has its Treaty base in Article 150 of the Treaty on the Functioning of the European Union (TFEU). Within the Lisbon framework it was mainly involved in the implementation process of the Employment Strategy (preparation of Employment Guidelines, Joint Employment Report, and Recommendations). Within the new Europe 2020 framework, EMCO is responsible for monitoring progress in relation to the employment aspects of the Integrated Guidelines.
2. **A new strategy for Europe until 2020: objectives and governance**

2.1 Overall objectives of the new strategy: smart, sustainable and inclusive growth

In the words of the European Commission (2010c), Europe 2020 is a Strategy ‘to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. [...] This is an agenda for all Member States, taking into account different needs, different starting points and national specificities so as to promote growth for all.’

The March 2010 European Council (2010a) agreed to the European Commission’s proposal to launch a new Strategy for jobs and growth. This new Strategy is based on enhanced socio-economic policy coordination, and is organised into three priorities, which are expected to be mutually reinforcing:

- smart growth, i.e. ‘strengthening knowledge and innovation as drivers of our future growth’;
- sustainable growth, i.e. ‘promoting a more resource efficient, greener and more competitive economy’; and
- inclusive growth, i.e. ‘fostering a high-employment economy delivering social and territorial cohesion’. This priority is about ‘empowering people through high levels of employment, investing in skills, fighting poverty and modernising labour markets, training and social protection systems so as to help people anticipate and manage change, and build a cohesive society’.
2.2 The governance of Europe 2020: general architecture

Europe 2020 has been organised around three integrated pillars, as shown in Figure 1 below.

1. **Macroeconomic surveillance**, which aims at ensuring a stable macroeconomic environment conducive to growth and employment creation. In accordance with Integrated Guidelines 1 to 3 (see Table 1), it covers macroeconomic and structural policies to address macroeconomic imbalances, macro-financial vulnerabilities and competitiveness issues which have a macroeconomic dimension. It is the responsibility of the EU ‘Economic and Financial Affairs’ (ECOFIN) Council.

2. **Thematic coordination**, whose focus is on structural reforms in the fields of innovation and R&D, resource-efficiency, business environment, employment, education and social inclusion (Integrated Guidelines 4-10; see Table 1). Policies pursued in this context are expected to deliver smart, sustainable and inclusive growth and employment creation at EU and national levels and also to help...
remove obstacles to achieving the objectives set in the Guidelines. Thematic coordination combines EU priorities, EU headline targets (and national targets that underpin them) and EU flagship initiatives (see below). It is conducted by the sectoral formations of the EU Council of Ministers. This includes, for social protection and inclusion matters, the EU ‘Employment, Social Policy, Health and Consumer Affairs’ (EPSCO) Council.

3. Fiscal surveillance under the Stability and Growth Pact, which should contribute to strengthening fiscal consolidation and fostering sustainable public finances. It is expected to help to ensure the overall consistency of EU policy advice by identifying the fiscal constraints within which Member States’ actions are to be developed.

2.3 Europe 2020: EU and domestic components

2.3.1 Five EU headline targets to be translated into national targets
The June 2010 European Council agreed to set ‘five EU headline targets which will constitute shared objectives guiding the action of Member States and the Union’ (European Council, 2010b):

— to raise to 75% the employment rate for women and men aged 20-64;

— to raise combined public and private investment levels in research and development (R&D) to 3% of EU’s Gross Domestic Product;

— to reduce greenhouse gas emissions by 20% compared to 1990 levels, increase the share of renewables in final energy consumption to 20%, and move towards a 20% increase in energy efficiency (i.e. the ‘20/20/20’ climate/energy targets); and to increase emissions reductions to 30%, if the conditions are favourable;

— to improve education levels, in particular by aiming to reduce school drop-out rates to less than 10% and by increasing the share of 30-34 years old having completed tertiary or equivalent education to at least 40%; note that the key issue of educational quality is not touched upon in the Strategy (Roth and Thum, 2010);
— to promote social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and exclusion. The target will consist in reducing the number of people in the EU (120 million) who are at risk of poverty and/or materially deprived and/or living in jobless households by one sixth.

In light of these interrelated targets, Member States have to set their national targets, taking account of their relative starting positions and national circumstances and according to their national decision-making procedures. They should also identify the main bottlenecks to growth and indicate, in their National Reform Programmes (NRPs), how they intend to tackle them. Member States had to submit their draft NRPs to the Commission in November 2010 and their final NRPs in April 2011. It is important to highlight that the European Council has stressed that ‘all common policies, including the common agricultural policy and cohesion policy, will need to support the Strategy’, and that ‘progress towards the headline targets will be regularly reviewed.

The proof of the pudding, with regard to the Europe 2020 targets (and their translation into national targets), will of course be in the eating. Thus, the EMCO signaled that while the targets proposed so far by the Member States are overall realistic, ‘the collective estimated outcome would fall short of the EU ambition’ (EMCO, 2010b). According to the European Commission, several countries have still not set their poverty targets (CEC, 2011) and there are even doubts as to whether some of them (notably the UK) even plan to do so. But even assuming that almost all Member States do set their targets, it is still unclear what the European Commission would do if a (large) Member State were to fall short of the social targets. Thus the at-risk-of-poverty rate increased sharply in Germany between 2005 and 2008 (from 12.3% in 2005 up to 15.3% in 2008) (Atkinson et al., 2010). The most recent EU-SILC data show that poverty further increased in 2009. It remains to be seen whether this kind of incontestably poor performance will lead to a Country-specific Recommendation, or even a policy warning. The first (January 2011) Annual Growth Survey (AGS) does not give much scope for sweeping optimism: the ten priority actions (in three economic areas) put forward do not contain a single reference to social inclusion or poverty (CEC, 2011). In other words: the AGS does not include a clear commitment to ‘inclusive growth’ as foreseen in the Europe 2020 Strategy (Solidar, 2011).
2.3.2 Seven flagship initiatives

To underpin these targets and 'catalyse progress under each priority theme', the Commission has suggested seven flagship initiatives which should encompass a wide range of actions at national, EU and international levels: ‘Innovation Union’, ‘Youth on the move’, ‘A digital agenda for Europe’, ‘Resource efficient Europe’, ‘An industrial policy for the globalisation era’, ‘An agenda for new skills and jobs’ and a ‘European platform against poverty’ (EPAP). Unlike the other flagships announced by the Commission, no prior consideration was given to what the EPAP would be and how it would relate to existing EU coordination and cooperation in the social field. It was a top-down initiative without much apparent coherent thought and lacking any consultation with stakeholders (Frazer et al., 2010).

2.3.3 Ten Integrated Guidelines for employment and economic policies

Finally, ten Integrated Guidelines for implementing the Europe 2020 Strategy were adopted by the Council in October 2010 – six broad guidelines relating to the economic policies of the Member States and the EU, and four guidelines concerning the employment (and in fact also social) policies of the Member States (Table 1). Their aim is to provide guidance to Member States on defining their NRPs and implementing reforms, in line with the Stability and Growth Pact.

Table 1 Ten integrated guidelines for Europe 2020

| Guideline 1 | Ensuring the quality and sustainability of public finances |
| Guideline 2 | Addressing macroeconomic imbalances |
| Guideline 3 | Reducing imbalances in the eurozone |
| Guideline 4 | Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy |
| Guideline 5 | Improving resource efficiency and reducing greenhouse gas emissions |
| Guideline 6 | Improving the business and consumer environment; and modernising and developing the industrial base in order to ensure the full functioning of the internal market |
| Guideline 7 | Increasing labour market participation of women and men, reducing structural unemployment and promoting job quality |
| Guideline 8 | Developing a skilled workforce responding to labour market needs and promoting lifelong learning |
| Guideline 9 | Improving the quality and performance of education and training systems at all levels and increasing participation in tertiary or equivalent education |
| Guideline 10 | Promoting social inclusion and combating poverty |

Source: Council of the European Union (2010a and b).
2.3.4 A European semester

In terms of overall socioeconomic governance, it is important to mention that in September 2010 the Council agreed to change the way in which the EU’s Stability and Growth Pact is implemented in order to allow a ‘European semester’ to be introduced, as of 2011. This change is expected to improve economic policy coordination and help strengthen budgetary discipline, macroeconomic stability and growth, in line with the Europe 2020 Strategy. The European semester will start each year in March, when the European Council will identify the main economic challenges and give strategic advice on policies, on the basis of a European Commission report entitled ‘Annual Growth Survey’ (see Figure 2 below). Taking account of this advice, countries will review their medium-term budgetary strategies during April and at the same time draw up NRPs setting out the action they will undertake in areas such as employment and social inclusion (with a view to making progress towards reaching the headline targets). In June and July, the European Council and the Council will provide policy advice to countries before they finalise their budgets for the following year. The Commission’s reports in the following year will then assess how well this advice has been implemented (Frazer et al., 2010).

Whether the architecture of the Europe 2020 Strategy, in the end, represents ‘nothing new under the sun’, or a ‘new start’ for Europe is not entirely clear yet, partly because many of the details of the operation are as yet unknown (see below). At first sight, many of its features, including the recourse to ‘soft law’ mechanisms, look quite similar. This is why Bongardt and Torres (2010) conclude that in essence, the new Strategy does not entail substantive innovation in terms of instruments. It rather tries to strengthen supervision within the pre-existing framework. But it seems clear that the overhaul of the Lisbon Strategy is more radical than most observers had imagined it to be: not only has the number of Integrated Guidelines been drastically reduced (from 24 to 10), but the new Strategy is also intended to address Country-specific recommendations to countries, possibly also in the area of social protection and social inclusion. Furthermore, policy warnings could be issued in case of an inadequate response, and the reporting of Europe 2020 and the Stability and Growth Pact evaluation will be done simultaneously, to bring the means and the aims together (while keeping the instruments and procedures separate and maintaining the integrity of the Pact). In other words, there is a case to
be made that Europe 2020 has toughened some of the Lisbon tools quite considerably. Whether this will benefit the social dimension is something to be discussed in the next section.

Figure 2 Europe 2020: Policy Cycle of the European semester

3. Lisbon and Europe 2020 compared: progress for Social Europe?

Much of the Europe 2020 Strategy still needs to be fleshed out, which makes it difficult to judge what is likely to emerge in practice. Yet this section identifies three sets of changes which are significant from a social perspective.
3.1 A more all-encompassing strategy

Even critical actors highlight that the Europe 2020 Strategy represents, at least in one respect, a return to the original Lisbon Strategy: it provides a rather comprehensive political agenda for Europe. Thus environmental targets are now at the heart of the strategy, and there is even some confusion as to how they relate to the Sustainable Development Strategy, which will continue to operate in parallel. In the field of employment, the Employment Committee indicated that the 10 Integrated Guidelines, in spite of their drastic reduction, allow, by and large, the European Employment Strategy to continue as before. In other words, the ‘slogan at the core of Europe 2020 – ‘smart, sustainable and inclusive growth’ – encompasses substantially more than the growth and jobs slogan of the Lisbon strategy as recast in 2005’ (Begg, 2010).

3.2 Targeting and monitoring: towards ‘hard soft law’?

One of the most striking features of the Europe 2020 Strategy is its insistence on targets, and the monitoring of progress towards these. With respect to the five headline targets, it seems important to underline the fact that, after several failed past attempts by the European Commission to propose a poverty target, the EU Heads of State and Government endorsed a compromise target on 17 June 2010. This followed on from an extensive process of discussion and negotiation, involving primarily the SPC and its Indicators Sub-Group (ISG) as well as the European Commission. According to Frazer and Marlier (2010) ‘the target is less ambitious than many hoped, the fact that the European Commission and all EU countries could adopt it is a major step forward in demonstrating the political social commitment of the

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7. The Social Protection Committee (SPC) is the second advisory body of the EPSCO Council of Ministers, next to the EMCO (see footnote 6). It was set up in 2000 and is formally based on Article 160 TFEU. The SPC is composed of two officials from each Member State (mainly from the national Employment and Social Affairs Ministries) and from the Commission. The SPC has a leading role in the Social OMCC.

8. The target is based on a combination of three indicators: the number of people at risk of poverty, the number of people who are ‘materially deprived’, and the number of people aged 0-59 living in ‘jobless households’. The latter are defined, for the purpose of the EU target, as households where none of the members aged 18-59 are working or where members aged 18-59 have, on average, very limited work attachment (Frazer and Marlier, 2010).
EU. This represents a positive step towards ensuring that social cohesion/inclusion have the same status as the other political priorities outlined in the Europe 2020 agenda, all of which having linked quantified targets.

The next challenge is for each Member State to adopt one or several national and possibly sub-national (outcome) targets. According to the principle of subsidiarity, countries are free to set these targets on the basis of what they consider the most appropriate indicator(s) given their national circumstances and priorities. But the crux of the matter is that there is, in a way, ‘no more escape’: the pressure on Member States to translate each of the agreed headline targets is very considerable, as can be seen from the Commission’s first Annual Growth Survey (CEC, 2011) as well as a variety of (European) Council conclusions (Council of the European Union, 2010c) and Opinions by the relevant EU Committees (EMCO, 2010 a,b,c; SPC, 2010a,b). In interview settings, domestic actors confirm that the process leading up to the adoption of the national targets in the context of the NRP is taken far more seriously than was the case for the NSR within the Lisbon framework (Vanhercke, 2011). A similar push can be noted as regards the monitoring of progress towards achieving the targets: the EMCO and the SPC have started working on a Joint Assessment Framework to this end (EMCO and SPC, 2010a).

3.3 Social protection and social inclusion are ‘back in’

Even though many remain critical vis-à-vis the place given to social issues in the Europe 2020 Strategy, it would seem that it has increased the potential visibility and importance of these issues (e.g. through the poverty headline target), at least in formal terms. Several of the Integrated Guidelines provide a window of opportunity which could be seized by the EU and Member States. In particular Guideline 10 (on ‘Promoting social inclusion and combating poverty’, see Table 2) underlines the role of pensions, healthcare, and public services in maintaining social cohesion. The ‘European Platform against Poverty’ (EPAP) is one of seven ‘flagship initiatives’ orchestrated by the Commission to support the delivery of Europe 2020 (CEC, 2010c).
‘The extension of employment opportunities is an essential aspect of Member States’ integrated strategies to prevent and reduce poverty and to promote full participation in society and economy. Appropriate use of the European Social Fund and other EU funds should be made to that end. Efforts should concentrate on ensuring equal opportunities, including thorough access for all to high quality, affordable, and sustainable services, in particular in the social field. Public services (including online services, in line with Guideline 4) play an important role in this respect. Member States should put in place effective anti-discrimination measures. Empowering people and promoting labour market participation for those furthest away from the labour market while preventing in-work poverty will help fight social exclusion. This would require enhancing social protection systems, lifelong learning and comprehensive active inclusion policies to create opportunities at different stages of people’s lives and shield them from the risk of exclusion, with special attention to women. Social protection systems, including pensions and access to healthcare, should be modernised and fully deployed to ensure adequate income support and services – thus providing social cohesion – whilst remaining financially sustainable and encouraging participation in society and in the labour market. Benefit systems should focus on ensuring income security during transitions and reducing poverty, in particular among groups most at risk from social exclusion, such as one-parent families, minorities including the Roma, people with disabilities, children and young people, elderly women and men, legal migrants and the homeless. Member States should also actively promote the social economy and social innovation in support of the most vulnerable. All measures should also aim at promoting gender equality. The EU headline target, on the basis of which Member States will set their national targets, taking into account their relative starting conditions and national circumstances, will aim at promoting social inclusion, in particular through the reduction of poverty by aiming to lift at least 20 million people out of the risk of poverty and exclusion’ (Council of the European Union, 2010b).

In sum, the new Strategy welcomes some key social dimensions back to its heart (through the headline targets, the Integrated Guidelines and the Flagship Initiatives), after these issues had been removed from the Lisbon Strategy during its 2005 Revision. And yet, this new situation entails some serious risks, as will be explained in Section 4.
4. Be careful what you wish for: risks in relation to Europe 2020

4.1 Pursuing the wrong paradigm

One major critique of the new Strategy is that it focuses on the wrong paradigm (see also section 1.1). Thus Pochet (2010b), speaking on behalf of the European Trade Union Institute (ETUI), largely rejects the overall paradigm associated with Europe 2020, as ‘it seems to have adopted the slogan ‘growth, growth, growth’, in the classic sense (in other words, with no emphasis on the need for growth to be ‘smart’, ‘inclusive’ or ‘sustainable’). In his view the ‘process resembles more of a mutual adjustment between governments (mainly right-wing) wishing to adopt certain reforms and the Commission (DG Ecfin) which would supply complementary arguments, a sort of ‘OECD+’ (Ibid).

According to Hacker and Van Treeck (2010) this new governance structure is based on principles which are too one-sidedly supply-side and represent a market-based understanding of growth. Crucial considerations which are indispensable for an optimal policy mix remain excluded from the ‘European Semester’, such as stricter wage coordination in Europe and mechanisms to balance out external economic asymmetries. For these authors, the new Strategy lacks, among other things, qualitative considerations to complement its quantitative employment goals, such as ‘decent work’, and agreed objectives for areas of social security other than just combating poverty, as well as more ambitious environmental and energy goals. Ultimately, ‘the de facto combination of fiscal surveillance by means of the Stability and Growth Pact with the Europe 2020 Strategy is pursuing a substantially false paradigm’ which ties innovation and social progress one-sidedly to the fulfillment of state debt criteria (Hacker and Van Treeck, 2010).

4.2 The social dimensions subsumed into economic objectives

Member States’ NRPs will be closely linked (synchronised, see Figure 1) to the preparation of national Stability and Convergence Programmes (SCPs), and are expected to focus on macroeconomic stability and ‘growth-enhancing reforms’, as well as on meeting the headline targets,
while concentrating on a limited set of priority measures. Fiscal and macroeconomic surveillance will be conducted by the ECOFIN Council, while ‘thematic coordination’ by other sectoral Council formations (including the EPSCO Council) will focus on progress towards the headline targets and flagship initiatives, together with Member States’ actions to tackle obstacles to achieving these objectives. Country-specific recommendations will be based on the Treaty articles governing the Stability and Growth Pact, the Broad Economic Policy Guidelines and the Employment Guidelines.

Zeitlin (2010) rightly points out that this leaves it uncertain ‘whether and how they will address the implementation of the social inclusion guideline, which also fits uneasily with the predominant emphasis on breaking growth bottlenecks’. In all this, there is a clear danger that the ‘social dimension’ becomes subsumed into the growth objectives of the new strategy, especially in light of the strengthening of the Stability and Growth Pact.

A taste of what this could imply in practice can be found in the June 2010 ECOFIN Council Conclusions on the Europe 2020 Strategy. The Ministers for Finance underlined that: ‘priority should be given to policies at EU and national level that strengthen incentive systems for reaching targets and should be consistent with the fiscal consolidation commitments undertaken in the context of the Stability and Growth Pact. This is particularly important with regard to [...] the social inclusion/poverty target (where increases in employment, for example for groups that are currently socially excluded, should contribute the lion’s share of progress)’ (Council of the European Union, 2010d).

In the same spirit, the Economic Policy Committee (EPC)\(^9\) reported to the ECOFIN Council, after having discussed the draft National Reform Programmes submitted by the Member States in November 2010, that ‘the identification by some Member States of additional bottlenecks was

\(^9\) The Economic Policy Committee (EPC) was set up by a Council decision in 1974 and comprises two delegates from each Member State, the Commission, and the ECB. The EPC contributes to the Council’s work (ECOFIN). The EPC supports the Council with the formulation of the broad economic policy guidelines and contributes to the multilateral surveillance procedure, for example by regular country reviews focused on structural reforms in Member States.
particularly welcome in terms of strengthening national ownership of the NRPs as far as they do not dilute the focus on the key challenges already identified’ (EPC, 2010).

4.3 Pursuing social protection and social inclusion reduced to ‘fighting poverty’

For Zeitlin (2010) one key source of concern is the ambiguous status of the EU’s common social objectives, adopted in 2000 and revised in 2006 within the framework of the Social OMC. One of the headline targets of Europe 2020 is focused on reducing poverty and social exclusion. The other common social objectives for pensions and healthcare enter into the new social inclusion guideline primarily insofar as they contribute to these ‘social exclusion’ goals, even if the latter also refers to the need for modernisation of social protection systems so that they can provide adequate income support and access to healthcare while remaining financially sustainable. Another related issue is that the social inclusion guideline is inserted within the Employment Guidelines, thereby creating further ambiguities as to who will be responsible for monitoring, reviewing, evaluating, and following up its implementation.

In other words, there is clearly a problematic fit between the governance architecture of Europe 2020 and EU social policy coordination as it has developed over the past decade through the Social OMC (Zeitlin, 2010). There is a risk that ‘social protection and social inclusion’ may be reduced to social inclusion alone, while social inclusion becomes narrowly focused on increasing access to employment without addressing the problems faced by those outside it. Thus there is a real risk that the common social objectives may only be incompletely and selectively integrated into the NRPs. Questions can also be raised in this context regarding the Commission’s increased focus on ‘evidence-based social innovation’, which entails, amongst others, attempts to organise ‘policy experiments’, in important areas such as the effectiveness of social assistance schemes (CEC, 2010f).
4.4 An unfinished structure: what role for the Social OMC (and the Platform)

Even though extreme scenarios, according to which the Social OMC would simply be abandoned, have seemingly been rejected, there are still many questions remaining regarding the future operation of the Social OMC. It is far from clear what role some of the key features of the Social OMC (including its indicators, National Strategic Reports and Joint Reports) will play in the new Strategy: will they ‘feed into’ the new process, be replaced by the new structures, or completely abandoned? It is especially unclear how the Social OMC would fare if the NSR on Social Protection and Social Inclusion (which include the NAP/Inclusion) were to be abandoned – as is feared by the European Anti Poverty Network (EAPN, 2010) – since these have played a key role in mobilising a variety of actors at EU and domestic level (especially in the area of social inclusion, far less so for pensions and healthcare). Independent evaluations clearly highlighted that the revision of the Lisbon Strategy had a negative effect on stakeholder participation (INBAS and ENGENDER, 2010), and it would seem hardly credible for the new Strategy to pursue this road, especially in view if the European Council’s (correct) assessment that lack of ownership was one of the weak points of the Lisbon Strategy. Moving even further from a multilateral and mobilising process towards a more bilateral and technocratic process involving limited circles of national and EU bureaucrats, is a dead end street.

Many other criticisms could be made of the Europe 2020 Strategy, but the general picture is clear: in view of the synchronisation of the budgetary, macroeconomic and thematic strands of the new Strategy, there are serious risks involved as regards the social dimension. The question, then, is where do we go from here?

5. Where do we go from here? Safeguarding Europe 2020’s social dimension

Many proposals have been made with regard to the future of the EU’s social dimension. See, for example, the various chapters of the book by Marlier and Natali (2010), which contain a wealth of concrete recommendations. Here we will merely highlight some proposals that
Is the ‘Social dimension of Europe 2020’ an oxymoron?

seem particularly relevant. Section 5.1 discusses a ‘minimal’ scenario, while Section 5.2 develops a more radical response to the current marginalisation of social issues in the European integration process.

5.1 A minimal scenario: strengthen the social affairs players and beef up the relevant instruments

5.1.1 Ensuring a role for the social stakeholders
The social objectives of Europe 2020 are clear from Guideline 10 as well as from other Guidelines. It should be stressed that these goals are not limited to social inclusion but also encompass social protection (pensions and health care). It is therefore essential to give greater force to a ‘broad’ Social OMC, not exclusively geared to poverty and social exclusion, thereby contributing to ‘disambiguating Lisbon’ (Cantillon, 2010). More generally – and more importantly – the EPSCO Council and both of its advisory Committees should preserve a political space in which they can have their say on any EU initiative or development with potential consequences for employment and social policies. This, of course, includes not only topics such as the labour market and social inclusion, but also pensions, healthcare and long-term care, services of general interest, education and climate change. It will be vital that in the future the SPC plays a full and equal role alongside the EU Economic Policy Committee (EPC) and the EU Employment Committee (EMCO) in the overall implementation and monitoring of the Europe 2020 Strategy (see Section 5.1.2, Recital 16 accompanying the Integrated Guidelines).

Importantly, the EPSCO Council as well as its two advisory Committees (EMCO and SPC) have been sending out some clear messages requesting such a role, indicating that the struggle over implementation of the Europe 2020 Strategy has only just begun. Thus, EPSCO and these committees have regularly repeated their Treaty-based mandates, and have announced that they would expand their monitoring activities to ‘other’ (not purely ‘employment’ or ‘social inclusion’) Integrated Guidelines, albeit in dialogue with the Economic Policy Committee (Council of the European Union, 2010e; EMCO, 2010d; EMCO and SPC, 2010b; SPC, 2010a,b).
5.1.2 Ensuring implementation of the Strategy by beefing up the instruments

In view of the many uncertainties that remain as to the new Strategy’s actual implementation, social actors should first of all seize all opportunities with regard to monitoring that are offered by Recital 19\(^{10}\) which accompanies the Integrated Guidelines (Council of the European Union, 2010b). Clearly, monitoring in the context of Europe 2020 should not be limited to the specific EU social inclusion target and related national targets: Member States and the Commission should monitor and report EU and national performances against the full set of commonly agreed social protection and social inclusion indicators. As the European Economic and Social Committee (EESC, 2010) recalls, the Lisbon Treaty, through its Horizontal Social Clause, provides a legal basis for better taking into account the social impact of policies and for using this as a tool to mainstream social objectives across all relevant policy areas (including non-social policies and measures) as well as to more rigorously monitor and report on the impact of policies (Frazer et al., 2010). As a consequence, the EPSCO Council requested the European Commission to strengthen the social component of its Impact Assessment system (Council of the European Union, 2010c); and the EPAP should monitor and report regularly on the use of social impact assessment by Member States in the context of their NRPs.

Secondly, if the Heads of State and Government are serious about their willingness to enhance ownership of Europe 2020, then this calls for greater involvement of stakeholders, in line with Recital 16 accompanying the Integrated Guidelines\(^{11}\). This would require, first of all, an end to speculation about the future of the National Strategy Reports on SPSI, which in turn has brought a great deal of uncertainty concerning the

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10. ‘The Employment Committee and the Social Protection Committee should monitor progress in relation to the employment and social aspects of the Employment Guidelines, in line with their respective Treaty-based mandates. This should in particular build on the activities of the open method of coordination in the fields of employment and of social protection and social inclusion […]’ (Council of the European Union, 2010b).

11. When designing and implementing their NRPs ‘Member States should ensure effective governance of employment policy. While these Guidelines are addressed to Member States, the Europe 2020 Strategy should, as appropriate, be implemented, monitored and evaluated in partnership with all national, regional and local authorities, closely associating parliaments, as well as social partners and representatives of civil society, who shall contribute to the elaboration of NRPs, to their implementation and to the overall communication on the strategy’ (Council of the European Union, 2010b).
channels through which stakeholders will continue to be involved in the policy-making process. These NSRs remain an essential basis, providing the necessary social underpinning to Member States’ NRPs. In addition, Member States and the European Commission should develop guidelines for the involvement of stakeholders, which should be used to monitor Member States’ efforts to organise (quality) stakeholder involvement. In this context it may be worthwhile to explore the possibility – which has been overlooked so far – of introducing legally binding procedural requirements into soft law mechanisms, such as rights to transparency and participation in the Open Method of Coordination.

A third way forward for the social dimensions of Europe 2020 is to secure financial support through the Structural Funds, namely in the context of the recent Budget Review. Indeed, Recital 15 accompanying the Integrated Guidelines reminds us that 'cohesion policy and its structural funds are amongst a number of important delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions' (Council of the European Union, 2010b). The ultimate goal, which ought to be placed at the heart of the next financial perspectives (for the post-2013 period), should be to ensure that the EU social objectives are fully taken into account in EU ‘territorial’ policies and programmes. In other words, obtaining EU Structural Funds (especially from the ESF) should be made conditional on meeting the objectives of the Social OMC (see Verschraegen et al., 2011). As the saying goes: ‘put your money where your mouth is’.

5.2 Towards a paradigm shift

The social affairs players in the EU and the Member States face a difficult task: seizing the opportunities offered by the Europe 2020 Strategy will require mobilisation and joining forces. But at some point, an honest trade-off will have to be made by the same actors, in response to the rather tacky question: do we want to play along? This question arises, more particularly, with regard to the Social Open Method of Coordination. Imagine that by 2015 (or so), it were to become apparent that - in spite of the solemn declarations by the Heads of State and Government and the EU institutions alike – the objectives of the Social OMC are not ‘feeding into’ the Europe 2020 Strategy. Or, similarly, it
could become apparent that the European Commission, in its Annual Growth Survey or through the Flagship Initiative (the Poverty Platform), is treating the EU poverty target as subordinate to the other (employment and especially economic) targets. In such a context, social actors should dare to consider rather drastic scenarios, including withdrawing from the OMC, thus bringing the machinery to a halt.

At the same time, the economic crisis calls upon social actors to envisage more ambitious projects for Social Europe. Thus, with a view to avoiding further competition-induced cutbacks in welfare states, Klaus Busch has proposed a European Social Stability Pact, which would link the size of the welfare state to the economic development level of the Member States. Following a ‘corridor’ model, the idea is that a bandwidth or corridor of social security benefit ratios would be defined for four or five groups of Member States (based on the per capita income). The group of richer countries would have a higher corridor than the group of poorer countries. States can (and have to) move to a higher corridor from a lower one as they catch up economically (Bush, 2009).

For Hacker and Van Treeck (2010), such a Social Stability Pact should encompass Member States’ minimum wages, corporate taxes and social spending, all of which would be coordinated in accordance with their respective economic capacities. The same authors suggest that the ‘Social Stability Pact could be put into effect within the framework of the Europe 2020 Strategy by means of a redesigned OMC, with the Member States reaching agreement on common European target criteria, formulae and development corridors’. Such a redesign ‘would require renouncing the previously predominant non-specific one-size-fits-all approach of the OMC, which took no account of different welfare state arrangements and social policy traditions’, while the democratic control and transparency of OMC should be improved (Ibid).

In sum, the paradigm shift would mean that a (fundamentally transformed) economic stability pact would work together with a Social Stability Pact on an equal footing, thus making social justice and equality a condition of improving economic performance.
Conclusions and outlook

This chapter started by describing how the Lisbon Strategy was weighed on the scales as it approached the end of its term. In spite of the shortcomings of the assessments themselves, the (relaunched) strategy was found wanting (labelled as a failure) by many. While one of the innovations of the Lisbon Strategy, the Open Method of Coordination, has been described as ‘hard politics of soft law’ (Greer and Vanhercke, 2010), these processes could not prevent Member States being very selective in what they took from the Strategy, and what they decided to ignore. After a broad yet contested consultation process, the Lisbon Strategy was buried without a funeral, and replaced by the Europe 2020 Strategy.

The question is, then, whether Europe 2020 will be able to avoid some of the mistakes of the Lisbon Strategy. This chapter pointed to some new opportunities, including a rather all-encompassing political agenda for Europe (to some extent, a return to the original Lisbon Strategy); and an increased (potential) visibility and importance for social issues. ‘Inclusive growth’ is one of Europe 2020’s key objectives; there is the hard-won target, resulting from tough bargaining, of lifting at least 20 million people out of the risk of poverty and exclusion, the European Platform against poverty, and Integrated Guideline 10 on promoting social inclusion and combating poverty. Together with the planned Country-specific recommendations, possibly also in the area of social protection and social inclusion, and the considerable toughening of some of the Lisbon tools, Europe 2020 seems more than ‘just another Lisbon’.

It remains to be seen, however, whether this new framework will ultimately benefit the social dimension. So far, social actors have not been impressed by the way in which the European Commission and Member States alike have tried to ‘create ownership’ in the new strategy. More importantly, the underlying ‘growth, growth, growth’ paradigm of Europe 2020 is being challenged; and there is a very real risk that the social dimensions will become swamped by economic considerations, through the growth objectives of the new strategy and the synchronisation of the preparation of NRPs and the Stability and Convergence Programmes (in the context of a strengthened Stability and Growth Pact). Furthermore, there is a risk that the EU’s coordinating
role with regard to social protection and social inclusion may be reduced to social inclusion alone (see Integrated Guideline 10), while social inclusion becomes narrowly focused on increasing access to the labour market. Finally, the new governance structure raises serious questions regarding the future operation of the Social OMC: even if it is unlikely that it will be completely abandoned, it is not clear whether and under what form some of the key pillars (Common Objectives, NSRs, Joint Reports etc.) will continue, thereby further weakening the ‘social voice’ in Europe.

And yet it seems that such a voice is badly needed. In a recent overview of the impact of public sector pay and employment cutbacks (as a result of the economic crisis), Glassner and Watt (2010) conclude that: ‘Workers in Europe, in both the public and private sectors, are already feeling the effects of pay cuts and losses in income and purchasing power. While the consolidation of public budgets requires a balanced and well-timed mix of both revenue and expenditure side measures, the harsh austerity programmes launched by many European governments are in many cases precipitous and disproportionately based on cuts in social transfers as well as pay and employment cuts in the public sectors. This places an additional burden on workers and their families that is not justified in either economic or ‘ethical’ terms’.

Table 3 below shows a (small) selection of recent austerity measures affecting employment and social security schemes in EU Member States. It seems to confirm the statement by EAPN (2011) that ‘the social impact of the crisis is getting worse today – not just because of recession but because the vast majority of governments have reacted to the economic and financial crisis with the same neoliberal approach: with priority given to reducing public deficits, mainly through austerity cuts in public expenditure, focused on reducing social benefits and public services’.
Is the 'Social dimension of Europe 2020' an oxymoron?

Table 3  Recent austerity measures in employment and social security schemes: selected examples

- In Latvia the government imposed a 15% wage cut across the public sector (spring 2009) while pensions were reduced considerably, e.g. by 10% for old-age pension benefits and 70% for working pensioners. Teachers’ wages were cut by almost one third from September 2009 onwards. Spending on education was reduced by 25% in 2009 compared with 2008.

- In Romania, salaries of public sector employees were cut by 25% from 1 June 2010 onwards. The government plans to cut 100,000 jobs in the public sector.

- In Lithuania, the State Social Insurance Fund will reduce state social insurance pensions by 0.4-12.4 percent depending on an individual’s pension insurance record.

- In Estonia, budget cuts will reduce the planned rise in pension benefits from 14% to 5%. The average pay of public administration workers in this country would have fallen, in 2009, by 15.9%. It decreased by 18.1% in Lithuania and 25.1% in Latvia. The average earnings of workers in health and social services declined by a lesser extent, i.e. 6.3% in Estonia, 9.8% in Lithuania and 19% in Latvia.

- In Ireland, cuts in social welfare payments in the 2010 budget are about 4.2%, including job seeker allowance and child benefit. The Government cut the unemployment assistance rate for young unemployed people unless they undertook training and education.

- In Spain, civil servant pay is being cut by 5%.


And yet it seems that this approach is here to stay for the foreseeable future: during the Extraordinary summit of the European Council on 12 March 2011, the Eurozone leaders decided to sign up to a Competitiveness Pact that will prompt countries to further coordinate their economic and fiscal policies. The demands in the Pact range from lowering wages to match productivity levels to reducing taxes on labour, linking pensions to life expectancy and greater tax policy coordination (European Council, 2011).
In spite of this politico-economic climate, this chapter has suggested some ways forward to strengthen the social dimension of European integration. Some (admittedly, small) improvements could result from safeguarding the role of Social Affairs Ministers and strengthening the instruments of the Social OMC in the context of the Europe 2020 Strategy (strengthening the Social Impact Assessment system, enhancing the involvement of stakeholders, secure financial support through the Structural Funds). A second, more radical strategy would be to choose a new pathway, namely a ‘Social Stability Pact’ that would link the size of the welfare state to the economic development level of the Member States. Obviously, the pathway to such standards will be long and uncertain. Only if political entrepreneurs and other social players join forces will they stand a chance of seizing the (genuine) opportunities offered by the Europe 2020 Strategy. Ultimately, it will also be up to the social players to determine whether the ‘Social dimension of Europe 2020’ is really an oxymoron, or merely an apparent contradiction, which can be overcome.

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European social policy: some thoughts on the case law

Dalila Ghailani

Introduction

This account of the case law of the Court of Justice has taken as its time period that between 1 January and 31 December 2010 and as its subject-matter the various areas which make up social policy. The aim here has been to take stock of a number of judgments which have particularly caught our attention, with no intention whatsoever of being exhaustive and inevitably making a subjective selection.

Certain topics seem to be particularly to the fore in European social policy. We will refer briefly to four of these, which have given rise to significant case law developments in the period under analysis. Combating discrimination is one of these topics. Community law on discrimination is developing essentially through challenges to measures or practices giving rise to different treatment on grounds of age. Age cannot be completely excluded from the criteria for making distinctions between employees, as it is not always an illegitimate consideration. The special nature of the prohibition on age-based discrimination has led to a large number of questions being referred to the Court (Robin-Olivier, 2010). The Wolf, Petersen and Kıcıkdvecci cases, to mention only those, have afforded the Court an opportunity to clarify the matter for us.

Elsewhere, equal treatment of men and women and the protection of women during pregnancy and motherhood have likewise generated significant case law developments. The difficulties associated with the pay implications of measures to protect pregnant workers and workers who have recently given birth or are breastfeeding are particularly well illustrated by the judgments in Gassmayr and Parviainen.
Another topic in the news is that of the organisation of working time. It would be difficult to gloss over the failed revision in 2009 of the 2003 Directive on the organisation of working time, which demonstrated clearly the difficulty in finding compromises acceptable to both the Member States and the European institutions. The European Parliament and the Council in fact failed to reach agreement despite the Commission’s endeavours. However, as soon as the review procedure had come to an end, the Commission issued a fresh consultation of the social partners with the aim of undertaking a complete review of the text of the Directive (CEC, 2010). During this long period of review, the European legislation has remained applicable and the Court of Justice has continued to put it into effect (Robin-Olivier, 2010). The Fuß and Union Syndicales Solidaires Isère judgments are evidence of this activity by the Court and we will return to them in this chapter.

Lastly, flexicurity is still on the agenda in European discourse, generating the spread of ‘atypical’ contracts. These contracts have attracted strong criticism whilst at the same time undergoing regulation which is, if nothing else, dense. The Court’s case law has revealed the importance which this regulation has acquired for the protection of workers (Robin-Olivier, 2010). This can be seen in the Bruno and Pettini judgment on part-time working.

1. Equality and non-discrimination

1.1 The general principle of non-discrimination related to age: Wolf, Petersen, Kücükdeveci

The pressures on the labour market in Europe, when combined with certain demographic facts of life, have led Member States to adopt regulatory measures involving the exclusion of certain categories of workers on grounds relating to age. This is evidenced by the large amount of case law made on the subject in 2010.

The first three cases are set in Germany. Mr Wolf⁴, who had applied for an intermediate career post in the fire service of the Land of Hesse,
aged slightly over 30, was refused access to the selection procedure on
the grounds of the age limit of 30. The Frankfurt Verwaltungsgericht
(Administrative Court), hearing the case, asked the Court of Justice
whether the German legislation was compatible with Council Directive
2000/78/EC establishing a general framework for equal treatment in
employment and occupation (Council of the European Union, 2000).
Finding the contested provision to be the result of the requirement for a
minimum period of service before retirement and a balanced age
structure in the service, the national court enquired whether the setting
of an age limit on recruitment could be justified under Article 6(1)
which allows Member States to establish such differences in treatment
on grounds of age for reasons related to employment policy or vocational
training.

Somewhat surprisingly, the Court of Justice saw fit to base its arguments
on the justification contained in Article 4(1) of the Directive, on genuine
and determining occupational requirements, finding that the
explanations advanced by the German Government in response to the
written questions put by the Court during the proceedings were well-
-founded. Interpreting that article, the Court pointed out that ‘it is not
the ground on which the difference of treatment is based but a
characteristic related to that ground which must constitute a genuine
and determining occupational requirement’ (paragraph 35). In the case
before it, age cannot of itself be a genuine requirement for performing
an intermediate post in the fire service. It is on the contrary necessary
to look at which essential characteristics associated with a maximum
age of 30 can be defined as such genuine requirements, themselves to
be defined. Physical fitness attracted the attention of the Court, which
reasoned in two stages: on the one hand, is this characteristic a genuine
and determining occupational requirement? On the other, is the
objective pursued by the legislation giving rise to the inequality
legitimate and is the requirement proportionate?

As regards pursuit of a legitimate objective, the Court found that the
need to guarantee the operational capacity and proper functioning of
the professional fire service does fall within the article. In relation to the
physical fitness of firefighters as a genuine and determining occupational
requirement, the Court noted that persons in the intermediate career
take part alongside others in fighting fires, suggesting that the possession
of high physical capacities may be regarded as a genuine and determining
occupational requirement. The Court also found that the possession of high physical capacities is related to age. It remained to determine whether setting the limit at 30 years is proportionate to the aim pursued, and the Court held that it is, for reasons of training, length of service and proper management of the age of the workforce. It found that the difference in treatment on grounds of age is justified here on the basis of Article 4(1) of Directive 2000/78/EC.

The Petersen judgment\(^2\), delivered the same day, enabled the Court to specify how a maximum age limit for practising a profession can be justified by public health and employment policy considerations. The case arose from the prohibition which prevented Ms Petersen, a 68-year-old dentist, from continuing to practise under the German Social Security Code by setting 68 as the age limit for panel medical practitioners in the unemployment insurance system. Uncertain as to whether this legislation is compatible with Directive 2000/78, the Dortmund Administrative Court referred to the Court of Justice for a preliminary ruling.

The Court of Justice observed that the age limit in question pursued several objectives, including protection of the health of patients insured under the statutory health insurance scheme. Is such an objective legitimate, when it is known that the measure is based on a supposed decline in ability from a certain age, without taking into account the actual ability of those concerned? Article 6(1) of the Directive is aimed only at social policy objectives such as those relating to employment, the labour market and occupational training. The public health objective does not seem to come into the picture. However, the Court would find that the objective pursued is legitimate in the light, not of Article 6(1) but rather of Article 2(5) according to which: ‘This Directive shall be without prejudice to measures laid down by national law which [...] are necessary [...] for the protection of health’. Given the broad discretion given to Member States in this field, ‘a Member State may find it necessary to set an age limit for the practice of a medical profession such as that of a dentist in order to protect the health of patients’ (paragraph 52). This objective can also justify measures intended to ensure the financial balance of the national health system.

\(^2\) Case C-341/08, Petersen, 12 January 2010, not yet published in the Court Reports.
However, the age limit in question affects only panel dentists, and therefore casts doubt on the consistency of the measure. If the age limit is intended to protect the health of patients, it should cover all patients and not only those of panel practitioners. An age limit affecting only panel practitioners cannot be regarded as necessary for the protection of health within the meaning of Article 2(5).

The other objective adduced to justify the age limit related to the leaving out of employment between the generations in the profession of panel dentists. This is undoubtedly an objective relating to employment policies and therefore falls within Article 6(1) of the Directive. According to the Court such an objective is legitimate and proportionate. Indeed, ‘it does not appear unreasonable for the authorities of a Member State to consider that the application of an age limit, leading to the withdrawal from the labour market of older practitioners, may make it possible to promote the employment of younger ones’ (paragraph 70).

The Court stated that 68 seems sufficiently high to serve as the endpoint of admission to practise, but did nevertheless set a limit: ‘Where the number of panel dentists in the labour market concerned is not excessive in relation to the needs of patients, entry into that market is usually possible for new practitioners, especially young ones, regardless of the presence of dentists who have passed a certain age, in this case 68. In that case the introduction of an age limit might be neither appropriate nor necessary for achieving the aim pursued’ (paragraph 71).

The Kicikdevici judgment, delivered on 19 January, confirmed the existence and extent of a general principle of Community law prohibiting any discrimination based on age. The case challenged the second sentence of Paragraph 622(2) of the BGB (German Civil Code) concerning calculation of a notice period for dismissal which precluded taking into account periods of employment before a worker reached the age of 25. Dismissed by Swedex in 2007, Ms Kicikdevici disputed the refusal to take into account in calculating the notice period the seven years she had worked for the company between the ages of 18 and 25. On referral from the Landesarbeitsgericht Düsseldorf (Higher Labour Court, Düsseldorf), the Court examined whether the objectives advanced to...
justify this difference in treatment based on age are legitimate and whether the means adopted to achieve them are proportionate. The objectives adduced included those of strengthening the protection of workers according to their length of service in the undertaking and of facilitating the recruitment of younger people by increasing the flexibility of personnel management. The Court found those objectives to be legitimate since they belonged to the field of employment policy. Advocate General Bot had taken a different view, finding that setting short notice periods did not favour the vocational integration of young workers and was intended only to give greater flexibility to employers. That objective therefore cannot in his view be regarded as legitimate under Article 6(1) which envisages only general interest objectives. The Court however did not endorse his thesis and took the view that the fact that a measure relates to a general social policy objective seems sufficient.

As regards whether the measure is proportionate, the Court found in terms of the flexibility objective that the legislation does not contribute to achieving the objective since it applies to all workers who joined the undertaking before the age of 25 whatever their age at the time of their dismissal. Nor can the measure be regarded as appropriate to achieving the objective of strengthening the protection of workers according to their length of service in the undertaking, since the extension of the notice period for dismissal is delayed for employees who joined the undertaking between the ages of 18 and 25. The legislation furthermore affects young employees unequally, having a greater impact on those who entered active life early and not those who started work later. Failure to include years worked under the age of 25 in calculating the notice period does therefore constitute discrimination based on age prohibited by Directive 2000/78.

It remained for the Court to rule on the consequences of its finding that such discrimination exists: what should the German court do in response to national legislation contrary to Community law? The question concerns the effect of directives, to which the Court has consistently refused to give horizontal direct effect. If the sufficiently precise provisions of a directive can be relied on against a State, they cannot be relied on against an individual (paragraph 46). In the present case, the requirement to interpret national legislation in conformity with European law cannot not extend to disapplying the very clear provision of German law. The Court would therefore analyse the
situation not in the light of the Directive, but in the light of the general principle of European law prohibiting any discrimination based on age, which does have direct effect. In setting out the grounds for its decision, it followed the same line of argument as in Mangold\textsuperscript{4} Directive 2000/78 does not of itself embody the principle of equal treatment in employment and occupation, which derives from international instruments and the constitutional traditions common to the Member States. The Directive merely gives expression to the principle of non-discrimination based on age considered as a general principle of European law (paragraph 53). The Court went on to refer to the Charter of Fundamental Rights which prohibits amongst other things discrimination based on age (paragraph 22). The Court had already referred to the Charter on previous occasions, but the judgment in Kücükdeveci afforded an opportunity to apply the Charter for the first time since the Lisbon Treaty had given it the same legal value as the Treaties (Kokott and Sobotta, 2010).

It remained to determine the effects of that principle. If it is to be required to conform with Community law, national legislation must fall within its scope of application. That is the case here. The circumstances of dismissal in question in the present case do fall within the scope of Directive 2000/78. The Court therefore found that: ‘it is the general principle of European Union law prohibiting all discrimination on grounds of age, as given expression in Directive 2000/78, which must be the basis of the examination of whether European Union law precludes national legislation such as that at issue’. It was in the light of that discrimination that the Court would examine whether there was any discrimination. Upholding that general principle allows the provisions of Directive 2000/78 to be given horizontal direct effect and enables the national court to set aside national provisions contrary to the principle (Michéa, 2010).

The Kücükdeveci judgment enabled the debate started by the (strongly criticised) Mangold judgment to be brought to a close: the prohibition on discrimination as result of age is a general principle of European law under which the national courts have to disapply any national provision contrary to the principle, within the field of application of Community

\textsuperscript{4} Case C-144/04 Mangold [2005] ECR I-9981.
law. This finding reinforces the scope of the non-discrimination rules. Furthermore, the Member States have great freedom as regards the objectives justifying differences in treatment. The objective does not necessarily have to be stated in the legislation in issue, but may be deduced from the general context of the measure. Furthermore, the Court has accepted the legitimacy of objectives associated with the protection of public health. It is, on the other hand, stricter in monitoring the consistency of the measure and its proportionality (Petersen). Lastly, as Laulom observes, Wolf has brought about a new source of complexity – the fact that whether age limits are lawful can be examined under Article 4(1). Such a justification will however come into play only rarely: age is too general a characteristic. Imposing age limits could lead back to the very stereotypes which the prohibition on discrimination as result of age is intended to combat. The evaluation of physical or intellectual capacity must be individual above anything else and the age criterion should only be allowed in exceptional cases (Laulom, 2010).

Lastly, two other cases relating to discrimination on grounds of age were delivered on 12 October 2010, bringing the issue of the employment of older people before the Court. These were the Rosenbladt and Andersen cases. We will refer to them only very briefly and would invite the interested reader to read the judgments in full.

Ms Rosenbladt, a German worker whose employment contract had been terminated as result of her reaching the retirement age at 65, disputed the termination of her employment contract on the grounds that, according to her, it constituted discrimination on grounds of age. In Germany, the Law on equal treatment establishes that clauses on the automatic termination of employment contracts as a result of the worker reaching retirement age can escape the prohibition on discrimination based on age. Again according to that Law, the power to agree such clauses can be given to the social partners and implemented by collective agreements.

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5. Case C-45/09, Rosenbladt, 12 October 2010, not yet published in the Court Reports.
6. Case C-499/08, Andersen, 12 October 2010, not yet published in the Court Reports.
The Hamburg Labour Court enquired of the Court of Justice whether or not those clauses contravene the prohibition on discrimination on grounds of age under Directive 2000/78. The Court conceded that there was indeed a difference in treatment based on age, and examined whether it was justified. It pointed out first of all that this type of clause is practised in many States and ‘is widely used in employment relationships’. The clause is the reflection of a balance between diverging but legitimate interests, those of employers and workers, closely linked to the political choices relating to employment and retirement. Discrimination on grounds of age is therefore justified. Furthermore, the clause on automatic termination of employment contracts is not based on age alone, but on acquisition of the right to the financial compensation consisting of a retirement pension. For these reasons, amongst others, the clauses on automatic termination of employment contracts, as established in the German legislation in question, do not infringe the Community Directive.

The Andersen case for its part concerned denial of a severance allowance to workers who are eligible for an occupational retirement pension at the time of termination of their contract. In Denmark, workers with 12 years of service in the same undertaking are entitled to a severance allowance. However, the allowance is not paid if at the date of their dismissal the worker is entitled to an old-age pension under an occupational retirement scheme, even if they do not intend to stop working. According to the Court, such legislation does contravene Directive 2000/78. This is a difference in treatment on grounds of age which is not justified ‘objectively and reasonably’, nor proportionate to the objective pursued, in this case, facilitating the transition to a new job.

1.2 Equal treatment for men and women: Roca Álvarez and Brouwer

In the Roca Álvarez case\(^7\), the Court of Justice was called upon to give a preliminary ruling relating to the reconciliation of family and working life from the perspective of equal treatment for men and women.

\(^7\) Case C-104/09, Roca Álvarez, 30 September 2010, not yet published in the Court Reports.
Having requested from his employer the breastfeeding leave established by the Workers’ Statute (Estatuto de los Trabajadores) for the parents of children under nine months, Mr Roca Álvarez was refused the right to take that leave on the grounds that the child’s mother was not herself an employed person. Hearing the case on appeal, the Tribunal Superior de Justicia de Galicia (High Court of Justice of Galicia) found that the 1900 provision was originally intended to enable breastfeeding by allowing women to be absent during the working day or to reduce its duration. However, this legislation has been renewed and detached from the biological fact of breastfeeding and must therefore be regarded as time devoted to the child. From that point of view, the legislation establishes that the leave in question can be taken by the mother or by the father without distinction, where both work. The High Court of Justice of Galicia observed that in this context the fact that the father’s right to the so-called ‘breastfeeding’ leave is dependent on the right of the mother, who must herself be an employed person within the meaning of the legislation, amounts to denying employed fathers entitlement to the leave in their own right. That court stayed the proceedings and referred to the Court of Justice as to whether this situation is compatible with Directive 76/207/EC on implementation of the principle of equal treatment for men and women in matters of employment and occupation (Council of the European Communities, 1976).

The Court of Justice found that there is difference in treatment between the sexes. The measure offers and reserves the right to the leave to all mothers having the status of employed persons. Fathers only have the right on two conditions: both parents must work and the child’s mother must herself be an employed person. The fact of being a parent is not sufficient to gain entitlement to leave (paragraph 23). According to earlier case law, the positions of the father and mother of a young child are comparable with regard to their possible need to reduce their daily working time in order to look after their child§.

Can this difference in treatment be justified? Directive 76/207 does in fact provide that there may be different treatment if its purpose is to ensure the protection of women in connection with pregnancy and maternity or to promote equal opportunity for men and women in the

light of existing inequalities. Any concern to protect the woman’s biological condition and the special relationship between mother and child is easily dismissed since the Spanish court had already pointed out that the provision has become detached from the practice of breastfeeding. The Court of Justice likewise rejected the justification based on reducing de facto inequality in women’s professional careers. The fact of reserving the right to leave to mothers with the status of employed persons is ‘liable to perpetuate a traditional distribution of the roles of men and women by keeping men in a role subsidiary to that of women in relation to the exercise of their parental duties’ (paragraph 36). Furthermore, this could have the effect that a woman, such as the mother of Mr Roca Álvarez’s child, who is self-employed, would have to limit her self-employed activity and bear the burden resulting from the birth of her child alone (paragraph 37). The Court therefore held that the Spanish provision is incompatible with Directive 76/207.

We shall dwell only very briefly on the Brouwer judgment9 delivered on 29 July, which afforded the Court an opportunity to reaffirm the principle of equality between men and women in a different sphere, that of the calculation of retirement pensions. In Belgium for the years 1984 to 1994, the calculation of old-age and retirement pensions for female frontier workers, concerning equal work or work of equal value, was based on notional and/or flat-rate daily wages lower than those for male frontier workers. The Court held that such legislation was contrary to Article 4(4) of Directive 79/7 on the progressive implementation of the principle of equal treatment for men and women in matters of social security (Council of the European Communities, 1979).

1.3 The protection of pregnant women and those who have recently given birth: Parviainen and Gassmayr

These two judgments ruled on the interpretation to be given to the concepts of remuneration and adequate allowances contained in Article 11 of Directive 92/85/EEC on the introduction of measures to encourage improvements in the safety and health at work of pregnant

9. Case C-577/08, Brouwer, 29 July 2010, not yet published in the Court Reports.
workers and workers who have recently given birth or are breastfeeding (Council of the European Communities, 1992).

In Parviainen\textsuperscript{10} an air hostess brought proceedings against the Finnish airline employing her in respect of the remuneration she was paid when she was temporarily transferred to ground work for safety reasons during her pregnancy. As an air hostess and purser, 40\% of her remuneration consisted of various allowances (for seniority, night work, work on Sundays, long-haul flights). In accordance with the rules of the airline, her remuneration during the temporary transfer was calculated by adding to the employee’s previous basic salary a pay supplement corresponding to an average of the allowances paid to all air hostesses and stewards in the same pay grade, which for the applicant resulted in a reduction in her income.

In the Gassmayr case\textsuperscript{11} for its part, an Austrian doctor brought an action against the hospital employing her concerning the refusal to take into account allowances for on-call duty, included in the applicant’s remuneration until she stopped work, in calculation of the adequate allowances paid to the worker who was at that time pregnant and prevented from working on health grounds and then during her maternity leave. Since on-call duty overtime represents a significant part of the remuneration of junior hospital doctors, Ms Gassmayr claimed that the adequate allowance in question should include an average of the on-call duty allowances paid over an earlier period. The hospital declined on the grounds that payment of that type of allowance was absolutely not a flat-rate emolument since it was intended only to remunerate actual extra work.

The Finnish and Austrian national courts therefore referred to the Court of Justice for clarification of the obligations under Article 11 of Directive 92/85. Articles 11(1) and 11(2) guarantee to pregnant workers who, for safety reasons, have to accept a move to a different job or, where such a move is impossible, have to be granted leave, and workers on maternity leave ‘maintenance of a payment and/or entitlement to an adequate allowance’. The sole clarification as to the level of payment is

\textsuperscript{10} Case C-471/08, Parviainen, 1 July 2010, not yet published in the Court Reports.

\textsuperscript{11} Case C-194/08, Gassmayr, 1 July 2010, not yet published in the Court Reports.
contained in Article 11(3), which relates only to maternity leave, according to which the allowance is deemed adequate ‘if it guarantees income at least equivalent to that which the worker concerned would receive in the event of a break in her activities on grounds connected with her state of health’. After confirming that Article 11 does have direct effect (Gassmayr, paragraphs 43-53), the Court would make the necessary clarifications, although not without first pointing out that Article 11 under no circumstances guarantees entitlement to maintenance in full of the earlier pay, whichever period one is looking at during the pregnancy or maternity leave.

To ascertain the relevant level of remuneration, in contrast, one must according to Community law differentiate depending on the period concerned. During the pregnancy, when the worker is in principle still at work (Article 11(i)), a distinction must be made depending on whether she is, for safety reasons, temporarily transferred to a different job or whether she is granted leave. In the first situation, according to the Court, the pregnant worker must continue to be paid the basic salary under her employment contract. In terms of allowances, what is payable depends on the type of allowance. The employee is entitled to ‘allowances which relate to her professional status such as, in particular, her seniority, her length of service and her professional qualifications’ (Parviainen, paragraph 60). Conversely, the Court declined to uphold the right to maintenance of pay components or allowances dependent ‘on the performance [...] of specific functions in particular circumstances and which are intended essentially to compensate for the disadvantages related to that performance’ (Gassmayr, paragraph 65). The Court also stated that the remuneration paid to a pregnant worker following a move to a different job could not be less than that paid to workers in the job to which she is temporarily transferred, both in relation to salary and the allowances relating to that job. In the case under analysis, from the outset Ms Parviainen could not claim maintenance of her allowances. It is therefore for the national court to ascertain whether the arrangements intended to supplement the basic salary by a flat-rate average of the allowances paid to flight personnel in the same grade prejudices the applicant’s rights under the Directive.

Where leave is granted during the pregnancy, the same principles apply, as illustrated in Gassmayr, which refers expressly to Parviainen. Since the allowances relating to the job are excluded from the
entitlements guaranteed by the Directive in the case of temporary transfer, the same applies to on-call duty allowances, which are not extra flat-rate allowances and are intended exclusively to compensate extra work where the worker is called upon outside their normal working hours.

The issue of the amount of allowances paid during maternity leave was raised in Gassmayr: should the on-call duty allowances usually paid to the worker be taken into account in determining the level of remuneration or of the adequate allowance to which the Directive refers? Here again, the Court declined to interpret Article 11(2) as affording a right to maintenance of the earlier pay in full in so far as Article 11(3) establishes a more detailed rule than in the earlier situations – the worker is entitled to receive income at least equivalent to the allowance established by national legislation in the case of sick leave. The Directive establishes only the minimum protection, and does not prevent Member States from offering more favourable conditions. The Austrian system entitled Ms Gassmayr to maintenance of her full salary with the exception of on-call duty allowances, which went beyond the minimum and had to be upheld by the Court (Jacqmain, 2010).

2. Working conditions

2.1 The organisation of working time: Union Syndicale Solidaires Isère, Fuß

In the first case, Union Syndicale Solidaires Isère (the Solidaires Isère association of trade unions) brought proceedings claiming misuse of powers before the French Conseil d’État (Council of State) against an implementing decree relating to educational commitment contracts, implementing the Law on association-based voluntary service and educational commitment. These contracts cover the casual seasonal involvement in the duties of activity leader or director in an educational centre for children organised during school holidays and at other times. The French legislation establishes on the one hand that the cumulative

12. Case C-428/09, Union Syndicale Solidaires Isère, 14 October 2010, not yet published in the Court Reports.
duration of contracts entered into by the same person cannot exceed 80 days in a period of 12 consecutive months and on the other hand that a person employed under the contract must have a weekly rest period of not less than 24 consecutive hours. The legislation is, conversely, silent as regards the daily rest period, the fact being that the contract in question is not subject to the provisions on working time in the Labour Code. Is such legislation therefore compatible with the requirements relating to rest periods contained in Directive 2003/88 concerning certain aspects of the organisation of working time (Council of the European Union, 2003)?

The Court was first asked whether the Directive is applicable to educational commitment contracts: do those activities fall within the scope of the Directive and do persons employed under those contracts have true status as workers? The Court had already had occasion to assert that the scope of the Directive must be interpreted widely and that exceptions must be interpreted restrictively. Further, persons employed under the contracts are indeed workers within the autonomous meaning of the term specific to European Union law. It is irrelevant that those persons may work under fixed-term contracts or are only partially subject to the Labour Code. The European criteria for defining a worker are satisfied – a person who...

Then came the issue of whether the decree is compatible with the requirements of the Directive relating to rest periods. Article 3 of the Directive provides that the Member States must guarantee to all workers entitlement to a minimum rest period of 11 consecutive hours in each 24-hour period. There are however exceptions to this provision, set out in Article 17. The fact that the decree is silent as to the daily rest period clearly contravenes Article 3. Yet are educational commitment contracts covered by any derogations? According to the case law established in Jaeger13, the derogations must be interpreted strictly: persons employed under the contracts do not fall within the category of workers whose working time is not measured or predetermined (executives with autonomous decision-making powers, family workers,

workers in religious communities) set out in Article 17(1). On the other hand, the Court does concede that their activity can be treated as a security and surveillance activity requiring a permanent presence in order to protect property and persons as referred to in Article 17(3)(b). This derogation is however subject to a requirement that ‘the workers concerned are afforded equivalent periods of compensatory rest or that, in exceptional cases in which it is not possible, for objective reasons, to grant such equivalent periods of compensatory rest, the workers concerned are afforded appropriate protection’ (Article 17(2)).

According to Jaeger, the compensatory rest period requirement means that the worker must be entirely free to dispose of their time and the rest periods must follow on immediately from the working time for which they are supposed to compensate. The provision establishing that the contracts are limited to 80 days in one year quite clearly does not satisfy the requirement for compensatory rest periods. Nor is the Court persuaded by the arguments of the French Government that the activities of staff at holiday and leisure centres are exceptional cases in which compensatory rest periods cannot be granted on grounds that the staff are required to supervise the children day and night. Nor is it persuaded by the fact that the ceiling of 80 days’ work in one year is a measure affording appropriate protection.

In the past the Court of Justice has favoured employees on the issue of working time and it has continued in that vein, holding firmly that national legislation which does not allow ‘workers to enjoy the right to a daily rest period for the entire duration of the employment contract, even if the contract concerned has a maximum duration of 80 days per annum, not only nullifies an individual right expressly granted by that directive but is also contrary to its objective’ (paragraph 60). One must recall the health and safety objective pursued by the Directive. Depriving workers of daily rest periods is in the Court’s view tantamount to placing them in danger.

The judgment in Fuß, delivered the same day, enabled the Court to draw attention to the direct effect of the rule imposing a 48-hour

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15. Case C-243/09, Fuß, 14 October 2010, not yet published in the Court Reports.
maximum on the duration of weekly working time, and to restate the
rights of workers if it is contravened. Mr Fuß, a firefighter with officer
grade, employed in 2007 on operational duties in the fire prevention
and protection section of the fire service of Stadt Halle in the Land of
Sachsen-Anhalt, refused to submit to the work roster set at 54 hours a
week. His superiors therefore transferred him to a central control room
where the weekly working time was 40 hours. Refusing this compulsory
transfer, Mr Fuß brought proceedings before an administrative tribunal
claiming contravention of Directive 2003/88. Stadt Halle, for its part,
argued that the purpose of the transfer was solely to meet the
firefighter’s request and not to punish him, before it reviewed the entire
organisation of the service to bring it into line with the requirements of
the Directive.

Unsuccessful at first instance, Mr Fuß brought proceedings before the
Verwaltungsgericht Halle (Administrative Court, Halle) which referred
to the Court of Justice on the interpretation to be given to
Article 22(1)(1)(b) as regards the outcome for employees who refuse to
work under conditions derogating from the rule in Article 6. The Court
would however reword the question, finding that the national authorities
had not availed themselves of the derogation under Article 22. It
therefore focused on Article 6(b) which requires that ‘the average
working time for each seven-day period, including overtime, does not
exceed 48 hours’.

On the matter of whether or not contravention of Article 6(b) depends
on detriment suffered by the worker relying on the provision, the Court
replied that it did not. The maximum weekly working time is a
particularly important rule of European Union employment law which
does apply to firefighting. Nor moreover does Article 17(3) establish any
derogation for this type of activity and neither the Federal Republic nor
Land Sachsen-Anhalt had, at the time of the facts, availed itself of the
possibility of derogation under Article 22. The Court concluded that
exceeding the maximum working time laid down by Article 6 of itself
contravenes the rule, irrespective of whether or not there was any
detriment.

On the consequences for individuals of this contravention, the Court
had already held that the provision had direct effect, since the
obligation is unconditional and sufficiently precise to confer rights
which can be directly relied upon by individuals against the State or decentralised public authorities on expiry of the time-limit for its transposition. The requirement to ensure implementation in full of Article 6 and the fundamental right to effective judicial protection prompted the Court to reproach the practice of transferring a worker who relies on application of the rule against an authority which has failed to comply with its obligation to transpose it: ‘the effect of a compulsory transfer such as that in the main proceedings deprives of all substance [...] the right [...] conferred by Article 6(b) [...] of Directive 2003/88’.

That response should prompt the German court to set aside the transfer decision. In the meantime, the legislation applicable in the operational service was amended in 2007 to reduce the average maximum working time to 48 hours and activate the option to derogate under Article 22(1).16

2.2 The rights of part-time workers: Joined Cases Bruno and Pettini

Continuing its work to ensure the effectiveness of social rights established by the European directives resulting from framework agreements, the Court has ruled on the rights of part-time workers and on the Italian system for calculating periods of service for the purposes of defining their pension rights17.

Bruno and Pettini are employed as cabin crew members by Alitalia. They brought proceedings claiming that their contributions for the purposes of welfare benefits should be the same as the total number of weeks in the period of part-time work. They stated that they had requested and been granted conversion of their full-time employment contracts into part-time employment contracts, known as ‘vertical-cyclical’ contracts. The ‘vertical-cyclical part-time’ arrangements are a method of organisation under which the employee works only during

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17. Joined Cases C-395/08 and C-396/08, Bruno and Pettini, 10 June 2010, not yet published in the Court Reports.
certain weeks or certain months of the year, on full or reduced hours. Accordingly, they worked during certain months of the year and not during others. The National Institution for Social Welfare (INPS) took the view that only the periods worked could be contribution periods for pension purposes, to the exclusion of periods not worked.

Having been ruled against at first instance, the INPS appealed the decision asserting that, under the Italian legislation, the weekly contributions which must be taken into account for the purposes of retirement benefits are those for which remuneration was effectively paid (or which are recognised as such for that purpose). The Rome Court of Appeal stayed the proceedings and referred to the Court of Justice: in the case of vertical part-time work, is legislation which excludes periods not worked from calculation of the period of service required to acquire entitlement to a retirement pension compatible with Articles 1, 4 and 5 of Directive 97/81 concerning the Framework Agreement on part-time work concluded by the social partners (Council of the European Union, 1997)?

Before tackling the merits, the Court dwelt first on whether the Directive is applicable in the case brought before it. Since it relates to pension rights, the substantive scope posed a problem in so far as the Framework Agreement covers only employment conditions. In the absence of any clarification in the text or its sources, the Court would opt to analyse the notion systematically and to interpret the term broadly by reference to the fundamental objectives of European social policy which seek the improvement in living and working conditions for workers and their protection from discrimination, which must include the right to remuneration.

Can the pensions in question fall within the general definition of remuneration? The Court based itself on its earlier case law founded on ex-Article 141 enshrining equal treatment of men and women in relation to pay: pensions are treated as pay and fall within the definition of working conditions if entitlement to them derives from an employment relationship. Pensions associated with statutory social security schemes are therefore excluded even where linked to the occupational activity. There are additional cumulative criteria alongside this main criterion: pensions are linked to an employment relationship
if they concern only a particular category of workers, are directly related to the period of service completed and their amount is calculated by reference to the last salary. The Court leaves the interpretation to the Italian court pointing out that neither the nature of the INPS, its activity as manager of the Social Security system nor the public ownership of Alitalia are decisive factors.

The other difficulty concerning the admissibility of the Directive related to its temporal scope. The Court has confirmed that calculation of the period of service required to acquire pension rights is governed by Directive 97/81, including periods worked prior to the date on which it came into force. New rules apply, unless specifically provided otherwise, immediately to the future effects of a situation which arose under the old rule.

The Court then came to the substantive issue – does the method of calculating periods of service used by the INPS for workers with vertical-cyclical part-time arrangements contravene the principle of non-discrimination between full-time and part-time workers contained in Clause 4 of the Framework Agreement?

First, the Court examined whether the fact that periods not worked by part-time workers are excluded from calculation of the period of service leads to them being treated less favourably than full-time workers in comparable situations. It started by pointing out that: ‘For a full-time worker, the period taken into account in calculating the qualifying period of service is the same as that of the employment relationship. By contrast, for vertical-cyclical part-time workers, the period of service is not calculated on the same basis, since it is calculated only by reference to the duration of the periods actually worked, taking account of the reduction in working hours’ (paragraph 61). In the view of the Court, this amounts to a difference in treatment based solely on the fact of part-time work. It observed that for a period of employment of 12 consecutive months a full-time worker qualifies for one year’s period of service for the purposes of determining his or her pension entitlement. The part-time worker will be credited for the same period with a period of service of only 75% of that of their full-time colleague. Although their employment contracts are in effect of equivalent duration, one acquires a qualifying period of service for the retirement
pension more slowly than the other. Having found that legislation such as that in issue in the main proceedings treats vertical-cyclical part-time workers less favourably than full-time workers, for the sole reason that they work part-time, the Court asked itself whether that difference could be justified by objective reasons.

Both the INPS and the Italian Government justify that difference in treatment on the basis that vertical-cyclical part-time contracts of employment are, under Italian law, treated as suspended during the periods not worked, with no remuneration or contributions being paid during those periods.

Although the Court was doubtful whether the applicants’ line of argument was relevant, it found that ‘it is for the referring court, to the full extent of its discretion under national law, to interpret and apply national law in conformity with the requirements of European Union law and, where such an interpretation is not possible, to disapply any provision of domestic law that would be contrary to those requirements’ (paragraph 74).

Accordingly, contrary to the Advocate General’s Opinion, the Court of Justice ruled that: ‘With regard to retirement pensions, Clause 4 of the Framework Agreement on part-time work [...] must be interpreted as precluding national legislation which, for vertical-cyclical part-time workers, disregards periods not worked in calculating the period of service required to qualify for such a pension, unless such a difference in treatment is justified on objective grounds’.

By casting doubt on the lawfulness of the method of calculating pension rights for vertical-cyclical part-time workers, the European judges have raised the issue of the definition of vertical-cyclical part-time work in the Italian system and the statutory provisions applicable to it, which will inevitably have repercussions in Italian employment law

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See also, on the applicability of the Framework Agreement to fixed-term work, Case C-98/09 Sorge, 24 June 2010, not yet published in the Court Reports, and Zentralbetriebsrat der Landeskrankenhäuser Tirols of 22 April on part-time work, C-486/08.
3. Rights and obligations of workers and employers

3.1 Collective representation of employees in the event of a transfer of an undertaking: Federación de Servicios Públicos de la UGT

Federación de Servicios Públicos de la UGT\(^9\) gave the Court an opportunity to interpret for the first time the definition of autonomy within the meaning of Article 6(1) of Directive 77/187/EEC on the safeguarding of employees’ rights in the event of transfers of undertakings (Council of the European Communities, 1977). It was necessary to explore the meaning of Article 6(1) of the Directive according to which if the transferred undertaking retains its autonomy, the employees’ representatives concerned by the transfer are preserved on the same terms after the transfer. The dispute was between a municipal authority in Andalusia and the Public Services Federation of UGT (one of the biggest Spanish trade unions). Following a municipal decree taking over in-house the outsourced public caretaking, cleaning and maintenance services for various public facilities entrusted until then to four private undertakings, the former employees had all been integrated into the staff of the municipal authority and assigned to the same duties as under their previous employer. There were no significant changes to the organisation of the work with the exception of the addition at the top of the hierarchy of competent municipal councillors and the mayor. Following the refusal by the municipal authority to allow the former employees’ elected representatives time off in which to carry out their duties in accordance with their status, the UGT-FSP trade union brought proceedings before the employment court to assert the representatives’ rights.

The Court of Justice first ascertained that it was indeed dealing with a transfer of an undertaking within the meaning of Article 1. It called to mind its settled case law establishing as the principal criterion for a transfer that the economic entity must retain its identity, whilst also entertaining broader forms of transfer. Although the Directive does not refer to transfers by legal transfer or merger, transfers resulting from unilateral decisions of public authorities are also covered by the

\(^{9}\) Case C-151/09, Federación de Servicios Públicos de la UGT, 29 July 2010, not yet published in the Court Reports.
provisions\textsuperscript{20}. At the same time, although traditionally the identity of the entity transferred consists of an organised grouping of persons and assets enabling the exercise of an economic activity which pursues a specific objective, the Court had in the past already accepted that in certain sectors an economic entity could function without significant tangible or intangible assets\textsuperscript{21}. This does occur with labour-intensive activities. There is therefore a genuine transfer of an undertaking in the case in question.

The Court then focused on whether the retained activities preserve their autonomy within the new entity which has taken them over, in accordance with the criterion in Article 6(1). What is interesting about the judgment resides entirely in interpretation of this article. The Court stressed the meaning and impact of the term ‘autonomy’ in relation to the ‘identity’ referred to in Article 1. ‘Autonomy’ means all the powers to organise the activity and manage workers given to those in charge of the economic entity. Autonomy is preserved within the meaning of the Directive ‘if, after the transfer, the organisational powers of those in charge of the entity transferred remain, within the organisational structures of the transfeee, essentially unchanged as compared with the situation pertaining before the transfer’ (paragraph 44). In other words, the transferred entity must not blend into the activities of the transfeee. The Court underscores the importance of the fact ‘that all of those in charge of the entity transferred can exercise the organisational powers which they held previously, prior to the transfer, vis à vis other organisational structures of the new employer’ (paragraph 47). Where that occurs, it is irrelevant that certain organisational powers internal to the entity are redistributed or that a new tier of management is added provided it does substitute its own decision-making for that of those previously in charge, save exceptionally in urgent situations. Much to the disappointment of the Spanish public authorities, the Court is not persuaded either by the additional cost represented by paying for time off for trade union duties granted to the employees’ representatives, or the double representation and the difference in treatment arising temporarily within the staff of the municipality.

\textsuperscript{20} Case C-343/98 Collino and Chiappero [2000] ECR I-6659.

The Court defines autonomy on the basis of the functioning of the undertaking and requires the courts to look both at the economic and managerial organisation of the undertaking or establishment transferred before ruling on the consequences ensuing from the transfer. It discharged the duty incumbent on it when a provision of Community law makes no express reference to the law of the Member States for the purposes of determining its meaning and scope, and the need for uniform application of Community law and the principle of equal treatment call for an autonomous and uniform interpretation of the provision.\(^\text{22}\)

Let us point out very briefly that another judgment also relating to the applicability of Directive 2001/23/EC was delivered on 21 October 2010 in *Albron Catering BV*\(^\text{23}\). A central employer within a group of Dutch companies posted staff to various companies in the group. An employee who on that basis worked for a catering supplier whose activity was then transferred to a different undertaking with which the person concerned then entered into service, sought a ruling that the transfer of the catering supply activities should be treated as a transfer of an undertaking giving entitlement to the protection under Directive 2001/23/EC of 12 March 2001. Hearing a reference for a preliminary ruling, the Court of Justice found that in the case of a transfer within the meaning of Directive 2001/23/EC of an undertaking belonging to a group to an undertaking outside that group, it is also possible to regard as a ‘transferor’ within the meaning of Article 2(1)(a) of that Directive, the group company to which the employees were assigned on a permanent basis without however being linked to the latter by a contract of employment, even though there exists within that group an undertaking with which the employees concerned were linked by such a contract of employment.

3.2 The protection of employees' representatives by collective agreements: *Holst*

*Holst*\(^\text{24}\) allowed the Court to establish that the Directive on informing and consulting employees could be transposed by means of collective agreements.  

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\(^{22}\) Laetitia Driguez, note at ECJ, 29 July 2010, C-151/09, *Europa* 2010, commentary 338.

\(^{23}\) Case C-242/09, *Albron Catering BV*, 21 October 2010, not yet published in the Court Reports.

\(^{24}\) Case C-405/08, *Holst*, 11 February 2010, not yet published in the Court Reports.
agreements of general application provided the guarantee afforded to employees’ representatives in those agreements affords a minimum threshold of protection.

In Denmark, LO and DA, two major trade union and employers’ confederations, entered into a cooperation agreement, the ‘Samarbejdsaftalen’, which comprised one of the measures transposing Directive 2002/14/EC establishing a general framework for informing and consulting employees in the European Community (Council of the European Union, 2002). The agreement provides amongst other things for the creation of cooperation committees in companies with more than 35 employees. According to the agreement, the notice period for dismissing an employees’ representative not already enjoying protection as a union representative is six weeks over and above that under the collective agreement.

Mr Holst, a project engineer working for BWV, has the status of a salaried employee. As such, he enjoys the protection against unfair dismissal under the national legislation (known as the ‘FL’) and on such an occurrence can claim compensation of up to 6 months’ salary. In 2001 he was also elected to the BWV cooperation committee. He is lastly a member of IDA, the Danish federation of engineers which is not a member of LO and has not entered into any collective agreement with BWV. IDA is therefore not a party to the Samarbejdsaftalen. On 24 January 2006 BWV gave Mr Holst notice of dismissal, in the context of a downsizing of the company, giving six months’ notice. Acting on behalf of Mr Holst, IDA brought proceedings before the Esbjerg District Court (Byretten i Esbjerg) seeking damages under the ‘FL’ claiming that his dismissal was not based on objective reasons. It also asserted that Mr Holst, as an employees’ representative on the cooperation committee, was entitled to enhanced protection against dismissal, under Article 7 of Directive 2002/14/EC. Unsuccessful at first instance, IDA appealed to the Western Regional Court (Vestre Landsret), which stayed the proceedings and referred to the Court of Justice for a preliminary ruling.

The Court was first asked as to the scope of the transposition of a directive by means of a collective agreement: can a collective agreement relating to the creation of cooperation committees apply to Mr Holst when he is not a member of a trade union which is party to the
agreement or is affiliated to the trade union which is a party to the agreement? On the basis of Article 11(1) of Directive 2002/14/EC, the Court of Justice pointed out that the Member States can leave it to management and labour to establish the provisions necessary to transpose the Directive. Furthermore, the Directive enables the Member States to give a leading role to management and labour, by allowing them to define freely, by agreement, the arrangements for informing and consulting employees which they consider to be best suited to their needs. However, that possibility does not discharge the Member States from the obligation of ensuring, by appropriate laws, regulations or administrative measures, that all workers are afforded the full protection provided for in the Directive. That State guarantee must cover all cases where protection is not ensured by other means, in particular where the absence of protection is due to the fact that the workers are not union members. The Court found that the fact that a person is not a member of a trade union which is a party to the collective agreement does not of itself have the effect of removing that person from the legal protection conferred by the collective agreement in question. The Court therefore found that Directive 2002/14/EC does not preclude a worker who is not a member of a trade union which is a party to a collective agreement from benefiting under that agreement from the protection granted by it.

The Court was then asked as to the interpretation to be given to Article 7 of the Directive which provides that: ‘Member States shall ensure that employees’ representatives, when carrying out their functions, enjoy adequate protection and guarantees to enable them to perform properly the duties which have been assigned to them’. In the Court’s view, it is not apparent from either the wording or the spirit of Article 7 of Directive 2002/14/EC that employees’ representatives must necessarily be granted more extensive protection against dismissal. What is more, since the Directive establishes only a general framework setting minimum requirements, the Community legislation intended to leave broad discretion to the Member States and to the social partners to adopt protection measures and guarantees in relation to employees’ representatives. That discretion on the part of Member States is not, however, unlimited. The Court furthermore found that although Directive 2002/14/EC does not require that the protection granted to employees’ representatives by implementing legislation or by a collective agreement concluded in order to transpose the Directive be
identical, that protection must nevertheless comply with the minimum threshold under Article 7. It points out that the dismissal of an employees’ representative on grounds of that status is incompatible with the protection conferred by Article 7 of the Directive and, therefore, ‘An employees’ representative who has been the subject of a dismissal decision must [...] be in a position to ascertain, in the context of the appropriate administrative or judicial proceedings, whether that decision was taken on grounds of his status or performance of his functions as a representative and adequate sanctions must be applicable should it transpire that there is a connection between that representative’s status or functions and the measure dismissing him’ (paragraph 59).

In the Court’s view, a collective agreement providing for protection of employees’ representatives lower than that which the legislature considers necessary in implementing legislation to meet the minimum threshold of protection under Article 7 would not comply with that threshold. However, the question of whether the protection afforded by a collective agreement is lower than that afforded by the implementing legislation must be examined in the light of all the relevant national legal rules. It will be for the referring court to ascertain whether Mr Holst’s dismissal was unfair and whether the provisions applicable to him are such as to ensure effective protection of his rights under Directive 2002/14/EC and Article 7 in particular. That effective protection ‘cannot be guaranteed if only employees on the cooperation committee who are members of a union which is a party to the collective agreement in question can ensure that their dismissal is not due to their status or functions as employees’ representatives’ (paragraph 65). The national court might therefore find that the enhanced notice period under the agreement combined with the protection against unfair dismissal afforded to any employee under the general law is sufficient to reach that threshold and not require, as the implementing legislation does, examination of whether there is a compelling reason for dismissal.

25. L. Driguez, observations at ECJ, 11 February 2010, Holst, C-405/08, Europe 2010, commentary 140.
Conclusions

2010 saw intense activity by the Court. The questions referred to it for a preliminary ruling enabled it to perform its role of interpreting Community law, thereby ensuring uniform application of European legislation throughout all the Member States. The principle of non-discrimination based on age was explored in greater depth (Wolf, Petersen, Kücke dveci) and the issue of the reconciliation of family and working life was revisited from the perspective of equal treatment of men and women (Roca Álvarez, Parviainen, Gassmayr). The questions relating to the organisation of working time and atypical contracts were examined once more (Holst, Fuß, ...). This work of interpretation will no doubt continue in 2011.

In Defossez\textsuperscript{26}, the Court will rule on interpretation of Directive 89/987/EEC on the protection of employees in the event of the insolvency of their employer, as amended by Directive 2002/74/EC, as regards ascertaining the competent guarantee institution for the payment of claims.

The case of CLECE SA\textsuperscript{27} will enable the Court to enlighten the referring court as to whether Directive 2001/23 on the approximation of the laws of the Member States relating to the safeguarding of employees’ rights in the event of transfers of undertakings, businesses or parts of undertakings or businesses covers a situation in which a municipal authority which had previously engaged a private undertaking to clean its premises, then terminated that contract in order to carry out the cleaning itself, on that occasion recruiting only new staff. From a legal point of view, the case raises the question of the scope of that European Directive, and the Court must examine here whether the requirement necessary for a transfer of an undertaking – preservation of an economic unit – is still satisfied where neither the operational resources nor any worker whatsoever are transferred, and when the ‘transfer’ as such consists on the contrary only of retaining the function.

\textsuperscript{26} Case C-477/09, Defossez.
\textsuperscript{27} Case C-463/09, Clee SA, 20 January 2011.
It is compatible with the fundamental rights guaranteed in the European Union to take the sex of the insured into consideration as a risk factor when drawing up private life assurance contracts? This is the substance of the question which the Court will have to elucidate in Association belge des consommateurs Test-Achats ASBL. To do so, it will have to examine, for the first time, the substantive law provisions set out in Directive 2004/113/EC.

References


2010 was a critical year for the European Union (EU) in at least three major respects. Firstly, many EU countries began to show increased fiscal stress. A true debt crisis started to affect the eurozone. Fiscal stimulus to reduce the impact of the financial and economic crisis, as well as bank rescue measures, resulted in increased budgetary tensions that are likely to be long-term in nature (Marzinotto et al., 2010).

Secondly, the European Union made further reforms. The Lisbon Treaty, which came into force on 1 December 2009, started to be implemented. One of the Treaty’s fundamental innovations is the so-called ‘Horizontal Social Clause’ [Article 9 of the Treaty on the Functioning of the European Union (TFEU)] which states that in defining and implementing its policies and activities, the Union shall take into account the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health (Frazer et al., 2010). Another important innovation in the new Treaty is that it guarantees the freedoms and principles set out in the Charter of Fundamental Rights (which the Treaty introduces into EU primary law) and gives its provisions binding legal force; this concerns civil, political and economic as well as social rights.

The third reason for which 2010 was a turning point for the EU is that the Lisbon Strategy, launched by the European Council in March 2000 as a framework for EU socio-economic policy coordination, ended in June 2010 with the adoption by EU leaders of the new Europe 2020 Strategy.

All these elements will have long-lasting effects on the future of social policy, both at national and supra-national level. In these conclusions we refer to the main features of the debt crisis that has affected many EU countries. We then focus on the strategy followed by the EU – in conjunction with the innovations mentioned above – to tackle the
effects of the crisis. We finally propose a critical reading of recent events: significant tensions at EU level represent a challenge for the future of EU integration, and a huge risk for the future of social policy.

**A multi-dimensional crisis in need of a multi-dimensional answer**

The most striking features of the European economy during this crisis (deep recession, increased unemployment, etc.) correspond almost exactly to the textbook case for budgetary stimulus. The fiscal stimulus measures adopted by EU governments as part of the EU Strategy for coordinated action, have weighed heavily on budgetary situations (Natali, 2010). As a consequence, international organisations project an increase in the average debt-to-GDP ratio in the eurozone of 30%, to reach 90% of GDP by 2014. This average figure conceals substantial variations between Member States (see contribution by George Irvin in this volume). Part of the budgetary deterioration is due to cyclical factors, but part is permanent. In the years following a crisis, growth rates often recover to pre-crisis levels, but the loss in output typically remains a problem, implying a parallel fall in public revenue. However, the fiscal problems in Greece, Ireland, Italy, Portugal and Spain – which are the focus of efforts in national capitals and in Brussels – are only part of the problem (Dadush and Bennett, 2011). First of all, state intervention has been largely focused on the financial and banking crisis and has thus consisted in a shift of indebtedness from the private to the public sector.

Secondly, the worsening public budget crises across the eurozone have led to speculative attacks against sovereign debt, with the consequent establishing a European strategy to tackle fiscal tensions (through the European Financial Stability Facility). This whole question is related to the unresolved issue of the regulation of global financial markets (Véron, 2010).

Thirdly, the debt crisis has multiplied and made evident two further tensions in the eurozone, and in Europe in a broader sense. On the one hand, EU countries have seen the effects of a misalignment of their economies: while Germany – and those countries with a current account surplus (e.g. the Netherlands) – have easily recovered from the crisis with an export boom, other more peripheral euro countries with
growing current account deficits (such as Spain and Portugal) have been left behind. On the other hand, some economists have shown that the financial crisis has been triggered (among other things) by increased social inequalities (Kumhof and Rancière, 2010). Economic recession is historically related to increased income disparity between poor and middle-class households on the one hand, and rich households on the other.

All these points show that economic and budgetary tensions have multiple causes and require complex strategies if recovery is to be brought about. The same is true when it comes to improving the stability of the EU institutions. As argued by some of the contributors to this volume, while the ‘Great Recession’ emerged in the US, it is now Europe (and the European Union) which is suffering the most (see contributions by Irvin, and by Angelaki and Natali in this volume).

The European debt crisis has highlighted the clear limitations of EU economic governance. As argued by De Grauwe (2010), two fault lines marred the eurozone from its inception, but were overlooked by most. Firstly, there is no mechanism to ensure convergence of members’ competitive positions, and thus to prevent major trade imbalances. This is because economic policies (spending and taxation, social policies, wage policies, etc.) remain firmly in the hands of the member governments, and members do not coordinate such policies. Secondly, there is no mechanism to resolve crises caused by these imbalances and by divergent competitive positions. Consequently, eurozone crisis management largely lacks credibility. The whole question, moreover, is closely connected to the political issue of the legitimacy of supranational economic governance.

The crisis is thus multi-dimensional in nature, and requires a broad strategy to tackle the different sources of instability and potential tensions.

**Has the EU chosen the right strategy to tackle the crisis?**

How has the EU dealt with the crisis? Previous chapters have provided a large amount of evidence as to the strategy followed by the EU institutions. Revision of the economic and social governance of the
Union has been a central concern. The three priorities, the five EU headline targets which need to be translated into national targets, the seven flagship initiatives, the ten integrated guidelines for employment and economic policies, and the newly introduced concept of a ‘European semester’: all these tools should help to mobilise the various existing instruments in support of the new Strategy and to align it with the Stability and Growth Pact (see contribution by Bart Vanhercke in this volume).

As shown by Le Cacheux in his contribution, a key issue in the debate on the Stability and Growth Pact is the need to strengthen its efficacy. The Stability and Growth Pact will be given more teeth, by an insistence on compliance with the debt criterion (60% of GDP) or on rapid downward adjustment towards it (one-twentieth of the gap between the current and target levels per year). The medium-term objective of being ‘close to balance or in surplus’ is retained, but it is now specified that this must be achieved by focusing on government spending rather than revenue and by tightening the sanctions regime, coupled with a measure (the so-called ‘reverse voting mechanism’) that will make it harder for Member States to block a Commission recommendation to impose sanctions.

In parallel, we have seen renewed attempts to achieve more stringent macroeconomic and microeconomic governance through the avoidance of ‘macroeconomic imbalances, arising notably from developments in current accounts, asset markets and the balance sheets of the household and corporate sectors. Member States with large current account imbalances rooted in a persistent lack of competitiveness or prudential and taxation policies should address the underlying causes’ (CEC, 2010: 8). Consideration will also be given to microeconomic structural reforms to improve productivity and competitiveness in the European region. All these procedures will be structured around a revised timing of the ‘European semester’, which will begin with the publication of a new document, the Annual Growth Survey.

As stressed by Le Cacheux and Vanhercke in their contributions, the consistency and effectiveness of the EU response remains to be seen (see next section). There is a clear need to restore financial viability of public budgets, but the timing of this strategy (to be followed in the short-term) may result in further economic recession (thus increasing
public deficits still further). The role of social and employment policy coordination in Europe 2020 is still to be decided, yet the new EU roadmap for smart, sustainable and inclusive growth seems generally consistent with the neoliberal approach to growth, with the attendant risk of a gradual marginalisation of social objectives.

**Key challenges for the future of Social Europe: a 'blind' roadmap for the EU?**

In this last section we refer to two main challenges which the EU strategy for recovery will probably face in the future. The first is related to the substantive content of policy and the procedural aspects of the new forms of economic and social EU governance. The second is political in nature, and has to do with negative views of EU legitimacy.

The new systems of EU economic and social governance seem to achieve some progress, while leaving room for huge risks of future tensions. On the improvements side, the Lisbon Treaty clearly provides some leverage for more balanced socio-economic progress. As argued by some commentators, the Treaty, through its Horizontal Social Clause, provides a legal basis for better taking into account the social impact of policies and for using this as a tool to mainstream social objectives across all relevant policy areas (including non social policies and measures) as well as to more rigorously monitor and report on the impact of policies. Secondly, the Treaty and the Europe 2020 Strategy (with its headline EU targets and its EU flagships) have increased the potential visibility and importance of social issues (Ferrera, 2010).

It is not, however, certain that where the Lisbon Strategy failed, Europe 2020 and the new Stability and Growth Pact will succeed. There is a risk that the increased emphasis on poverty and social exclusion in particular, and social protection and social inclusion more generally, may become swamped by economic considerations and in fact lose rather than gain importance and visibility; also that the neoliberal paradigm will face problems similar to the events of the last decade.

This risk is heightened by the current growing emphasis on austerity packages and the stricter implementation of budgetary stability provisions. All this may limit opportunities for defending social entitlements. A
number of individual Member States seem to have experienced this in the past year. As stressed by Hemerijck (Hemerijck et al., 2010), a swift return to balanced budgets may require drastic welfare retrenchment or substantial increases in taxation, which are likely to induce new distributional conflicts. Austerity measures, designed to curb eurozone spending, have already met with a wave of strikes, walkouts, and demonstrations in Greece, France, Italy, and Latvia.

The same inconsistency is evident in the area of climate change. As shown by Galgóczi (this volume), although the Europe 2020 Strategy strives for a longer-term vision based on social and environmental sustainability, actual practices are subordinated to the dictates of economic, more precisely fiscal sustainability. Sustainable achievement of the 2020 climate targets and any kind of achievement of the longer-term targets would require tougher measures (including completion of the ETS, introduction of a European carbon tax and devising of a sustainable European transport concept).

What is more, it is not clear how the new governance arrangements under the Europe 2020 Strategy will connect with the broader EU coordination/cooperation and monitoring capacities in the area of social policy, nor what potential there is for effective monitoring and learning from mistakes. In the words of Pochet (2010), the process resembles more of a mutual arrangement between governments (mainly right-wing) wishing to adopt certain reforms, and the Commission (DG Ecfin) which would supply complementary arguments, a sort of ‘OECD+’.

As stressed above, the second challenge has to do with the political legitimacy of the integration process. Still in the words of Hemerijck (2010), it comes as little surprise that EU political legitimacy suffered tremendously in the wake of the crisis, and it may even come to be considered a political casualty of the crisis. Feelings of vulnerability have also inspired widespread unease over the process of European integration.

The aim of increasing participation and transparency seems far from being met. EU democratic legitimacy has not significantly improved through the Lisbon Strategy, even if we can see clear improvements in facilitating new forms of meaningful participation of civil society at national level. Individual parts of the process have worked in different
ways, with the social policy OMCs being the most successful. If the EU wishes to make further improvements, greater emphasis must be placed on the political legitimacy of the integration process. Political commitment is key. There must be a more active participation of citizens and stakeholders, to improve the visibility of the process and its legitimacy. This seems the most urgent problem to be faced.

Next year will be marked by the revision of the Stability and Growth Pact: a more stringent application and enforcement of EU targets will thus become a battleground between the supporters of a purely neoliberal approach to economic and social reforms, and those who still believe in the need for a social dimension of Europe. The major risk is that the EU ends up with a ‘blind’ roadmap: a strategy totally focused on fiscal austerity and the sovereign debt crisis but lacking any reference to economic growth through social and environmental improvements. The recent Annual Growth Survey (AGS) has made explicit reference to the need to redress public budgets, but there is no explicit reference to the social guidelines (e.g. on poverty). This document seems to confirm the worrying picture of a purely neoliberal EU economic and social strategy (CEC, 2011).

If the ‘blind’ roadmap is implemented, the nightmare of a ‘double-dip recession’ (a new recession after the first timid signs of economic recovery) could become reality.

References


Chronology 2010
Key events in European social policy
Cécile Barbier

JANUARY

8 January: Euro area unemployment rate up to 10.0% in November 2009, and in the EU27 up to 9.5% (http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-08012010-AP/EN/3-08012010-AP-EN.PDF).

14 January: Launch of the new social dialogue committee in the area of metallurgy, engineering and technology.

15 January: Trichet says Greece leaving euro area is an ‘absurd’ notion.

18 January: The Eurozone Finance Ministers decide unanimously to extend the term of office of the Eurogroup Jean-Claude Juncker.

20 January: Bulgaria puts forward Kristalina Georgieva as its nominee for the next Commission following the withdrawal of Rumiana Jeleva from the list of candidates. The vote on ‘Barroso II’ is scheduled for 9 February (http://ec.europa.eu/news/eu_explained/100122_en.htm).


29 January: At an informal meeting in Barcelona from January 27 to 29, the EU Ministers of employment and social security agree that the Europe 2020 Strategy should be different from the Lisbon Strategy, which comes to an end this year.

30 January: In January, the euro area unemployment rate is stable.

FEBRUARY


3 February: On the eve of the Informal European Summit, to be held on 11 February, an ETUC delegation will visit the President of the European Council, Herman Van Rompuy, to set out workers’ expectations and demands (http://www.etuc.org/a/6915).

4 February: Despite progress in recent years, nearly a third of Europeans lack the skills to meet the demands of the labour market.

5 February: The Committee of Permanent Representatives of the EU Member States (COREPER) approves (at first reading) a compromise on the new European Microfinance for employment and inclusion (PROGRESS).

6 February: Social organisations and environmental non-governmental bodies criticise the Europe 2020 Strategy.


10 February: The ETUC and the European Union of Christian Democratic Workers (EUCDW) of the European People’s Party adopt a joint declaration on Social Europe and a social market economy (http://www.etuc.org/a/6942).


15 February: At today’s meeting of the Macro Economic Dialogue, the ETUC warns against the danger of a ‘double dip’ in economic activity (http://www.etuc.org/a/6973).


19 February: Broad consensus of Development Ministers on the need to revive the Millennium Goals, with financial support.

19 February: László Andor and Martin Hirsch agree on the goal of a one-third reduction of poverty by 2012.

23 February: Europe’s unions fully support the general strike in Greece and ask Eurozone Ministers to go for realistic and socially acceptable plans (http://www.etuc.org/a/6986).


26 February: The EU economy is gradually recovering, whilst still facing turbulent times ahead.


28 February: The Euro area unemployment rate stands at 10.0%, the EU27 rate at 9.6%, in February.
MARCH

3 March: Commenting on the publication of the Commission paper ‘Europe 2020’, John Monks, ETUC General Secretary says: The 2020 exercise so far is flawed and disappointing. There is a desperate need for the EU and the rest of the world to digest what caused the crisis and how we can avoid a repeat’ (http://www.etuc.org/a/7010).


4 March: A person may lose refugee status when the circumstances in the third country on which his fear of persecution was founded have ceased to exist (http://curia.europa.eu/jcms/upload/docs/application/pdf/2010-03/cp100016en.pdf).


8 March: The Council adopts the European microfinance facility for employment and social inclusion, Press release, 6868/10 (Presse 45).

9 March: Guerrero Salom reports on the effects of the global financial and economic crisis on developing countries and on development cooperation (Guerrero Salom (S&D, ESP), A7-0034/2010 of 09 March 2010).


10 March: The OECD, WTO and UNCTAD once again call on the G20 to resist protectionism (http://www.oecd.org/document/48/0,3746, en_21571361_44315115_44741628_1_1_1_1,00.html).


20 March: Second revision of the Cotonou Agreement, but the question of the readmission of illegal immigrants is not yet settled (http://ec.europa.eu/development/geographical/cotonouintro_en.cfm).

23 March: The ETUC meets the President of the European Council, Herman Van Rompuy. At this meeting, held on the eve of the Spring Summit, the ETUC stresses in particular the need to keep employment at the top of the agenda, to have a robust public sector, to maintain social expenditure, and to fight financial speculation (http://www.etuc.org/a/7073).

23 March: The Commission launches a consultation on how the European Company Statute (SE) is working (Bulletin of the European Union, No.10103 of 23 March).

24 March: MEPs from the EPP and S&D groups organise the first European conference on the ‘Protection of a Work-free Sunday’ in Brussels.
24 March: Improved access to finance, more flexicurity and credible governance are BusinessEurope’s priorities for the Europe 2020 Strategy (Bulletin of the European Union, No.10104 of 24 March).


25 March: Declaration of the Heads of State and Government of the Euro Zone. Member States of the euro area agree on the European system of support to Greece. The mechanism includes financial involvement of the International Monetary Fund, European financing and coordinated bilateral loans from the euro area Member States; it is intended to reassure the markets. Furthermore, the President of the European Council is requested to establish a working group on economic governance.


25 March: The ETUC, BusinessEurope, UEAPME and CEEP present their European Agreement on inclusive labour markets at the Tripartite Social Summit in Brussels (http://www.etuc.org/a/7089).
25 March: European aid to Greece dominates the work of the Tripartite Social Summit.


27 March: The EU agrees on five basic areas for its 2020 economic strategy, including the battle against poverty. Zapatero states that the essential idea underpinning the conclusions on the ‘Europe 2020’ strategy was the coordination of economic governance in the EU27.


30 March: Parliament calls for a tax on financial transactions and a moratorium on debt to mitigate the impact of the crisis on developing countries.


APRIL


7 April: The European Commission adopts a communication on the social and economic integration of Roma in Europe, COM (2010) 133 final.

13 April: Socialists, trade unions and anti-globalisation activists push for the ‘Robin Hood tax’.

14 April: Karel De Gucht promises an active policy in support of human rights and social and environmental standards.


15 April: The Commission urges Member States to increase their aid after a slight shift in 2009. An action plan is expected on 21 April.

20 April: For the first time ever, the G20 Labour and Employment Ministers’ meeting is held in Washington, on 20 and 21 April (Bulletin of the European Union, No.10122 of 21 April).


24 April: Greece requests activation of the plan to help refinance its debt. The provision of funds should be rapid, according to the Commission.

28 April: The Council provides financial support out of the ERDF for the renovation and reconstruction of housing for Roma and other marginalised communities.


MAY


2 May: Statement by the Eurogroup: following a request from the Greek authorities, Euro area Ministers unanimously agree to activate stability support to Greece via bilateral loans centrally pooled by the European Commission under the conditions set out in their statement of 11 April.

4 May: Europe prepares to mobilise 110 billion euros to help Greece continue to meet its debt service payments (http://www.etuc.org/a/7216).

4 May: The ECB announces a change in the eligibility of debt instruments issued or guaranteed by the Greek government (http://www.ecb.int/press/pr/date/2010/html/pr100503.en.html).

5 May: John Monks, the ETUC General Secretary, joins the massive, general Pan-Hellenic strike organised today in Athens by GSEE and Adedy, the Greek ETUC affiliates (http://www.etuc.org/a/7220).

5 May: The Ombudsman calls for active participation of the European Parliament in the future citizens’ initiative.
7 May: Asylum in the EU27: Around 260,000 asylum applicants registered in 2009.


11 May: Commissioner Barnier holds a press conference setting out where the EU and the US stand on delivering the G20 commitments on reform of financial regulation, and the next steps towards fulfilling those commitments.


12 May: The Commission proposes that Estonia join the Euro area in 2011.

14 May: The ETUC writes to President Barroso asking him to convene an emergency Tripartite Social Summit in view of the austerity packages being applied in Greece, Spain, Portugal, Romania and elsewhere (http://www.etuc.org/a/7259).

19 May: EU Member States that volunteer to welcome third-country refugees could receive up to €6,000 per resettled person under a draft EU law amended by Parliament (Rui Tavares (GUE/GVN, PORT), A7-0131/2010 of 03 May 2010).


20 May: Emissions from industrial installations covered by the EU’s carbon trading scheme fell by 11% in 2009, thanks largely to the crisis, says Ms Hedegaard.

21 May: MEPs postpone the adoption of the resolution on the Europe 2020 Strategy.


26 May: The European Commission presents an analysis of the costs, benefits and options for moving beyond the EU’s greenhouse gas reduction target for 2020, from 20% below 1990 levels to 30% once the conditions are met.

JUNE

2 June: A slight increase in unemployment in the euro area. Figure unchanged in the EU.

2 June: The ETUC will organise a European Day of Action on September 29, to coincide with a meeting of European Finance Ministers (http://www.etuc.org/a/7323).

4 June: The ETUC and the other European social partners meet the European Commission President, Mr Barroso, to discuss the consequences of the crisis and of austerity measures on employment and the social dimension. They have presented their joint statement on the 2020 Strategy.

7 June: According to the ETUC, the main goal of the Working Time Directive (WTD) is, and must remain, to protect workers against the health and safety risks of long and irregular working hours (http://www.etuc.org/a/7352).


8 June: Gender differences persist in both choice of study and outcomes (Bulletin of the European Union, No.10154 of 8 June).


15 June: European Council: the ETUC warns against the austerity measures (http://www.etuc.org/a/7385).

16 June: The European Parliament remains divided over whether to include **self-employed drivers** in the directive on **working time in road transport**.

17 June: Report on Public Finances 2010: the sovereign debt crisis highlights the need for fiscal consolidation and strengthened surveillance.

17 June: A majority of MEPs rejects the Commission proposal on the regulation of **working time in road transport of self-employed drivers**.


17 June: The European Council welcomes the progress report by the President of the **Task Force on economic governance** and agrees on a first set of guidelines.

17 June: The Heads of State and Government officially adopt the European Union’s medium-term socio-economic strategy, known as ‘Europe 2020’.


19 June: The European Parliament adopts the Raül Romeva i Rueda report on ‘**Gender aspects** of the economic downturn and financial crisis’ (Raül Romeva i Rueda (Greens/EFA, Spanish), A7-0155/2010 of 12 May 2010).

19 June: The EU granted **asylum** to about 79,000 people in 2009.

22 June: The EU and the ACP sign the **revised Cotonou Agreement** for the second time to adapt it to the new challenges.

23 June: **G20**: Berlin and Paris argue in favour of a **global tax on financial transactions**.
24 June: The European Commission informs the Transport Council that it is withdrawing its proposal for a directive on the working time of road hauliers.

25 June: Declaration of international trade unions to the G20 and G8 summits.

26 June: A CEDEFOP report points out that economic competitiveness is seriously at risk owing to a mismatch of skills.


29 June: Conclusions of the 9th annual meeting of people experiencing poverty: guarantee a dignified life and encourage social inclusion.


JULY

3 July: Towards a removal of the European Social Fund from the cohesion policy? Warning from Danuta Hübner.

6 July: The euro area is slowly recovering from the **economic crisis** with a growth forecast of 0.8% in 2010 and 1.3% next year, according to the latest quarterly report 'Eurozone Forecast' (Ernst & Young).


6 July: European Parliament resolution on **promoting youth access** to the **labour market**, strengthening trainee, internship and apprenticeship status (Emilie Turunen report, A7-0197/2010 of 14 June 2010).


7 July: EU Member States granted **citizenship** to 696,000 people in 2008.


7 July: According to the OECD’s annual report on employment, the **economic crisis** is still having an impact on the global job market.

8 July: Ahead of the meeting of EU Ministers of Employment and Social Affairs, the **Ministers of the Troika** (Belgium, Hungary and Poland) met with the European social partners and the **European Social Platform**, in the presence of the European Commissioner for Employment, Social Affairs and Inclusion, László Andor.

8 July: The ETUC reiterates its concerns about the **Green Paper on the future of pensions**, published by the European Commission ([http://www.etuc.org/a/7468](http://www.etuc.org/a/7468)).


13 July: France and Germany insist that the EU should continue its efforts to create a global tax on financial transactions.


13 July: Council recommendation on broad guidelines for the economic policies of the Member States and of the Union (JO L 191/28 of 23 July).


14 July: Estonia adopts the euro on 1st January 2011.

15 July: The European Court of Justice finds against Germany over the practice of local authority employers to award pension services contracts on the basis of a selection laid down in collective agreements.


20 July: The economic recovery progresses but job growth is still lagging behind.


30 July: According to CEDEFOP, improving existing skills is the best way to develop a low-carbon economy.

AUGUST

4 August: Paris seeks a European mobilisation around the Roma issue.

4 August: Decline in arrivals of illegal immigrants in Europe.


24 August: The Commission approves payment of 9 billion euros to Greece. Slovakia pulls out of the support plan.

26 August: The Commission is to check the legality of French measures against the Roma.

SEPTEMBER

2 September: In the framework of the ETUC Youth conference on Youth Employment, ETUC Youth has reiterated its concern regarding levels of youth unemployment and casualisation (http://www.etuc.org/a/7598).

2 September: Demonstration in Brussels against France’s policy towards the Roma people.

6 September: The ETUC supports the national day of action on pensions organised by French trade unions (http://www.etuc.org/a/7610).

7 September: Mobilise globalisation adjustment aid faster, say MEPs (Miguel Portas (GUE/GVN, PORT.) A7-0236/2010 of 26 July 2010).

7 September: At the European semester, the Council approves strengthened coordination of economic and budgetary policies, Press 230, Nr: 13190/0.

8 September: The European Parliament calls for measures against speculation in commodities and the abuse of power.

8 September: MEPs welcome the financial supervision package endorsed by the Council but insist this was the first step towards a regulatory system and not the final product.


9 September: Practices around asylum within the EU remain divergent.

11 September: Applications to the EU globalisation fund increase six-fold.

11 September: MEPs are concerned about the impact of postal liberalisation on universal service and workers’ rights.

13 September: The Council adopts its first-reading position on a draft directive concerning the application of patients’ rights in cross-border healthcare and the statement of the Council’s reasons (11038/10 REV2+ 11038/10 ADD1+ 12979/10 ADD1).
14 September: For 2010 as a whole, real GDP growth is now projected at 1.8% in the EU and 1.7% in the euro area, a sizeable upward revision.

15 September: The Observatoire Social Européen (OSE) has been closely involved in the preparations of the Belgian Presidency Conference (La Hulpe, 14 and 15 September) on 'European Coordination of Social Policies in the Context of the Europe 2020 Strategy'.

16 September: The European Council discusses proposals on economic governance. As they currently stand, these proposals basically boil down to virtually automatic sanctions, to be decided by the Finance Ministers, against countries which fail to cut wages, social benefits and public services (http://www.etuc.org/a/7643).

16 September: Paris and Berlin wish to tackle asylum abuse.


23 September: The European Parliament endorses the political agreement on the new European financial supervision.

24 September: According to the CGT, between 997,000 and 3 million people across France demonstrated against the proposed pension reform.

29 September: General strike in Spain. Trade unions mobilise against the ‘neoliberal’ turn of the Zapatero government.

29 September: EU economic governance: the Commission delivers a comprehensive package of legislative measures.

OCTOBER


4 October: Europe approves €500 million of Food Aid for the Needy for 2011.

7 October: The Commission outlines its vision for taxing the financial sector. ‘Unsatisfactory, unambitious, and unacceptable’: ETUC on financial sector taxation proposals (http://www.etuc.org/a/7728).

8 October: The British Prime Minister promises ‘fair austerity’. David Cameron’s government is to withdraw means-tested child allowances.

11 October: Discriminatory ethnic profiling should be prohibited in the EU, according to the Agency for Fundamental Rights (FRA). (http://fra.europa.eu/fraWebsite/research/publications/publications_per_year/pub_dif4_en.htm).

13-14 October: The Executive Committee of the European Trade Union Confederation (ETUC) adopts a Resolution on Economic and Social Governance criticising the reform of the Stability and Growth Pact (http://www.etuc.org/a/7770).

18 October: Franco-German declaration of their intention to apply for a limited revision of the Treaty on the Functioning of the Union (http://www.france-allemande.fr/Renforcons-le-gouvernement,5764.html).

19 October: European Parliament resolution on precarious women workers (Britta Thomsen, A7-0254/2010 of 05 October 2010).


20 October: The European Parliament adopts recommendations to the Commission on improving the European Union governance and stability framework, particularly in the euro area (based on the Diogo Feio report, (EPP, Port.) A7-0282/2010 of 11 October 2010) as well as recommendations regarding actions and initiatives taken as part of the financial, economic and social crisis (based on the CRIS Commission report, chaired by Pervenche Béres (S&D, FR), A7-0267/2010 of 05 October 2010).


21 October: The EU Ministers of Employment and Social Affairs, in Luxembourg, highlight the need to increase the role of the Employment / Social Committee (EPSCO) and of the Committees on Employment (SCE) and Social Protection (CPS) on the European scene, while supporting the governance of the European Employment Strategy in the context of the 2020 Strategy (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/fr/lsa/117423.pdf).
21 October: The publication of the final report of the Task Force led by European Council President Herman Van Rompuy reveals what Member States really decided in terms of reform of economic governance (Bulletin of the European Union, No.10240 of 22 October).


27 October: Communication from the Commission: Towards a single market act, for a highly competitive social market economy: 50 proposals for improving our work, business and exchanges with one another, COM (2010) 608 final.

28 October: European Council: Austerity is the road to ruin, says the ETUC (http://www.etuc.org/a/7777).

28 and 29 October: The European Council adopts the report of the Working Group on Economic Governance. The European Council President is responsible for considering how to amend the Treaty on the Functioning of the Union (TFEU) so as to incorporate ‘a permanent mechanism for crisis management to maintain financial stability in the euro area as a whole’.

NOVEMBER


5 November: ‘Progress’ is the EU’s employment and social solidarity programme established to provide financial support for the attainment of the European Union’s objectives in employment, social affairs and equal opportunities as set out in the Social Agenda (http://ec.europa.eu/social/main.jsp?catId=836&langId=en).


11 November: Ensuring solidarity between generations (Thomas Mann report, (PPE, DE), A7-0268/2010 of 06 October)

12 November: In London, large-scale protests by British students against budget cutbacks.


23 November: Euro area ready to help Ireland, if needed.

24 November: General strike in Portugal and widespread protests by British students in the United Kingdom.


DECEMBER


2 December: The European Commission launches the European Year of Volunteering 2011 (http://europa.eu/volunteering/).

2 December: Euro area GDP up by 0.4% and EU27 GDP up by 0.5%.


3 December: 10 million people use the Europass CV to seek employment.

7 December: Labour market participation in the EU27 in 2009: nearly one woman in five aged 25-54 is outside the labour market, half of them for family reasons (Eurostat, STAT/10/185).


13 December: Income and living conditions in Europe: 116 million people at risk of poverty or social exclusion in the EU27 in 2008.

14 December: The Commission appoints an EU Anti-Trafficking Coordinator: Myria Vassiliadou.


15 December: As part of its campaign against the austerity plans plaguing Europe and ruining both the economy and its citizens, the ETUC calls for a day of decentralised action on the eve of the European Council on 16-17 December (http://www.etuc.org/a/8077).

15 December: In advance of the European Council meeting on 16-17 December, the ETUC reminds European leaders that strict adherence to the rules also means defending the EU’s social dimension (http://www.etuc.org/a/8089).
15 December: The European Parliament does not adopt the framework directive on the single permit for foreign workers but instead extends the debate for a further two months (http://www.etuc.org/a/8101).


16-17 December: The European Council launches the simplified TFEU revision procedure. It involves modifying the framework of the Treaty containing provisions relating only to Member States in the euro area (EUCO 30/1/10 REV 1).


21 December: The ETUC is disappointed by the European Commission’s communication concerning the second consultation of the social partners on the revision of the Working Time Directive: it shows no political will to end the opt-out and the prolongation of reference periods without safeguards through collective agreements (http://www.etuc.org/a/8125).
22 December: The ETUC welcomes the citizens’ initiative, but is critical about the cumbersome and bureaucratic character of the instrument now proposed (http://www.etuc.org/a/8128).

23 December: In Italy, a major university reform is passed by the Senate after lively student protests throughout the country. The text provides in particular for a reduction in the number of faculties and courses and for lower grants. It cuts the amount of time allocated to research, changes the admissions system and strengthens the role of the private sector in university management.

31 December: The Euro area unemployment rate stands at 10.0%, the EU27 rate at 9.6%, in December.

Chronology drawn up by Cécile Barbier
with the assistance of Sophie Ost.
List of abbreviations

ACEA  European Automobile Manufacturers’ Association
ACP  African, Caribbean and Pacific Countries
AGS  Annual Growth Survey
BEPGs  Broad Economic Policy Guidelines
BGB  German Civil Code (Bürgerliches Gesetzbuch)
BoE  Bank of England
BusinessEurope  Confederation of European Business
CDS  Credit Default Swap
CDU/SPD  Christian Democratic Union/Social Democratic Party of Germany
CEC  Commission of the European Communities
CEDEFOP  European Centre for the Development of Vocational Training
CEEC  Central and Eastern European countries
CEEP  European Centre of Employers and Enterprises providing Public Services
CEMR  Council of European Municipalities and Regions
CEP  Centre for Economic Performance
CFDT  French Democratic Confederation of Labour
CFTC  French Christian Workers’ Confederation
CGT  General Confederation of Labour
CJEU  Court of Justice of the EU
CLEPA  European Association of Automotive Suppliers
COR  Pensions Advisory Council
COREPER  Committee of Permanent Representatives of the EU Member States
CSR  Comprehensive Spending Review
CVET  Continuing Vocational Education and Training
CVTS  Continuing Vocational Training Survey
DG  Directorate General
DM  Deutsche Mark
DMC  Domestic Material Consumption
EAPN  European Anti-Poverty Network
EB  Emergency Budget
EBRD  European Bank for Reconstruction and Development
EC  European Community
ECB  European Central Bank
ECHR  European Convention on Human Rights
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ECJ</td>
<td>European Court of Justice</td>
</tr>
<tr>
<td>ECOFIN</td>
<td>Economic and Financial Affairs Council</td>
</tr>
<tr>
<td>ECSVET</td>
<td>European Credit System for Vocational Education and Training</td>
</tr>
<tr>
<td>EDF</td>
<td>Electricité de France</td>
</tr>
<tr>
<td>EEA</td>
<td>European Environment Agency</td>
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<tr>
<td>EESC</td>
<td>European Economic and Social Committee</td>
</tr>
<tr>
<td>EFSF</td>
<td>European Financial Stability Facility</td>
</tr>
<tr>
<td>EIB</td>
<td>European Investment Bank</td>
</tr>
<tr>
<td>EIUG</td>
<td>Energy Intensive Users Group</td>
</tr>
<tr>
<td>EMCO</td>
<td>Employment Committee</td>
</tr>
<tr>
<td>EML</td>
<td>Economic and Monetary Union</td>
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<tr>
<td>EP</td>
<td>European Parliament</td>
</tr>
<tr>
<td>EPAP</td>
<td>European Platform against Poverty</td>
</tr>
<tr>
<td>EPC</td>
<td>Economic Policy Committee</td>
</tr>
<tr>
<td>EPM</td>
<td>Employment Performance Monitor</td>
</tr>
<tr>
<td>EPP</td>
<td>European People's Party</td>
</tr>
<tr>
<td>EPSCO</td>
<td>Employment, Social Policy, Health and Consumer Affairs Council</td>
</tr>
<tr>
<td>EQAVET</td>
<td>European Quality Assurance in Vocational Education and Training</td>
</tr>
<tr>
<td>EQF</td>
<td>European Qualifications Framework</td>
</tr>
<tr>
<td>ERDF</td>
<td>European Regional Development Fund</td>
</tr>
<tr>
<td>ESCO</td>
<td>European Skills, Competencies and Occupations Taxonomy</td>
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<tr>
<td>ESF</td>
<td>European Social Fund</td>
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<tr>
<td>ETS</td>
<td>Emission Trading System</td>
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<tr>
<td>ETUC</td>
<td>European Trade Union Confederation</td>
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<tr>
<td>ETUCE</td>
<td>European Trade Union Committee for Education</td>
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<tr>
<td>ETUI</td>
<td>European Trade Union Institute</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>EUCAR</td>
<td>European Council for Automotive R&amp;D</td>
</tr>
<tr>
<td>EUCDW</td>
<td>European Union of Christian Democratic Workers</td>
</tr>
<tr>
<td>EWL</td>
<td>European Women's Lobby</td>
</tr>
<tr>
<td>FCIC</td>
<td>Financial Crisis Inquiry Commission</td>
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<tr>
<td>FRA</td>
<td>European Union Agency for Fundamental Rights</td>
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<tr>
<td>FRR</td>
<td>Pension Reserve Fund</td>
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<tr>
<td>FT</td>
<td>Financial Times</td>
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<tr>
<td>GDF</td>
<td>Gaz de France</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>ghg</td>
<td>Greenhouse gas</td>
</tr>
<tr>
<td>GP</td>
<td>General Practitioner</td>
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<tr>
<td>Greens/EFA</td>
<td>Group of the Greens/European Free Alliance</td>
</tr>
<tr>
<td>GSEE</td>
<td>General Confederation of Labour</td>
</tr>
<tr>
<td>GUE/NGL</td>
<td>European United Left Group/Nordic Green Left</td>
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</tbody>
</table>
## List of abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>HCR</td>
<td>High Commissioner for Refugees</td>
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<tr>
<td>HMO</td>
<td>Health Maintenance Organisations</td>
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<tr>
<td>ICT</td>
<td>Information-communication Technology</td>
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<tr>
<td>IEA</td>
<td>International Energy Agency</td>
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<tr>
<td>IFS</td>
<td>Institute for Fiscal Studies</td>
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<tr>
<td>IGBP</td>
<td>International Geosphere-Biosphere Programme</td>
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<tr>
<td>ILO</td>
<td>International Labour Organization</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>INI</td>
<td>National Institute of Industry</td>
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<tr>
<td>INPS</td>
<td>National Institute of Social Welfare</td>
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<tr>
<td>IPCC</td>
<td>Intergovernmental Panel on Climate Change</td>
</tr>
<tr>
<td>ISCED</td>
<td>International Standard Classification of Education</td>
</tr>
<tr>
<td>ISCO</td>
<td>International Standard Classification of Occupations</td>
</tr>
<tr>
<td>ISG</td>
<td>Indicators' Sub-Group</td>
</tr>
<tr>
<td>IVET</td>
<td>Initial Vocational Education and Training</td>
</tr>
<tr>
<td>JAF</td>
<td>Joint Assessment Framework</td>
</tr>
<tr>
<td>MEP</td>
<td>Member of the European Parliament</td>
</tr>
<tr>
<td>NACE</td>
<td>Statistical Classification of Economic Activities in the European Community</td>
</tr>
<tr>
<td>NAP/INCL</td>
<td>National Action Plan on Social Inclusion</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental Organisation</td>
</tr>
<tr>
<td>NHS</td>
<td>National Health Service</td>
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<tr>
<td>NQF</td>
<td>National Qualifications Frameworks</td>
</tr>
<tr>
<td>NRP</td>
<td>National Reform Programme</td>
</tr>
<tr>
<td>NSR</td>
<td>National Strategy Report</td>
</tr>
<tr>
<td>NVQ</td>
<td>National Vocational Qualifications</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OJ</td>
<td>Official Journal</td>
</tr>
<tr>
<td>OMC</td>
<td>Open Method of Coordination</td>
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<tr>
<td>PAYGO</td>
<td>Pay-as-you-go</td>
</tr>
<tr>
<td>PCT</td>
<td>Primary Care Trust</td>
</tr>
<tr>
<td>QE</td>
<td>Quantitative Easing</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>S&amp;D</td>
<td>Progressive Alliance of Socialists and Democrats</td>
</tr>
<tr>
<td>SCP</td>
<td>Stability and Convergence Programmes</td>
</tr>
<tr>
<td>SGF</td>
<td>Stability and Growth Pact</td>
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<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
</tr>
<tr>
<td>SPC</td>
<td>Social Protection Committee</td>
</tr>
<tr>
<td>SSDC</td>
<td>Sectoral Social Dialogue Committee</td>
</tr>
<tr>
<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
</tr>
<tr>
<td>TUC</td>
<td>Trades Union Congress</td>
</tr>
<tr>
<td>UEAPME</td>
<td>European Association of Craft, Small and Medium-sized Enterprises</td>
</tr>
</tbody>
</table>
## List of abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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</thead>
<tbody>
<tr>
<td>UITP</td>
<td>International Association of Public Transport</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNEP</td>
<td>United Nations Environment Programme</td>
</tr>
<tr>
<td>UNFCCC</td>
<td>United Nations Framework Convention on Climate Change</td>
</tr>
<tr>
<td>UNICE</td>
<td>Union of Industrial and Employers’ Confederations of Europe</td>
</tr>
<tr>
<td>US</td>
<td>United States of America</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>VET</td>
<td>Vocational Education and Training</td>
</tr>
<tr>
<td>WTD</td>
<td>Working Time Directive</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
| ZEW     | Zentrum für Europäische Wirtschaftsforschung  
(centre for European Economic Research) |
List of contributors

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