Foreword

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On the international scene, 2008 saw the economic trends observed in last year's edition of this volume gather pace dramatically and even reach breaking-point. The first part of the year was extremely eventful: rising energy and raw materials prices, a global food crisis and rioting caused by hunger (see article by Olivier De Schutter). But in the autumn it was financial capitalism that was plunged into crisis, with the collapse of the US bank Lehman Brothers and the public bail-out of major banking and financial institutions in both the United States and Europe (see article by Jacques Sapir). A domino effect gradually brought down the whole of the 'real' world economy. The winter of 2008-2009 opened on a scene of devastation. All the indicators were red: growth forecasts had been revised sharply downwards and the traditional 'engines' were entering a recession, government deficits were going through the roof, deflation loomed, exports were plummeting, whole branches of industry were on the verge of bankruptcy (see article by Patrick Loire and Jean-Jacques Paris), and ever more job were being axed.

We do not intend to recapitulate on the causes of the crisis, as they were amply covered in Social Developments in the European Union 2007[1]. To our minds, the main breaking-point of 2008 had to do not with the nature of the crisis, which had been predicted and analysed by many experts even before it occurred, but with the political response given to the social dimension of the crisis – both before and after – and its implications for policies to promote sustainable development and combat climate change.

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1. See in particular the contribution by Pierre Defraigne: 'The need for capital regulation in Europe'.

Some political aspects of the crisis

What changed fundamentally in 2008 was the role of the State and of public regulation, a role asserted by one western government after another as the year progressed. From the partial nationalisation of UK financial institutions announced by London in October, to the creation by Madrid of a special fund intended to 'support the financing of the financial system', via the gigantic financial and industrial bail-outs in countries such as the United States, France and Germany, governments everywhere decided to roll up their sleeves.

This emergency public intervention in the economy was accompanied by intense political activity – national and European – to 'regulate' the system, improve its governance and transparency, clamp down on hedge funds, revise the rules on capital requirements for banks, review the operation of ratings agencies and guarantee individual savers' bank deposits, but also, in some countries at least, to curb executive pay packets and limit, if not eliminate, golden parachutes. The Financial Times economic columnist Martin Wolf even went so far as to praise 'Keynes's genius – a very English one', and to enumerate lessons we should learn about market inefficiencies, pointing out in passing that nowadays 'nobody believes in the monetary targeting proposed by (…) Milton Friedman'[2]. Herein lies the major ideological about-turn of 2008, and without doubt of the last three or four decades.

But the full effects of this rapid about-turn have certainly not been felt yet, and the European Commission seems to have been suddenly caught unawares by the new course of events. The Commission, one of whose duties is to contest State aid and distortions of competition, had to transform itself into a virtuoso of casuistry to give its blessing to the bail-out plans and other State aids, without viewing them either as distortions of competition or as public assistance for lame ducks[3]. This

2. 'Keynes offers us the best way to think about the financial crisis', *Financial Times*, 23 December 2008.
3. 'Competition policy provides a vital contribution to a coordinated reaction, whilst preserving the possibility for Member States to intervene where necessary according to national conditions', Communication from the Commission 'From financial crisis to recovery: A European framework for action', COM (2008) 706 final of 29 October 2008. According to its own interpretation, the Commission is 'saved' by Article 87(3b) of the EC Treaty, which

caused economists such as Elie Cohen[4] to say that the usual competition rules have now become a 'laughing stock'. By the same token, the Commission has gingerly joined in the debate about the systemic risks posed by hedge funds and the need for an 'appropriate regulatory initiative' at European level, while Commissioner McCreevy is back-pedalling furiously.

Moreover, the economic recovery plans put forward by the EU Member States will create significant public deficits and increase government debt, a move which, in normal times, would have attracted criticism from the Community institutions under the Stability and Growth Pact. Of course, it is said, this is a temporary state of affairs and a response to exceptional circumstances. The fact still remains that in 2008 rules hitherto presented as imprescriptible began to appear flexible. Similarly, notions such as 'too big to fail' have cast an odd light on the orthodoxy of pure and perfect competition. Ultimately, this crisis would seem to be a reason for tearing up whole sections of the economic policy theory books.

Some social aspects of the crisis

The social aspects of the financial and economic crisis became a subject of discussion as from the autumn of 2008. We began to read, see and hear interviews with the first traders to lose their jobs in the City or on Wall Street. The crisis was spreading to the real economy, and at that stage we started seeing reports of redundancy schemes and empty order books, followed by bankruptcies and lay-offs. All of these after-effects are likely to prove disastrous in 2009, if the forecasts are to be believed.

It is however necessary to stress one particular aspect, which predated the subprime mortgage crisis and is often overlooked by most observers: the crisis concerning methods of distribution. Two reports

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authorises State aid intended 'to remedy a serious disturbance in the economy of a Member State'.

4. Director of research at the CNRS (France), in *Le Monde*, 19 November 2008.

published in October 2008, one by the ILO and the other by the OECD[5], demonstrate that pay inequality worldwide has been growing for more than twenty years, poverty is on the rise, and we are witnessing a well-documented decline in earnings as a share of added value. Whereas high salaries are rising, middle incomes are stagnating or even falling. This trend has been particularly marked in the United States ever since the Reagan era, when wage-cutting policies led to the emergence of large numbers of working poor. And there is a link between this impoverishment and the proliferation of 'toxic' financial products: basically, products which damage the solvency of the final debtor (see Jacques Sapir's contribution to this volume).

The avalanche of financial analyses produced throughout the year has devoted very little coverage to this social aspect from a political perspective. If it is accepted that the roots of the financial – and now economic – crisis lie in a crisis of employment and methods of distribution, then the political responses must be adapted accordingly. The regulation, transparency and oversight of financial institutions must of course be stepped up, but in doing that we are addressing only technical and operational problems, not the social imbalances which helped to make this crisis possible (in addition to a series of other factors, of course). Let us ask ourselves a question: were the day to come when the banks were fully transparent and properly supervised, would they grant mortgages to working-poor families in need of somewhere to live? If the answer is no (because it would be too risky), it means that the banks are being bailed out at the cost of plainly and simply abandoning those workers at the bottom of the social scale, who will no longer be able to count on either wages or loans to put a roof over their heads. So should the answer be yes? In actual fact, the political response should be to ensure that the working poor no longer exist. Everyone should be able, through work and social protection, to obtain sufficient resources to house, feed and look after themselves. The fact that this simple statement still needs to be made in the 21st century shows just how urgent it is for us to shake off the past 30 or 40 years of extreme liberalism.

5. 'Growing Unequal?', report by the Organisation for Economic Co-operation and Development, 21 October 2008 (www.oecd.org/els/social/inequality) and 'World of Work Report 2008' by the International Labour Organisation, 16 October 2008 (www.ilo.org).

But how are we to do this? None other than the very liberal-minded Financial Times published an editorial in January 2009 entitled 'Reinventing the European left'[6], showing the extent to which the political battle-lines are now breaking down. Its view, in short, is that all of the European left's traditional demands (public investment, recovery plans, support for jobs, etc.) have now been taken up by liberals and conservatives as a way of extricating the economy from the deep crisis into which financial capitalism has plunged it. By putting these demands into practice, the right has, paradoxically, considerably weakened the left – as is clear from the situation in France after Mr Sarkozy's 'super-presidency' of the EU during the second half of 2008. Indeed, almost all the old slogans of the left are now being chanted by a chorus of European leaders, including the liberals among them: controls on financial speculation, market regulation, Keynesianism and a stronger role for government in the economy, lower interest rates, abolishing tax havens, safeguarding households' purchasing power, curtailing excessive executive pay and golden parachutes, and so the list goes on. In sum, the left's platform is being put into practice by right-wingers who until now tirelessly vaunted the merits of totally unfettered capitalism but are today bent on switching from *laisser-faire* economics to restraint and cooperation. We shall see what comes of it – especially as the aim is not so much to improve the lot of the working poor, of people in casual jobs or on the margins of society, of working families, pensioners, the unemployed and people who are sick or disabled, as to bail out a system which has itself become 'too big to fail'.

In this bizarre game of political musical chairs, Europe's social-democrats are offering few truly credible alternatives that are built on and backed by robust alliances. The most urgent task right now is of course to revive the economy and preserve jobs. But, at a time when we are struggling with climate change, are there no other options than to revive a former model which has proved incapable of adjusting to social and environmental requirements? We have here what is undoubtedly one of the major differences from the Depression of the 1930s: over and above a financial, economic and social crisis, humanity is now having to grapple with an incipient climate crisis whose long-term outcomes will be unprecedented.

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6. 'Reinventing the European left', *Financial Times*, 6 January 2009.

Some environmental aspects of the crisis

Climate concerns are making progressive thinkers wonder how best to overcome the crisis. Some of them see this crisis as an opportunity for a large-scale purge, enabling the system – cleansed and stabilised – to return to normal and resume its creation of growth and jobs. Others would like this purge to be accompanied by a redirection of the real economy, giving rise to green capitalism based on climate concerns. Others still see it as the collapse of one system and the beginning of its replacement by another (but by what system?).

If humanity is to survive, it now faces an entirely new obligation: that of managing the delicate equilibrium of its own biotope. This radical change of context will without doubt be the biggest political challenge of the years ahead. The problem is that, whereas the characteristics of green capitalism are easily identifiable ('clean' cars, energy saving, etc.), it is much more difficult to determine the characteristics of a 'new European model of sustainable development'. It basic outlines are obvious, of course: preserving and re-establishing the quality of the environment in agriculture, industry and services. But is this really a new model, or is it a greening of the old one? In other words, are we going to see highly competitive green businesses fighting for a share of burgeoning green markets and publishing fine reports about sustainable development on glossy paper? (By way of example, the first hedge fund devoted to speculating on the carbon market was due to be launched in London in January 2009.) Or should we be putting an end to this headlong pursuit of progress, however green it may be, in favour of development centring on cooperation – as opposed to competition – and on long-term benefits – as opposed to instant profit – so as to preserve the environment in a broad sense and promote social cohesion? Such development would of course be reflected by indicators other than GDP, a very narrow gauge. The characteristics of such a model still remain vague, unfortunately, and the time does not yet seem ripe to firm it up (radical changes in paradigms and indicators, and in international alliances and accords, for example). But we should surely be directing our attention to these matters as of now.

Just as the Great Depression made it possible to inject a dose of social policy into the capitalism of the next 30 or 40 years, the question today is whether the recession the world is entering in 2009 will make it possible to inject a dose of green policy into the capitalism of the forthcoming 30 or 40 years. Or else whether the political, economic, social and environmental players will be capable of building this new European model of sustainable, credible and solid development on the ruins of the present day.

Be that as it may, the European Union will need to learn the lesson that it is no longer economic ‘growth’ that will contribute to protecting the environment and promoting social policy, as the Kok report asserted in 2004. No; ‘growth’ – or rather sustainable development – will in future be created by measures to combat climate change, protect the environment and promote social cohesion (health, education, aid for individuals, public transport, housing etc.)[7]. This way of thinking takes us away from green capitalism and its efforts to adapt to the new climate constraints; what is needed, more broadly, is a paradigm shift away from competition to cooperation, from short-term growth to long-term development[8].

The growing significance of international concerns has prompted us to devote the first part of this edition to ‘Europe in the world’. Given the way in which certainties were shattered in 2008, we have chosen to open up a general debate through contributions which do not necessarily reflect the editors’ opinions. Part One deals with the following topics:

— the global food crisis and European policy-making (agriculture, trade and development), by Olivier De Schutter;

— the international financial crisis and methods of distribution, by Jacques Sapir;

— the impact of climate change policies on the automotive industry, by Patrick Loire and Jean-Jacques Paris.

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7. See the report *Green Jobs – Towards Decent Work in a Sustainable, Low-Carbon World*, UNEP/ILO/IOE/ITUC, September 2008.
8. For a discussion of these issues, see C. Degryse and Pochet, P. (2009) “Changer de paradigme : la justice sociale comme prérequis au développement durable” , *Working Paper*, WP 2009.02, ETUI, Brussels.

In Part Two we shall look more specifically at social affairs in Europe in 2008, with the following contributions:

— the new social agenda and the directives on working time and temporary work, by Philippe Pochet and Christophe Degryse;

— European Works Councils, by Romuald Jagodzińsky;

— the cross-industry social dialogue, by Isabelle Schömann;

— the draft healthcare directive, by Rita Baeten;

— the question of establishing a specialist social affairs tribunal within the ECJ, by Marie-Ange Moreau;

— the European Court of Justice and the Rüffert and Luxembourg judgments, by Dalila Ghailani.

The two most striking social policy developments of 2008 in Europe were, firstly, the evolving case-law of the ECJ in a series of cases related to the posting of workers and, secondly, the revival of a legislation-centred social agenda: the directives on temporary work, working time and European Works Councils.

The contributions by Marie-Ange Moreau and Dalila Ghailani concern judgments of the ECJ seeking to determine the balance between freedom to provide services in the EU and the protection of workers' social rights. These judgments, coolly received in national and European trade union circles, caused us to wonder whether it would be useful and worthwhile to create a sort of labour court at European level, along the lines of those existing in various forms in several Member States, to rule specifically in labour disputes. The obstacles are many and varied, but it would in any event seem 'useful to continue thinking not only about the procedural implications of a specialisation in EU social law, but also about the method of construction that the social dimension of the European Union will require in the future', as Marie-Ange Moreau puts it.

With respect to the social agenda, the main events in 2008 were the adoption of the directive on temporary work, the accelerating pace of negotiations on the 'working time' directive (see Philippe Pochet and Christophe Degryse) and the revision of the directive on European Works Councils (see Romuald Jagodzińsky). The 'temporary work' directive introduces the principle of equal treatment for temporary workers as from the very day of their recruitment, with limited possibilities for derogation from that principle provided that the social partners are involved. The 'working time' directive was discussed throughout the year: the limitation of working time to 48 hours per week and the abolition of the opt-out three years from now are two particularly contentious issues in the dialogue between the European Parliament and the Council. The outcome will become known in 2009. Lastly, as concerns the revision of the European Works Councils directive, a final agreement was reached in the Council on 17 December 2008. The new directive, replacing that of 1994, will enter into force two years from now.

2008 also marked the end of the European cross-industry social partners' work programme (2006-2008). The time has therefore come to take stock (see Isabelle Schömann). To complete this overview, it only remains for us to mention the draft directive on healthcare, certain to be a subject of debate throughout 2009 (see Rita Baeten).

Turning to national political life in Europe, in 2008, it was marked in **Italy** by the resignation of Prime Minister Romano Prodi in January. An early general election was called for 13 and 14 April. The left-wing coalition collapsed, and Silvio Berlusconi was victorious. For the first time in the history of the Italian Republic, Socialists, Communists and Greens alike disappeared from Parliament. At the presidential elections held in **Cyprus** on 17 and 24 February, the success of the Communist candidate, Demetris Christofias, revived hopes of a negotiated solution with the Turkish Cypriots. In **Spain**, Mr Zapatero's Socialists won a narrow victory at the general election held on 9 March. Also on 9 March, in **Malta**, the Nationalist Party, in power for the past twenty years, defeated the Labour Party in a general election. In **Austria**, an early general election was called for 28 September. The far right achieved a historic victory; after eight weeks of negotiations, the People's Party and the Social-Democrat Party reached an agreement on the renewal of the 'grand coalition'. A general election held in **Lithuania** on 26 October resulted in strong gains for populist parties. The Conservative opposition party led by Andrius Kubilius gained the most votes and was tasked with forming a new government. At the general election which took place in **Romania** on 30 November, the Social-Democrat Party defeated the Democratic-Liberal Party of President Trajan Basescu. The new Romanian Prime Minister, Emil Boc, heads a centre-left government formed at the end of December.

Of these six general elections, only three resulted in a change of administration (Italy, Lithuania and Romania), which makes 2008 a remarkably stable year politically in a Europe of 27 (with the notable exception of Belgium which, amidst a never-ending period of instability, went through three changes of prime minister during the course of the year). The overall balance of power within the EU continues to lie with liberals and conservatives: 18 governments out of 27, or two thirds, are on the right or centre-right; nine are on the left or centre-left. What is more, populist parties are still gaining ground in various countries (e.g. Austria, Lithuania and Belgium).

Nevertheless, the most important election of the year for Europe was indisputably the US presidential election. That poll stood out in sharp contrast with the political landscape of the 'old continent': a record voter turn-out, especially among ethnic minorities, a reinvigoration of politics and, finally, the election of the first ever black man, Barack Obama, to the country's highest office. As *Le Monde* put it, who would have believed the American people capable of taking such a free and mature decision, after having elected George Bush, the Republican from Texas, twice over?[9].

This new US administration gives the European Union grounds to hope for a strengthening of transatlantic cooperation on a range of subjects dear to the EU: measures to combat global warming, conflict and diplomacy in the Middle East, economic recovery, financial governance, human rights (the Guantánamo Bay detention camp), etc. Expectations are running high, and many observers predict at least partial disappointment. It is however a fact that similar political agendas on both sides of the Atlantic cannot fail to strengthen not only the aims but also the means of achieving them. In that sense, Barack Obama's election is good news for the European Union.

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9. *Le Monde*, 9 January 2009.

National social affairs

Social policy matters featured prominently within the Member States in 2008. Following the violence in French suburbs, violent demonstrations erupted in Denmark in February. A combination of discrimination, idleness and exclusion brought young people of immigrant origin out onto the streets of Copenhagen. Protests also erupted among university and school students in Italy, against the new Berlusconi government. At the end of the year, it was the turn of young people in Greece to vent their anger, in rioting that lasted several long days. European youngsters seem increasingly to be expressing deep-seated disquiet about education, social integration, the future (unemployment, insecure jobs and low pay), the establishment and politics. Our societies should sit up and listen. What do they have to offer?

Last year likewise saw a number of labour demonstrations in favour of purchasing power (Belgium), against the rise in oil prices (fishermen and road hauliers in France and Italy), a general strike (Greece), a teachers' strike (United Kingdom), wage demands in central and eastern European countries, simmering discontent among German civil servants, and so the list goes on. Workers at Dacia (a subsidiary of Renault) in Romania, no longer wanting to be 'slaves in the European Union'[10], obtained a 28 % increase in their basic pay. Teachers in Bulgaria mounted one of the longest-lasting protest actions[11]. In Denmark it was nursery nurses, health workers and educationalists who engaged in one of the longest ever labour disputes in the public sector[12]. In April, some 35,000 trade unionists from across Europe responded to a call from the European Trade Union Confederation (ETUC) and held a demonstration in Ljubljana (Slovenia), to demand an increase in wages and purchasing power and a fairer distribution of profits. More than 50 union organisations from 30 or so countries joined the march.

In the second half of the year, however, the fear of unemployment came to the fore. A very sudden economic downturn, and a rise in unemployment, occurred particularly in the United Kingdom, Ireland and Spain. Between

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10. *Le Monde*, 13 April 2008.
11. http://www.eurofound.europa.eu/eiro/2007/09/articles/bg0709039i.htm.
12. http://www.eurofound.europa.eu/eiro/2008/04/articles/dk0804029i.htm.

August and October, the number of British people out of work rose by 137,000, 40 % of them young workers. Unemployment in Ireland, having stayed below 5 % since 2001, had already climbed to 7.8 % by the end of November. In Spain, according to end-of-year government estimates, having fallen below 8 % in 2007 the jobless figure was heading for 12.5 %. In October and November alone, Spain registered more than 360,000 additional jobseekers. Already in August, Eurostat announced the first rise in unemployment for four years for the euro zone as a whole. One after another, the economic indicators nosedived. The IMF was called to the rescue in October, first by Iceland, then by Ukraine, then Hungary and then Latvia which, after years of exceptional growth, was compelled to cut public sector workers' pay by around 15 %, freeze pensions and raise VAT. Eurostat reported in November that 17.466 million men and women were out of work in the EU 27, 12.180 million of them in the euro zone (that is, one million more than in November 2007). During the first few weeks of 2009, Greece, then Spain and then Portugal were downgraded by the main financial ratings agency. As we said at the start, 2009 opened on a scene of devastation.

January 2009.