

Foreword

If we were to identify two major crises of global economic governance in 2007, they would without doubt revolve around the fundamental rethink of methods of production, transport and consumption emerging from the latest work of the Intergovernmental Panel on Climate Change (IPCC), firstly, and, secondly, the failure of economic and financial governance highlighted by the subprime mortgage crisis in the United States. Throughout the entire year, in the industrialised countries, these two events were calling into question a type of 'growth' which nowadays no longer bolsters collective well-being.

The IPCC's alarming forecasts concerning the social impact of global warming lead to fears that the meagre results of development in the poorest countries could be wiped out: social inequalities, threats to employment in many sectors (agriculture, fisheries, water etc.), drought, flooding, epidemics and population displacement could all increase. Industrialised countries will not escape climate change, nor its long-term effects on various economic sectors and on how employment is likely to be redistributed. A study carried out by the European Trade Union Confederation (ETUC), the Social Development Agency (SDA), Syndex (France), the Wuppertal Institute (Germany) and Iistas (Spain) indicates that the volume of job gains and losses triggered by climate change will be considerable and that no sector will be spared, whether the effects of measures taken to combat global warming that it experiences are positive or negative.

The subprime crisis originating in the USA has, for its part, led to situations which would have been deemed unthinkable in the 21st century: long queues outside the Northern Rock bank in the United

Kingdom, colossal sums stumped up by central banks in large industrialised countries so as to avoid total paralysis of the interbank lending market, major Western banks bailed out by Asian investment funds, and so on. As well as being yet another financial crisis, what is striking about the subprime affair is that in December 2007, i.e. more than six months after it first began, the full impact on the international banking and financial system could still not be gauged – which betrays the existence of some extraordinarily shady areas in global economic ‘governance’.

These two major crises have been compounded by other events, some but not all of them linked to the above. Such events directly affect the ordinary European non-shareholding employee: thousands of over-indebted households can no longer afford their accommodation costs, rising energy prices (in New York the barrel of oil doubled between January 2007 and January 2008, from \$50 to \$100), the surge in raw materials prices and especially the cost of food, the return of inflation hitting low incomes particularly hard, and so the list goes on. Thus while the monetary authorities offer unlimited guarantees to banks foundering because they have over-speculated, the mounting insecurity of those who live by their labour contributes once again to a picture of unequal, unfair and chaotic globalisation.

To complete the picture, we must add the cohorts of migrants now arriving at a tragically regular pace, who are attempting by every possible means to penetrate the fortresses of North America and Europe. These countries, meanwhile, no longer tolerate immigration except through their competition to attract the best brains, conducted across the entire planet. Finally, the very notion of development cooperation, basically dating back to the 1960s, is nowadays giving way to trade liberalisation and demands in respect of governance and property rights. Peace and prosperity will ensue, or so the (sceptical) African, Caribbean and Pacific countries are promised.

We have decided, in view of these factors, to devote a substantial part of this edition of *Social Developments* to the theme ‘Europe in the world’ and to emerging forms of governance. The theme divides into several

chapters, devoted to the role of Europe in:

- the fight against climate change (Jean-Pascal van Ypersele);
- sustainable development (Iain Begg);
- the regulation of financial markets (Pierre Defraigne);
- international trade unionism (Christophe Degryse);
- development cooperation (Frédéric Lapeyre);
- asylum and immigration policies (Cécile Barbier).

As concerns the European Union's 'domestic' agenda, we shall focus this year on four themes which we thought crucial in 2007:

- the Lisbon agenda and *flexicurity* (Maarten Keune);
- the liberalisation of postal services (Éric Van den Abeele);
- developments in the sectoral social dialogue (Philippe Pochet);
- the rulings of the European Court of Justice in the *Viking* and *Laval* cases (Dalila Ghailani).

One of the key ongoing social debates in Europe throughout the year concerned the future of services of general interest. Although independent studies demonstrated in 2007 that energy liberalisation has been a failure, the Commission pressed ahead with its plans to liberalise electricity and gas. In the eyes of the ETUC it is doggedly pursuing a hopeless cause: 'the Commission continues to support a liberal model that has given ample proof of its limits, in particular in the United Kingdom, the cradle of energy liberalisation' ⁽¹⁾. Full liberalisation has been accomplished in the postal sector, with an agreement between the European Parliament and the Council (see the article by Éric Van den Abeele), but the question of how to finance universal service has not been answered clearly and unambiguously. So here too there are grounds for fearing that liberalisation will not bring the promised benefits for consumers, but will

¹ "“Energy and climate change package”: the ETUC supports its objectives, but criticises the inadequate measures proposed’, ETUC *Press Release*, 11 January 2007 (<http://www.etuc.org/a/3218>).

instead worsen the quality of service and of work in the sector and, ultimately, push up costs. Whether it be public services, postal services, healthcare services, social services of general interest etc., Europe urgently needs to clearly demarcate what forms part of the market and what does not; what is economic and what is not. Admittedly, the Lisbon Treaty contains a new protocol on services of general interest. Admittedly, the ETUC handed in a petition containing more than half a million signatures in November, demanding a directive on public services. But the Commission and the Court of Justice continue to give the impression that everything is – or can be – economic, and that consequently everything is – or can be – subject to competition rules and the freedom to provide services.

Another significant debate of 2007 was ‘flexicurity’ and the future of labour law. At the end of 2006, the Commission had adopted a Green Paper entitled ‘Modernising labour law to meet the challenges of the 21st century’, aimed at prompting a public debate about adapting labour law to the modern economy. During this entire year, debate focused on how to reconcile flexibility and security in the labour market (see the articles by Maarten Keune and Philippe Pochet). Whereas at the end of the year the Council managed to agree on eight common principles of flexicurity, it failed to reach agreement on revising the ‘working time’ directive ⁽²⁾ and on temporary work. This state of affairs, we believe, is indicative of the fact that it is easier to deregulate and enhance flexibility at European level than to heighten security for employees. Another worrying trend is highlighted by some recent Court of Justice rulings. There has been much discussion of the *Viking* and *Laval* cases, where the right of workers to take collective action clashes with the fundamental economic freedoms of the EU (see the chapter by Dalila Ghailani), but less mention has been made of the ruling of 14 June 2007 in a case between

² European Parliament and Council of the European Union (2003), Directive 2003/88/EC of the European Parliament and of the Council of 4 November 2003 concerning certain aspects of the organisation of working time, OJ L 299 of 18 November 2003, pp.9-19.

the Commission and the United Kingdom (Case 127/05). This ruling, which concerns transposition of the 1989 framework directive on workers' health and safety, holds that an employer's obligations to the workforce may be restricted by considerations of an economic nature. Surely, by declaring that the employer is obliged to ensure the health and safety of workers only in so far as is 'reasonably practicable' ⁽³⁾, the Court is opening up a breach in European labour law?

These developments on major European social issues – covered in more detail in the contributions to this volume – are embedded in national contexts, both political, economic and social, some aspects of which are shared by different Member States and may be worth recalling here.

For instance, the (European) issue of flexibility and labour law is accompanied by a number of pay disputes in several countries. Whilst at the end of 2007 almost all Member States were enjoying overall employment growth and a corresponding drop in unemployment, questions as to the quality of work, pay and household purchasing power are becoming ever more pressing. In Germany, the year began with a wide-ranging debate about pay. Figures published by the Federal Statistical Office in January 2007 ⁽⁴⁾ reveal that the 2.5% growth recorded in 2006 did not benefit German employees in terms of purchasing power. Wage rises were totally eroded by inflation (+1.7%), for both white-collar staff (+1.2% of pay on average) and blue-collar workers (+1.5% of hourly pay). Overall, wage rises in 2006 (+1.2%) were the lowest on record since 1995, the date of the first survey carried out for Germany as a whole. According to the German Social Democrats, almost 2.5 million people working full-time can no longer live on their earnings, yet the former Minister for Employment and Social Affairs and Vice-Chancellor, Franz Müntefering, has declared that 'anyone who works full-time must be able

³ Judgment of the Court of Justice in Case C-127/05, *Commission / United Kingdom*. The Court dismisses the Commission's action against the 'reasonably practicable' qualification contained in the United Kingdom legislation on the health and safety of workers, *Press Release*, No.41/2007, 14 June 2007.

⁴ <http://www.destatis.de/jetspeed/portal/cms/>.

to feed themselves and their family' ⁽⁵⁾). Statistics published on 19 November by the Nuremberg-based IAB (Institute for Employment Research) reveal that the number of working people dependent on welfare assistance rose from 800,000 to 1.33 million between January 2005 and January 2007. The question of whether or not to introduce a minimum wage in Germany has been under consideration and hotly debated throughout the year ⁽⁶⁾.

In France, according to INSEE (the French National Institute of Statistics and Economic Studies), whereas hourly pay has risen since the start of the 1980s, and despite the numerous upward adjustments of the minimum wage, annual earned incomes have not progressed in constant euros over the same period of time ⁽⁷⁾. This stagnation mainly results from the increase in the proportion of employees working part-time or doing atypical forms of work, and from the fall in the number of days paid. Thus this expansion of job insecurity brings about a reduction in real earned incomes, mainly among young people and employees not working full-time.

Seen within the national political setting, this trend is accompanied by widespread social debate about growing inequalities. Regular calls for wage restraint in the name of competitiveness are at odds with the evidence that directors' pay is spiralling out of control. What was regarded as an excessively generous golden handshake was given to Laurence Danon, former director of *Printemps*, in February 2007 and proved highly controversial. The French press took that as a pretext to recall the severance pay awarded to Jean-Marc Espalioux of the Accor

⁵ http://www.bundesregierung.de/nn_1264/Content/DE/Interview/2007/01/2007-01-28-muentefering-zdf-berlin-direkt.html.

⁶ In June 2007, having failed to agree on a minimum wage, the coalition reached agreement on extending the guaranteed minimum wage applying in the construction sector to a dozen other sectors.

⁷ '*Les salaires en France*', 2007 edition of the INSEE survey, Paris, November 2007 (http://www.insee.fr/en/ppp/publications/ficref_frame.asp?ref_id=SALFRA07&webco=SALFRA07&lien=1).

group (€12 million), Antoine Zacharias of Vinci (€13 million), Alain de Pouzilhac of Havas (€7.8 million), Igor Landau of Aventis (€10.5 million), Noël Forgeard of EADS (€8.5 million), Serge Tchuruk (Alcatel-Lucent), Patrick Kron (Alstom), Jean-François Roverato (Eiffage), etc. (⁸).

In the Netherlands, a 316% pay rise for the head of the Dutch bank ING over a four-year period aroused indignation. There too, the national press latched on to the matter and revealed that, in the space of one year, the bonuses awarded to the bosses of twenty or so large publicly listed companies grew by 21%. Sums offered by way of golden handshakes to managers leaving their posts are going through the roof: a manager at ABN-Amro left with €3 million; the head of the publishing house VNU, Rob van den Bergh, received a leaving gift of €5.9 million (⁹). This prompted Finance Minister Wouter Bos, of the Labour Party, to argue in favour of placing limits on private-sector managers' pay (a fixed pay component and a variable component consisting of premiums, bonuses and other allowances in the event of a takeover).

Directors' pay is likewise highly controversial in Germany, with the €11.9 million taken home in 2005 by the head of *Deutsche Bank*, Josef Ackermann, the announcement of an almost 30% pay rise for members of the Siemens management board (¹⁰), and the doubling of emoluments for the management board at automobile manufacturer Porsche (the six board members earned €112.7 million between them, compared with 45.2 million in 2006). A Ministry of Employment report published in summer 2007 finds that the revenue of enterprises and earnings from capital shot up by 42% between 2000 and 2006, while wages increased by just 4.5%. Unlike the new French President, German President Horst Köhler, who is a Christian Democrat (CDU) and former president of the IMF, has publicly denounced this 'decoupling' of wages and profits. In an

⁸ See *Le Monde* of 1st February and 12 April 2007.

⁹ *Le Monde*, 6 April 2007.

¹⁰ *Le Monde*, 2 May 2007.

interview with the *Handelsblatt* newspaper, he referred to a 'state of tension between enterprises and society', called on senior managers to act responsibly, and asked supervisory boards and shareholders to ensure that 'directors do not lose a sense of proportion in their pay pretensions' (¹¹). Meanwhile SPD President Kurt Beck, who is Minister-President of Rhineland-Palatinate, has announced that a working group will be set up to examine the possibility of legislative action to curb directors' pay (¹²).

Public debate about directors' pay goes way beyond the boundaries of the European Union. In the United States, the earnings gap between the head of a large company and an average employee, which stood at 42 in 1980, has since risen more than tenfold. According to the AFL-CIO trade union, the directors of the top 500 publicly listed companies each received a total income of \$15 million on average in 2006, which represents an 11.5% increase compared with 2005 (¹³). In Switzerland, the head of the Novartis pharmaceutical laboratory, Daniel Vasella, involuntarily triggered a debate in the country's media in that his annual income lies, according to estimates, somewhere between CHF 21 and 44 million (€13 to 27.5 million) and his severance pay is set at five years' earnings. A study by the Ethos Foundation notes that average remuneration for executive directors grew to CHF 2.3 million in 2006, representing a rise of 15.8% compared to 2005. 'Such a rise is far higher than that of the average population, which therefore leads to an even bigger increase in the gap between high and low wages'. The Foundation states with regard to executive pay, 'No link between performance and variation of remuneration was found' (¹⁴).

¹³ *Handelsblatt*, 29 November 2007.

¹⁰ *Le Monde*, 12 December 2007.

¹⁰ The Corporate Library's Annual CEO Pay Survey 2007, The Corporate Library, December 2007 (http://www.aflcio.org/corporatewatch/paywatch/pay/index.cfm#_ftn1).

¹⁰ 'Second Ethos study of executive remuneration: "Say on Pay" to rein in executive remuneration excess', 19 November 2007 (<http://www.ethosfund.ch/e/news-publications/news.asp?code=178>).

The European Trade Union Confederation (ETUC) adopted a statement on pay at its Congress on 21-24 May 2007, to be followed up by campaigns in 2008. The statement notes that wages and salaries represent a declining share in the gross domestic products of almost all the EU countries; that pay rises have barely kept pace with inflation in the euro zone, in particular, and have lagged behind economic growth in many new Member States; and that in some countries such as the UK there is emerging evidence that underpaid migrant workers are used to exert downward pressure on real pay rates especially for the unskilled and semi-skilled.

All of this has a name: pauperisation. This process, taken together with the spiralling of directors' pay described above, sheds a harsh light on the repeated appeals for wage restraint made by Finance Ministers at the Ecofin Council and by the European Central Bank (ECB) ⁽¹⁵⁾. One seemingly lone figure, the President of the Eurogroup and Luxembourg Prime Minister, Jean-Claude Juncker, stated at a European Parliament hearing on 27 June that it is 'impossible' to encourage trade unions to show restraint while 'other actors in economic and social life are unembarrassed about accepting limitless pay awards'. More than 72 million European citizens are living in poverty, and the gulf between rich and poor is widening steadily: 15% of Europe's workers, or approximately one in seven, are paid a monthly wage that is less than 60% of average national earnings; in other words, they are the 'working poor' ⁽¹⁶⁾. This climate of pauperisation signals a heavy workload for the year 2010, decreed by the European Commission the 'European Year for Combating Poverty and Social Exclusion'.

This overall climate has caused employees to start putting forward robust wage claims in most European countries, both 'old' and 'new'. In Germany, these demands are reflected in particular in the new pay agreement concluded last May in the metalworking sector (generally

¹⁵ 'ECB makes no change in rates and stresses wage restraint', *Bulletin of the European Union*, No.9559 of 7 December 2007.

¹⁶ <http://www.eurofound.europa.eu/eiro/2002/08/study/tn0208103s.htm>.

regarded as the barometer of pay trends in Germany). Similarly, the introduction of a minimum wage in the German postal sector, although viewed with some misgivings, is being presented as a means of combating the wage dumping provoked – whether one likes it or not – by the EU's liberalisation of the sector. Indeed, if we are to believe the reasons given by competitors for leaving this market after the announcement of the plan to introduce a minimum wage, the number-one purpose of liberalisation seems to have been to exert downward pressure on postal workers' wages. Under these circumstances, the European Parliament's appeal for employment trends and working conditions in this liberalised sector to be monitored – an appeal ignored by the Council and jettisoned by the Parliament itself in December – makes a good deal of sense.

In the United Kingdom, labour disputes erupted in the Post Office, the London Underground, the railways and the civil service. In France, the transport sector and the public service in particular were hit by conflicts. In Finland, a bitter labour dispute in the healthcare sector caused the government to pass a law in November requisitioning 12,000 nurses who were threatening to resign en masse if their pay negotiations fell through. In Finland and in Sweden, two long-running labour disputes were resolved by means of court action: the *Viking* and *Laval* rulings by the European Court of Justice recognise the right to strike and the right of trade unions to take strike action against wage dumping; however, the ETUC fears, they could also affect the unions' capacity to promote equal treatment and protection for workers whatever their nationality. In Belgium, the power vacuum brought about by the longest-running political crisis in the country's history led to widespread trade union action on purchasing power and protests against rising prices for food, housing and energy (electricity, gas and heating oil). In Spain, according to the OECD, the huge rise in the number of working women and immigrants led to a 4% drop in average earnings between 1995 and 2005. Vigorous wage demands are also starting to be made in the central and eastern European countries: in Czech industry, where unions at the automobile manufacturer Skoda, a subsidiary of the German group Volkswagen, mobilised 27,000 employees in April in favour of a 24% wage hike; in the healthcare sector in Slovakia and Romania, where

workers fought for improved pay ⁽¹⁷⁾; and in Estonia, where agreement was reached in January to boost the minimum wage for health workers by 25% ⁽¹⁸⁾. In Poland, while many doctors and nurses are heading off to western European countries, a third of all hospitals went on strike in May for better wages and a reform of the health system ⁽¹⁹⁾. Robust wage claims have also been put forward in the public sector in Estonia ⁽²⁰⁾ and Hungary ⁽²¹⁾; in the education sector in Bulgaria and Latvia ⁽²²⁾, etc.

At a political level, general elections were held in eight EU countries in 2007: Estonia (March), Finland (March), Ireland (May), Belgium (June), France (June), Greece (September), Poland (October) and Denmark (November). New governments were likewise formed in Austria in January (following the elections of October 2006), the Czech Republic (elections of June 2006) and the Netherlands in February (elections of November 2006). All in all, no fewer than eleven new governments took office during 2007. In addition, in the United Kingdom, Prime Minister Tony Blair handed over to the Chancellor, Gordon Brown, in June after experiencing a setback at the May local elections. In Italy, the Prodi government fell in February then managed to regroup; the two main centre-left parties merged in October to form the Democratic Party, a social-democrat type line-up. Germany's 'grand coalition', in whose ranks there is much dissent, saw the SPD strengthen its social profile at the Social-Democrat Congress in Hamburg in October, while the CDU is repositioning itself in the centre.

¹⁷ <http://www.eurofound.europa.eu/eiro/2006/12/articles/sk0612039i.htm>
<http://www.eurofound.europa.eu/eiro/2006/11/articles/ro0611039i.htm>.

¹⁸ <http://www.eurofound.europa.eu/eiro/2007/02/articles/ee0702059i.htm>.

¹⁹ *Le Monde*, 23 May 2007.

²⁰ <http://www.eurofound.europa.eu/eiro/2007/03/articles/ee0703019i.htm>.

²¹ <http://www.eurofound.europa.eu/eiro/2007/03/articles/hu0703029i.htm>.

²² <http://www.eurofound.europa.eu/eiro/2007/02/articles/lv0702029i.htm>.

As this brief overview shows, political change is rapid and ongoing in a Europe of 27 Member States. Hence it would seem more necessary than ever for there to be a certain consistency in countries' European policies, especially when it comes to establishing alliances in the field of social affairs (see for example the joint declaration entitled '*Un nouvel élan pour l'Europe sociale*' signed in Paris on 7 February by nine Member States: Belgium, Luxembourg, Bulgaria, Cyprus, Spain, France, Greece, Hungary and Italy)⁽²³⁾. On the other hand, the unpredictability of Member States' European policies weakens the European project, as was demonstrated in the case of Poland until autumn 2007. In a sense, this demonstrates the need to clarify the purpose of building Europe and to possess a coherent, intelligible and reliable treaty governing the operation of EU institutions. Does the Treaty of Lisbon signed in December 2007 meet this need? Three lessons can certainly be learned from its lengthy gestation period. The first has to do with method, the second with content, and the third with the players and any alternatives.

As far as the method is concerned, the desire to replace the classic method of revising Europe's treaties, namely 'intergovernmental conferences', had been accompanied since 2001 by a desire to more closely involve citizens in the building of Europe, most notably through so-called civil society organisations, and to simplify the treaties to make them more readable. What happened next is well known: the establishment of a European Convention, the elaboration of a draft 'constitution' forwarded to the intergovernmental conference of 2004, the signing of the constitutional treaty and then, finally, its rejection by France and the Netherlands at the ratification stage in 2005. Even though it had been drafted more democratically than its predecessors, therefore, the constitutional treaty did not reap the rewards of the new method. The lesson learnt from this, no doubt owing to pressure from EU enlargement, resulted in a 180 degree U-turn. Civil society was shut out, political compromises were reached at the highest level at the European Council of June 2007, a hasty intergovernmental conference was held behind closed doors, a new

²³ <http://www.rpfrance.eu/spip.php?article665>.

and totally illegible treaty was signed and then, for most countries, parliamentary ratification occurred without public debate. What is more, according to some insiders, there will be no question of launching any further European conventions 'until at least ten years from now'. Thus, following an attempt to open up democratic debate between 2000 and 2005, the Treaty of Lisbon has finally seen the light of day thanks to a retreat behind diplomatic closed doors. In sum, this treaty is the almost total antithesis of the Laeken Declaration which, in December 2001, launched the revision of the Treaty of Nice. One highly cynical *Financial Times* columnist noted that, if Europe wishes to make progress, it must at all costs do so out of sight of the citizens⁽²⁴⁾. Obviously, however, such a 'lesson' is scarcely tenable in the medium or long term. Keeping the Member States' populations in the dark about the European debate will never serve to create a European dynamic among public opinion, except one of opposition.

In actual fact, one of the most surprising aspects of the new Treaty is that the European policy content remains virtually unchanged. Social affairs have become somewhat less visible, mainly by being relegated to the Charter of Fundamental Rights (although it is still binding, except on the United Kingdom which has opted out and Poland which has not really clarified its stance in this regard). In addition, recognition of the social partners in the Treaty appears more limited than in the draft European constitution: their role now seems confined to social policy matters in the strict sense and no longer extends – at least formally – to macro-economic matters. Paradoxically, a 'horizontal social clause' has been introduced into the Treaty, aimed at making all Community policies address a series of social requirements. The goal of free and undistorted competition has been relegated to a protocol (which does however have the same legal value as the Treaty). Another protocol acknowledges – and asserts the intention to preserve – the role of services of general interest. Otherwise, the Treaty's main innovations are procedural: the extension of qualified majority voting, a new method of calculating the weighting of votes,

²⁴ *Financial Times*, 26 June 2007.

simplification of enhanced cooperation, etc. These innovations are not unimportant; they reflect a political will to make the Union function more effectively. But they are not in themselves sufficient to relaunch or redirect the momentum of Europe. Rather, it is to be feared that the saga of the European constitution and then the Treaty of Lisbon could mean that no real examination or rethink of the purpose and methods of building Europe will be attempted for quite a while to come.

Now that we have moved on from Nice, the absence of any further institutional deadlines in the near future should be turned to effect by social and trade union movements in order to cool-headedly revive democratic debate about Europe – its principles, its basis and its purpose. In other words, given that the institutions are now expected to operate effectively with 27 Member States, let us initiate a debate about what the European people expect of those institutions. Failing that, the Treaty of Lisbon will remain a triple failure in the minds of progressive thinkers: failure to involve the citizens; failure to reassert a social project for Europe and imbue it with content; failure to involve alternative non-governmental players. The upshot has been an unreadable text adopted by political elites who consider it more important to maintain a subtle diplomatic balance than to question the democratic nature of European construction and its participatory methods. It is clear in any event that, were a number of critical players to withdraw into their national shells, the champions of ‘negative integration’ and deregulation would be given free rein.

January 2008.