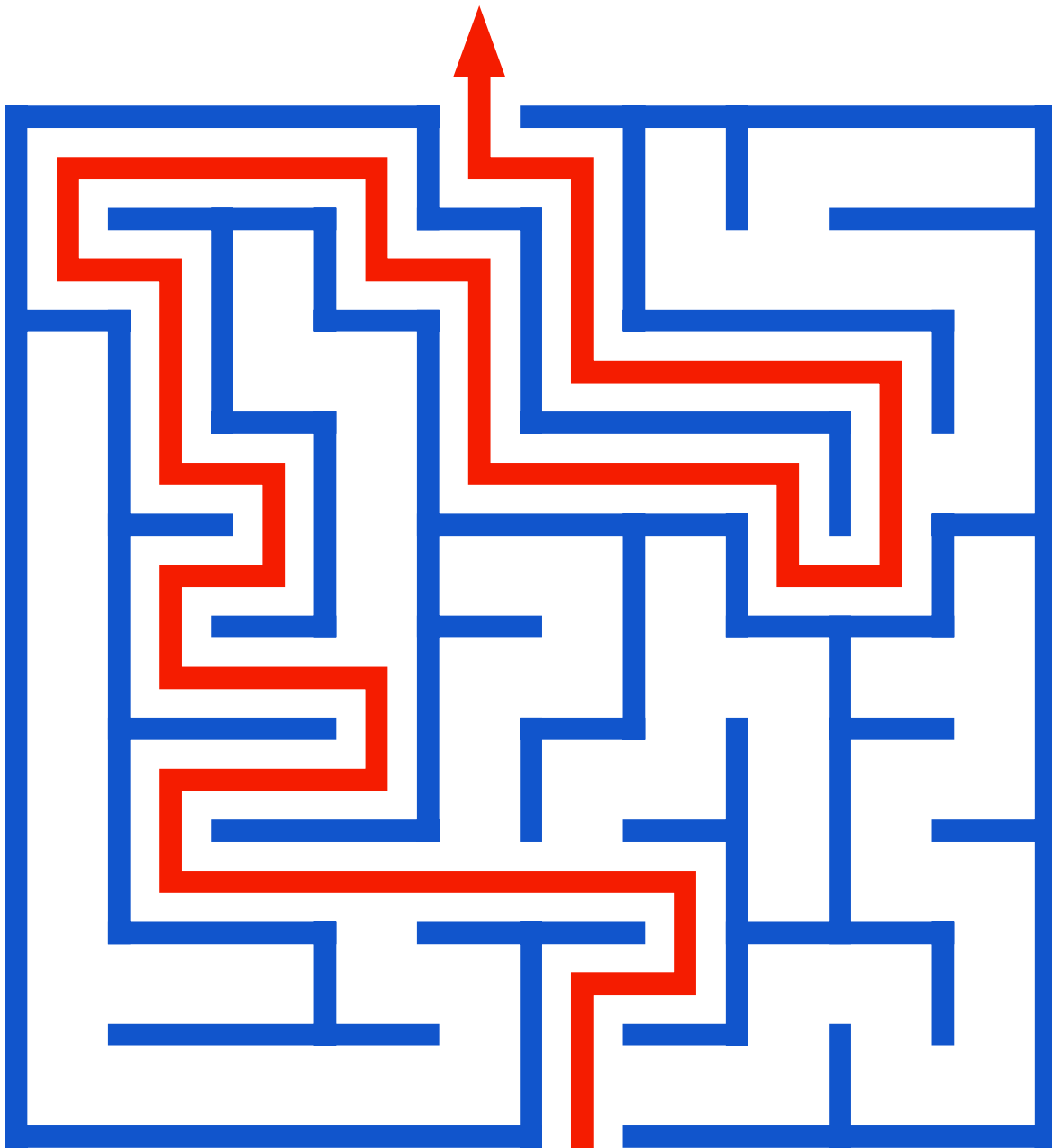


# Roadmap to a Social Europe

Edited by Anne-Marie Grozelier, Björn Hacker, Wolfgang Kowalsky, Jan Machnig, Henning Meyer and Brigitte Unger



Social Europe Report

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# Introduction

*By Wolfgang Kowalsky and Henning Meyer*

A roadmap to a Social Europe! That was the ambitious idea laid down in the conclusions of the European Council in December 2012 to respond to the growing anger and frustration all over Europe. The European Commission was supposed to come up with a social roadmap at the European Council in June 2013. But we, and indeed many others, were waiting in vain.

Social Europe Journal, together with its partners for this project – the European Trade Union Confederation (ETUC), the IG Metall, the Friedrich-Ebert-Stiftung, the Hans Böckler Stiftung and the French institute Lasaire - seized the moment and started an ambitious project. We did not want to wait any longer for an official announcement and instead set out to define what we think the core elements of a sustainable Social Europe should be. Drawing on the best expert and practitioner knowledge, we started collecting views and analyses from all over Europe. The result was a comprehensive online debate and this eBook with 43 articles on different aspects of the European social dimension written in spring and summer 2013.

The book has three principal sections: In the first part, some of Europe's most prestigious thinkers and analysts make the connection between the discussion about Social Europe and the wider European malaise. One cannot discuss the social dimension in isolation but has to link it to the wider debate about the future of European integration if you want to be realistic, up-to-date and relevant.

Following this, the second part brings together trade union views 'from the ground' across Europe. European political discussions are often perceived as detached from the real lives of people in the member states and the discussion about Social Europe is no exception. Therefore we collected the views of European and national trade union leaders and thus added an important dimension that has often found too little appreciation.

In the third and final part, some of the best experts in the field address a series of more specific issues related to the social dimension of the European Union and make recommendations for how to tackle them.

Social Europe is at the heart of many controversies and of course not everybody agrees on all aspects. But all the authors of this volume would like to contribute to the discourse about a fairer, socially just and sustainable Europe. And we think they have made a very important contribution.

Now, after the German election and with the European elections of 2014 already in sight, the key question about the future of Europe is back on the agenda: What kind of Europe do we want? Politicians struggling to convince reluctant electorates that they should be re-elected could do worse than having a look into this eBook to find some ideas to make a new case for Europe, a Social Europe that deserves the name.

On 2<sup>nd</sup> October 2013, the Commission finally published its long awaited communication on the social dimension proposing to create a new scoreboard to allow for better and earlier identification of major employment and social problems. The communication, quite frankly,

was disappointing. An initial discussion about an Euroarea unemployment insurance scheme was expected to be part of it, but the Commission thinks – given the national competence of member states – that a ‘substantial treaty change’ is necessary first. The communication also does not propose any new resources to tackle unemployment and social problems in the European Monetary Union, which is also a big omission. The Commission’s solution is to foster mobility, making it easier for people to move around the EU for work. This alone cannot be the solution.

More and more, the question is if a social dimension is still compatible with the new economic governance system now emerging in the wake of the Eurozone crisis. Internal wage devaluation and financial rescue packages as permanent new features are in contradiction to a social dimension, whatever form it is meant to take. The core problem is not one of too few indicators but the necessity to fight unemployment more efficiently and to establish a democratic economic governance system in line with the European Social Model.

Europe deserves much better than those proposals from Brussels. A change of course is needed and this eBook can hopefully inspire some new policy thinking by providing a collective vision of a different Europe, a real Social Europe.

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## **Part I – The European Crisis and Social Europe**



# Democracy, Solidarity And The European Crisis

*By Jürgen Habermas*

The European Union owes its existence to the efforts of political elites who could count on the passive consent of their more or less indifferent populations as long as the peoples could regard the Union as also being in their economic interests, all things considered. The Union has legitimized itself in the eyes of the citizens primarily through its outcomes and not so much by the fact that it fulfilled the citizens' political will. This state of affairs is explained not only by the history of its origins but also by the legal constitution of this unique formation. The European Central Bank, the Commission, and the European Court of Justice have intervened most profoundly in the everyday lives of European citizens over the decades, even though these institutions are the least subject to democratic controls. Moreover, the European Council, which has energetically taken the initiative during the current crisis, is made up of heads of government whose role in the eyes of their citizens is to represent their respective national interests in distant Brussels. Finally, at least the European Parliament was supposed to construct a bridge between the political conflict of opinions in the national arenas and the momentous decisions taken in Brussels – but this bridge is almost devoid of traffic.

Thus, to the present day, there remains a gulf at the European level between the citizens' opinion and will formation, on the one hand, and the policies actually adopted to solve the pressing problems, on the other. This also explains why conceptions of the European Union and ideas of its future development have remained diffuse among the general population. Informed opinions and articulated positions are, for the most part, the monopoly of professional politicians, economic elites, and scholars with relevant interests; not even public intellectuals who generally participate in debates on burning issues have made this issue their own.<sup>[1]</sup> What unites European citizens today is the Eurosceptic mindset that has become more pronounced in all of the member countries during the crisis, albeit in each country for different and rather polarizing reasons. This trend may be an important fact for the political elites to take into account; but the growing resistance is not really decisive for the actual course of European policy-making which is largely decoupled from the national arenas. The actual course of the crisis management is pushed and implemented in the first place by the large camp of pragmatic politicians who pursue an incrementalist agenda but lack a comprehensive perspective. They are oriented towards 'More Europe' because they want to avoid the far more dramatic and presumably costly alternative of abandoning the Euro.

Starting with the roadmap that the European institutions have designed for developing a 'Genuine Economic and Monetary Union', I will first explain the technocratic dilemma in which this project is likely to become entangled (I). In the second part I would like to present alternative steps towards a supranational democracy in the core of Europe and the obstacles we would have to overcome on that road (II). The major hindrance, the lack of solidarity, leads me in the last and philosophical part to a clarification of this difficult, yet genuinely political concept (III).

I

The Commission, the Presidency of the Council, and the European Central Bank — known in Brussels parlance as ‘the institutions’ — are least subject to legitimation pressures because of their relative distance to national public spheres. So it was up to them to present, in December 2012, the first more detailed document in which the European Union develops a perspective for reforms in the medium and long term that go beyond the present, more or less dilatory, reactions to critical symptoms.[2] Within this expanded timescale the attention is no longer focussed on the cluster of causes that, since 2010, have connected the global banking crisis with the vicious circle of over-indebted European states and undercapitalized banks refinancing each other. The important and long overdue ‘Blueprint’, as it is called, directs attention to long-term structural causes inherent in the Monetary Union itself.

The Economic and Monetary Union took shape during the 1990s in accordance with the ordoliberal ideas of the Stability and Growth Pact. The Monetary Union was conceived as a supporting pillar of an economic constitution that stimulates free competition among market players across national borders, and it is organized in accordance with general rules binding for all member states.[3] Even without the instrument of devaluing national currencies, that is not available in a monetary union, the differences in levels of competitiveness among the national economies were supposed to even out of their own accord. But the assumption that permitting unrestrained competition in accordance with fair rules would lead to similar unit labour costs and equal levels of prosperity, thereby obviating the need for joint decision-making on financial, economic and social policies, has proved to be false. Because the optimal conditions for a single currency in the Eurozone are not satisfied, the structural imbalances between national economies that existed from the start have become more acute; and they will become even more acute as long as the European policy pattern does not break with the principle that each member state takes sovereign decisions within the relevant policy fields without taking other member states into consideration; in other words, exclusively from its own national perspective.[4] In spite of some concessions, however, until now the German federal government has clung steadfastly to this dogma.

It is to the credit of the Commission and the Presidency of the Council that they have addressed the actual cause of the crisis — namely the faulty design of a monetary union that still holds fast to the political self-understanding of an alliance of sovereign states (as the *‘Herren der Verträge’*). According to the aforementioned reform proposal, the so-called Blueprint, three essential, though vaguely defined, objectives are to be realized at the end of a path projected to last five years: First, joint political decision-making at the EU level on ‘integrated guidelines’ for coordinating fiscal, budget, and economic policies of the individual states.[5] This would call for an agreement that prevents the economic policy of one member state from having negative external effects on the economy of another member state. Furthermore, an EU budget based on the right to levy taxes with a European financial administration is envisaged for the purpose of country-specific stimulus programs. This would generate scope for selectively focussed public investments through which the structural imbalances within the Monetary Union could be combated. Finally, Euro bonds and a debt repayment fund are supposed to make possible a partial collectivization of state debts. This would relieve the European Central Bank of the task of preventing speculation against individual states in the Eurozone that it has currently assumed on an informal

basis.

These objectives can only be realized if cross-border transfer payments with the corresponding transnational redistribution effects were to be accepted. From the perspective of the constitutionally required legitimation, therefore, the Monetary Union would have to be expanded into a real political union. The report of the Commission naturally proposes the European Parliament for this purpose and correctly states that closer 'inter-parliamentary cooperation as such does not ensure democratic legitimacy for EU decisions.'<sup>[6]</sup> On the other hand, the Commission takes into consideration the reservations of the heads of state and adheres so radically to the principle of exhausting the present legal basis of the Lisbon Treaty that it conceives the transfer of competences from the national to the European level as occurring only in a rather gradual and inconspicuous way.<sup>[7]</sup>

The obvious aim is to postpone a revision of the Treaties to the very end. The Commission accords the expansion of steering capacities priority in the short and the medium term over a corresponding enlargement of the basis of legitimation. Thus the ultimate democratization is presented as a promise, like a light at the end of the tunnel. Supranational democracy remains the declared long-term goal on paper. But postponing democracy is a rather dangerous move. If the economic constraints imposed by markets happily meet the flexibility of a free-floating European technocracy, there arises the immediate risk that the gradual unification process which is planned *for*, but not *by*, the people will grind to a halt before the proclaimed goal of rebalancing the executive and the parliamentary branches is achieved. Decoupled from democratically enacted law and without feedback from the pressing dynamics of a mobilized political public sphere and civil society, political management lacks the impulse and the strength to contain and redirect the profit-oriented imperatives of investment capital into socially compatible channels. As we can already observe today, authorities would more and more yield to the neoliberal pattern of politics. A technocracy without democratic roots would not have the motivation to accord sufficient weight to the demands of the electorate for a just distribution of income and property, for status security, public services, and collective goods when these conflict with the systemic demands for competitiveness and economic growth.<sup>[8]</sup>

Summarizing this analysis, we are trapped in the dilemma between, on the one side, the economic policies required to preserve the Euro and, on the other, the political steps to closer integration. The steps that are necessary to achieve this objective are unpopular and meet with spontaneous popular resistance. The Commission's plans reflect the temptation to bridge, in a technocratic manner, this gulf between what is economically required and what seems to be politically achievable, only apart from the people. This approach harbours the danger of a growing gap between consolidating regulatory competences, on the one hand, and the need to legitimize these increased powers in a democratic fashion, on the other. Under the pull of this technocratic dynamic, the European Union would approach the dubious ideal of a market-conforming democracy that would be even more helplessly exposed to the imperatives of the markets because it lacked an anchor in a politically irritable and excitable civil society. Instead, the steering capacities which are lacking at present, though they are functionally necessary for any monetary union, could and should be centralized only within the framework of an equally supranational and democratic political community.

## II

But what is the alternative to further integration based on the present model of executive federalism? Let us first consider those path-breaking decisions that would have to be taken at the very *beginning* of the route leading to a supranational democracy in Europe. What is necessary in the first place is a consistent decision to *expand the European Monetary Union into a Political Union* (that would remain open, of course, to the accession of other EU member states, in particular Poland). This step would, for the first time, signify a serious differentiation of the Union into a core and a periphery. The feasibility of necessary changes in the European Treaties would depend essentially on the consent of countries preferring to stay out. In the worst case a principled resistance could only be overcome by a re-foundation of the Union (based on the existing institutions).

The decision for such a core Europe would amount to more than merely a further evolutionary step in the transfer of particular sovereign rights. With the establishment of a common economic government *the red line of the classical understanding of sovereignty would be crossed*. The idea that nation states are 'the sovereign subjects of the treaties' would have to be abandoned. On the other hand, the step to supranational democracy does not need to be conceived as a transition to a 'United States of Europe.' 'Confederation' versus 'federal state' is a false choice (and a specific legacy of the constitutional discussion in 19th century Germany).[9] Nation states could well preserve their integrity as states within a supranational democracy by retaining both their roles of the implementing administration and the final custodian of civil liberties.[10]

At the procedural level the de-thronement of the European Council would mean *switching over from intergovernmentalism to the community method*. As long as the ordinary legislative procedure, in which the Parliament and the Council participate on an equal footing, has not become the general rule, the European Union shares a deficiency in legitimation with all international organizations that are founded on treaties between states. This deficiency is explained by the asymmetry between the scope of the democratic mandate of each single member state and the encompassing reach of competences of the organization exercised by all of member states in concert.[11] As national citizens see it, their political fate is determined by foreign governments who represent the interests of *other* nations, rather than by a government that is bound only by their own democratic vote. This deficit in accountability is intensified further by the fact that the negotiations of the European Council are conducted out of the public eye.

The community method is preferable not only for this normative reason, but for the reason of enhancing efficiency too. It helps to overcome national particularisms. In the Council, but also in inter-parliamentary committees, representatives who are obligated to defend national interests must bargain compromises between obstinate positions. By contrast, the deputies in the European Parliament, which is divided up into parliamentary groups, are elected from the perspective of party affiliation. This is why, to the extent that a European party system is taking shape, political decision-making in the European Parliament can already be conducted on the basis of interests that were generalized across national borders.

These are the fundamental decisions necessary for transforming the Monetary Union into a

Political Union that will not fall into the trap of technocracy. That would require, however, overcoming the high, almost insurmountable, institutional hurdle of a change in primary law. The first step, namely calling for a convention which is authorized to revise the Treaties, must be expected from the European Council, hence from the very institution that is least suited to developing smooth and cooperative resolutions. This would not be an easy decision for the members of the European Council who are at the same time heads of national governments. On the one hand, the thought of their re-election already leads them to recoil before this unpopular step and, in addition, they do not have any interest in disempowering themselves either. On the other hand, they will not be able to ignore indefinitely the economic constraints that will sooner or later require further integration or at least a manifest choice between painful alternatives. For the time being, the German government is insisting that priority should be accorded to stabilizing the budgets of individual states by national administrations, mainly at the expense of their social security systems, of public services and collective goods. Along with a handful of smaller 'donor countries', it is vetoing the demand of the rest of the members for targeted investment programs and for a form of joint financial liability that would lower the interest rates on the government bonds of the crisis-hit countries.

In this situation, the German government holds the key to the fate of the European Union in its hand. If there is one government among the member states capable of taking the initiative to revise the Treaties then it is the German government. Of course, the other governments could demand assistance on grounds of solidarity only if they themselves were ready to accept the complementary step of transferring required sovereignty rights to the European level. Otherwise, any assistance founded on solidarity would violate the democratic principle that the legislature that levies the taxes has also a say in the decision on how to allocate the funds and for whose benefit to use them. So the main question is, whether Germany not only *is in a position* to take the initiative, but also whether *it could have an interest in doing so*. In particular, I am looking for a specifically German interest that goes beyond the kind of interests shared by all member states (such as the interest in the economic benefits of stabilizing the Monetary Union or the interest in preserving European influence on the international political agenda in the emerging multicultural world society, an influence which is diminishing in any case).[12]

In the wake of the shock of the defeat of 1945 and the moral catastrophe of the Holocaust, prudential reasons of regaining the international reputation destroyed by its own actions already made it imperative for the Federal Republic of Germany to promote an alliance with France and to pursue European unification. In addition, being embedded in a context of neighbouring European countries under the hegemonic protection of the United States provided the context in which the German population at large could develop a liberal self-understanding for the first time. This arduous transformation of a political mentality, which in the old Federal Republic remained captive to fateful continuities for decades, cannot be taken for granted. This shift in mindset occurred in tandem with a cautiously cooperative promotion of European unification. Moreover, the success of this policy was an important precondition for solving a more long-standing historical problem that I am concerned with in the first place.

After the foundation of the German Empire in 1871, Germany assumed a fatal 'semi-hegemonic status' in Europe — in Ludwig Dehios's words, it was 'too weak to dominate the continent, but too strong to bring itself into line.'[13] It is in Germany's interest to avoid a

revival of this dilemma that was overcome only thanks to European unification. This is why the European question, which has been intensified by the crisis, also involves a domestic political challenge for Germans. The leadership role that falls to Germany today, for demographic and economic reasons, is not only awakening historical ghosts all around us but also tempts us to choose a unilateral national course, or even to succumb to power fantasies of a 'German Europe' instead of a 'Germany in Europe'. We Germans should have learned from the catastrophes of the first half of the twentieth century that it is in our national interest to permanently avoid the dilemma of a semi-hegemonic status that can hardly be held up without sliding into conflicts. Helmut Kohl's achievement is not the reunification and the re-establishment of a certain national normality per se, but the fact that this happy event was coupled with the consistent promotion of a policy that binds Germany tightly into Europe.

Germany has not only an interest in a policy of solidarity; I would suggest that it has even a corresponding normative obligation. Claus Offe tries to defend this thesis with three contested arguments. To date, Germany has derived the greatest benefit from the single currency through the increase in its exports. Because of these export surpluses, Germany furthermore contributes to aggravating the economic imbalances within the Monetary Union and, in its role as a contributory cause, is part of the problem. Finally, Germany itself is even benefiting from the crisis, because the increase in interest rates for government bonds of the crisis-hit countries is matched by a decrease in the interest rates on German government bonds.[14] Even if we accept these arguments, the normative premise that these asymmetric effects of the politically unregulated interdependencies between national economies entail an obligation to act in solidarity is not quite so easy to explain.

### III

This leads me to the final and philosophical question: What does it mean to show solidarity, and when are we entitled to appeal to solidarity? With a little exercise in conceptual analysis I intend to exonerate appeals to solidarity of accusations of moral stuffiness or misplaced good intentions that the 'realists' want to level against them. Moreover, showing solidarity is a political act and by no means a form of moral selflessness that would be misplaced in political contexts. Solidarity loses the false appearance of being unpolitical once we learn how to distinguish obligations to show solidarity from both moral and legal obligations. 'Solidarity' is not synonymous with 'justice', be it in the moral or the legal sense of the term.

We call moral and legal norms 'just' when they regulate practices that are in the equal interest of all those affected. Just norms secure equal freedoms for all and equal respect for everyone. Of course, there are also special duties. Relatives, neighbours, or colleagues can in certain situations expect more, or a different kind of, help from each other than from strangers. Such special duties also hold *in general* for certain social relations. For example, parents violate their duty of care when they neglect the health of their children. The extent of these positive duties is often indeterminate. Of course, it varies according to the kind, frequency, and importance of the corresponding social relations. When a distant relative contacts his surprised cousin once again after decades and confronts her with a request for a large financial contribution because he is facing an emergency situation, he can hardly appeal to a moral obligation but at most to a tie of an 'ethical' kind founded on family relations (in Hegel's terminology one, rooted in '*Sittlichkeit*' or 'ethical life').

Belonging to an extended family will justify *prima facie* a duty to help, but only in cases when the actual relation gives rise to the expectation that e.g. the cousin can count on the support of her relative in a similar situation.

Thus it is the trust-founding *Sittlichkeit* of informal social relations that, under the condition of predictable reciprocity, requires that the one individual 'vouches' for the others. Such 'ethical' obligations rooted in ties of *an antecedently existing* community, typically family ties, exhibit three features. They ground exacting or supererogatory claims that go beyond moral or legal obligations. On the other hand, when it comes to the required motivation the claim to solidarity is less exacting than the categorical force of a moral duty; nor does it coincide with the coercive character of law either. *Moral commands* should be obeyed out of respect for the underlying norm itself, without regard to the compliance of other persons, whereas the citizen's *obedience to the law* is conditional on the fact that the sanctioning power of the state ensures general compliance. Fulfilling an *ethical obligation*, by contrast, can neither be enforced nor is it categorically required. *It depends instead on the expectations of reciprocal favours – and on the confidence in this reciprocity over time.*

In this respect, unenforceable ethical behaviour also coincides with one's own medium or long-term interests. And it is precisely this aspect that *Sittlichkeit* shares with *solidarity*. However, the latter cannot rely on pre-political communities such as the family but only on political associations or shared political interests. Conduct based on solidarity presupposes *political* contexts of life, hence contexts that are legally organized and in this sense artificial ones.[15] This explains why the credit of trust presupposed by solidarity is less robust than in the case of ethical conduct, because this credit is not secured through the existence of a *quasi-natural* community. What is missing in the case of solidarity is the moment of conventionality in antecedently existing ethical relations.

What lends solidarity moreover a special character is, second, the *offensive character* of pressing or even struggling for discharging the promise which is invested in the legitimacy claim of any political order. This forward-looking character becomes particularly clear when solidarity is required in the course of social and economic modernization, in order to adjust the overstretched capacities of an existing political framework, that is to adjust eroding political institutions to the indirect force of encompassing systemic, mainly economic, interdependencies that are felt as constraints on what should be in the reach of the political control of democratic citizens. This *offensive* semantic feature of 'solidarity', over and above the reference to politics, can be elucidated by turning from an unhistorical conceptual clarification to the history of that concept.

The concept of solidarity first appeared in a situation in which revolutionaries were suing for solidarity in the sense of a *redemptive reconstruction* of relations of reciprocal support that were familiar, but had become hollowed out by the surpassing processes of modernization.[16] Whereas 'justice' and 'injustice' were already the focus of controversies in the first literate civilizations, the concept of solidarity is an astonishingly recent one. Although the term can be traced back to the Roman law of debts, only since the French Revolution of 1789 did it slowly acquire a political meaning, albeit initially in connection with the slogan of 'fraternity'.

The battle cry of '*fraternité*' is a product of the humanist generalization of a specific

pattern of thought engendered by all of the major world religions – namely of the intuition that one’s own local community is part of a universal community of all faithful believers. This is the background of ‘fraternity’ as the key concept of the secularized religion of humanity that was radicalized and fused with the concept of solidarity during the first half of the 19th century by early socialism and Catholic social teachings. Even Heinrich Heine had still used the concepts ‘fraternity’ and ‘solidarity’ more or less synonymously.[17] The two concepts became separated in the course of the social upheavals of approaching industrial capitalism and the nascent workers movement. The legacy of the Judeo-Christian ethics of fraternity was fused, in the concept of solidarity, with the republicanism of Roman origin. The orientation toward salvation or emancipation became amalgamated with that toward legal and political freedom.[18]

In the midst of the 19th century, an accelerated functional differentiation of society gave rise to extensive interdependencies behind the back of a paternalistic, still largely corporative and occupationally stratified, every-day-world. Under the pressure of these reciprocal functional dependencies the older forms of social integration broke down and led to the rise of class antagonisms, which were finally contained only within the extended forms of political integration of the nation state. The appeals to ‘solidarity’ had their historical origin in the dynamic of the new class struggles. The organizations of the workers’ movement, with their well-founded appeals to solidarity, reacted to the occasion provided by the fact that the systemic, mainly economic, constraints had outstripped the old relations of solidarity. The socially uprooted journeymen, workers, employees, and day labourers were supposed to form an alliance beyond the systemically generated competitive relations in the labour market. The opposition between the social classes of industrial capitalism was finally institutionalized within the framework of the democratically constituted nation states.

These European states assumed their present-day form of welfare states only after the catastrophes of the two world wars. In the course of economic globalization, these states find themselves in turn exposed to the explosive pressure of economic interdependencies that now tacitly permeate national borders. Systemic constraints again shatter the established relations of solidarity and compel us to reconstruct the challenged forms of political integration of the nation state. This time, the uncontrolled systemic contingencies of a form of capitalism driven by unrestrained financial markets are transformed into tensions between the member states of the European Monetary Union. If one wants to preserve the Monetary Union, it is no longer enough, given the structural imbalances between the national economies, to provide loans to over-indebted states so that each should improve its competitiveness by its own efforts. What is required is solidarity instead, a cooperative effort *from a shared political perspective* to promote growth and competitiveness in the Eurozone as a whole.

Such an effort would require Germany and several other countries to accept short and medium-term negative redistribution effects in their own longer-term self-interest – a classic example of solidarity, at least based on the conceptual analysis I have presented.

## References

[1] Justine Lacroix and Kalypso Nicolaidis, *European Stories: Intellectual Debates on Europe in National Contexts* (Oxford: Oxford University Press, 2010).



[2] COM/2012/777/FINAL/2: 'A Blueprint for a Deep and Genuine Economic and Monetary Union: Launching a European Debate' (cited in what follows as 'Blueprint').

[3] This state of affairs is expressed politely in the 'Blueprint' (p. 2): 'EMU is unique among modern monetary unions in that it combines a centralised monetary policy with decentralised responsibility for most economic policies.'

[4] This was already noted at an early stage by Henrik Enderlein, *Nationale Wirtschaftspolitik in der europäischen Währungsunion* (Frankfurt am Main: Campus, 2004).

[5] To this corresponds the authority of the Commission 'to require a revision of national budgets in line with European commitments' ('Blueprint,' p. 26); this competence is clearly intended to go beyond the already existing obligations to exercise budgetary discipline.

[6] 'Blueprint,' p. 35.

[7] The 'Let me have my cake and eat it too' strategy adopted by the proposal of the Commission avoids the overdue decision ('Blueprint,' p. 13): 'Its deepening should be done within the Treaties, so as to avoid any fragmentation of the legal framework, which would weaken the Union and question the paramount importance of EU law for the dynamics of integration.'

[8] See the relevant works of Wolfgang Streeck, most recently: *Gekaufte Zeit. Die vertagte Krise des demokratischen Kapitalismus* (Suhrkamp, Berlin 2013) and my review in: *Blätter für deutsche und internationale Politik* (Heft 5, 2013).

[9] Stefan Oeter, 'Föderalismus und Demokratie,' in Armin von Bogdandy and Jürgen Bast (eds), *Europäisches Verfassungsrecht* (Heidelberg: Springer, 2009), pp. 73-120.

[10] Jürgen Habermas, *The Crisis of the European Union*, trans. Ciaran Cronin (Cambridge: Polity, 2012).

[11] Christoph Möllers, *Die drei Gewalten: Legitimation der Gewaltengliederung in Verfassungsstaat, Europäischer Union und Internationalisierung* (Wielerswist: Velbrück, 2008), pp. 158ff.

[12] The fact that the *finalité* of the unification process has not yet even been defined provides an opportunity to broaden the focus of the public discussion which has been confined to economic questions until now. The perception of the shift in global political power from West to East and the realization that the relationship with the United States is changing, for example, cast a different light on the synergetic advantages of European unification. In the postcolonial world the role of Europe has changed not only when seen in the light of the dubious reputation of former imperial powers, not to mention the Holocaust. The statistically supported projections for the future also foresee for Europe the fate of a continent with a shrinking population, decreasing economic weight, and dwindling political importance. The European populations have to learn that only together can they uphold their social welfare model of society and the diversity of their national state cultures. They have to combine their forces if they are going to exercise any influence

at all over the agenda of international politics and the solution of global problems. To renounce European unification would also be to turn one's back on world history.

[13] For an interesting analysis, though one still coloured by a national historical perspective, see Andreas Rödder, 'Dilemma und Strategie,' *Frankfurter Allgemeine Zeitung*, 14 January 2013, p. 7.

[14] Claus Offe, 'Europa in der Falle,' *Blätter für deutsche und internationale Politik*, (Heft 1, 2013), p. 76.

[15] By the way, nationalism obscures this difference between political solidarity and pre-political bonds. It appeals without justification to this kind of communitarian bond when it assimilates the civic solidarity of *Staatsbürger* to the 'national solidarity' of *Volksgenossen* (tying people of the same descent).

[16] Karl H. Metz, 'Solidarität und Geschichte,' in Kurt Bayertz (ed.), *Solidarität*, pp. 172-194; for a critical treatment, see Wildt, *ibid.*, pp. 202ff.

[17] See the entries in the subject index of the edition of Heine's works by Klaus Briegleb (Munich: Carl Hanser, 1976), vol. 6, II, p. 818.

[18] Hauke Brunkhorst, *Solidarität: Von der Bürgerfreundschaft zur globalen Rechtsgenossenschaft* (Frankfurt am Main: Suhrkamp, 2002).

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# Europe Is Trapped Between Power And Politics

By Zygmunt Bauman

That the disease which brought the European Union into the intensive-care ward and has kept it there since, for quite a few years, is best diagnosed as a 'democratic deficit' is fast turning into a commonplace. Indeed, it is taken increasingly for granted and is hardly ever seriously questioned. Some observers and analysts ascribe the illness to an inborn organic defect, others seek carriers of the disease among the personalities of the European Council and the constituencies they represent; some believe the disease has by now become terminal and beyond treatment, other analysts trust that a bold and harsh surgical intervention may yet save the patient from agony. But hardly anyone questions the diagnosis. All, or nearly all, agree that the roots of the malaise lie in the breakdown of communication between the holders of political offices (policy-makers in Brussels and/or the politicians of European Council) who call the tune and the people asked to follow the set score with or without being consulted and offering their consent.

At least there is no deficit of arguments to support the diagnosis of the 'deficit of democracy' inside the European Union. The state of the Union, no doubt, calls for intensive care, and its future – the very chance of its survival – lies in a balance. Such a condition we describe, since the ancient beginnings of medical practice, as a 'crisis'. The term was coined to denote precisely such a moment – in which the doctor faces the necessity of urgently deciding which of the known and available assortment of medical expedients to resort, in order to nudge the patient onto the course to convalescence. When speaking of crisis of whatever nature, including the economic, we convey firstly the feeling of *uncertainty*, of our *ignorance* of the direction in which the affairs are about to turn – and secondly the urge to intervene: to select the right measures and *decide* to apply them promptly. Describing a situation as 'critical', we mean just that: the conjunction of a diagnosis and a call for action. And let me add that there is a hint of endemic contradiction in such an idea: after all, the admission of the state of uncertainty/ignorance portends ill for the chance of selecting the right measures and prompting the affairs in the desired direction.

Let's focus on the most recent *economic* crisis largely responsible for laying bare the critical state of the *political* union of Europe. The right point to start is to remember the horrors of the 1920s-1930s by which all successive issues of the economy have tended to be measured since – and ask whether the current, post-credit-collapse crisis can be seen and described as their reiteration, throwing thereby some light on its likely sequel. While admitting that there are numerous striking similarities between the two crises and their manifestations (first and foremost massive and prospectless unemployment and soaring social inequality), there is, however, one crucial difference between the two that sets them apart and renders comparing one to the other questionable, to say the least.

While horrified by the sight of markets running wild and causing fortunes together with workplaces to evaporate and while knocking off viable businesses into bankruptcy, victims of the late 1920s stock-exchange collapse had little doubt as to where to look for rescue: to the state – to a *strong* state, so strong as to be able to force the course of affairs into

obedience with its will. Opinions as to the best way out of the predicament might have differed, even drastically, but there was virtually no disagreement as to *who* was fit to tackle the challenge. The state, being sufficiently resourceful to push the affairs the way the opinion-makers eventually selected, was equipped with both resources indispensable for the job: *power* (ability to have things done), and *politics* (ability to decide which ones of the proposed things ought to be given priority). Alongside the overwhelming majority of the informed or intuitive opinions of the time, John Maynard Keynes put his wager on the resourcefulness of the state. His recommendations made sense in as far as the 'really existing' states could rise to such popular expectations. And indeed, the aftermath of the collapse stretched to its limits the same post-Westphalian model of a state armed with absolute and indivisible sovereignty over its territory and on everything it contains – even if in directions as diverse as the Soviet state-managed, the German state-regulated and the US state-stimulated economies.

This post-Westphalian ideal type of an omnipotent territorial state emerged from the war not only unscathed, but considerably expanded to match the comprehensive ambitions of a 'social state' – a state insuring all its citizens against individual misfortune (selectively striking caprices of fate) and the threat of indignity in whatever form (of poverty, negative discrimination, unemployment, homelessness, social exclusion) that haunted pre-war generations. It was also adopted, even if in a somewhat cut-down rendition, by numerous new states and quasi-states emerging amidst the ruins of colonial empires. The 'glorious thirty' years that followed the war were marked by rising expectations that all harrowing social problems had been or were about to be resolved; and the tormenting memories of pre-war poverty and mass unemployment were about to be buried once for all.

Something largely unforeseen happened, however, that jostled most Europeans off the then selected track. In the 1970s the heretofore uninterrupted economic progress ground to a halt and was supplanted by a seemingly unstoppable rise in unemployment, seemingly unmanageable inflation and, above all, the growing and ever more evident inability of the states to deliver on their promises of comprehensive insurance. Gradually yet ever more starkly, states manifested their inability to deliver on their promises. In stages, the faith and trust in the potency of the state started to erode. Functions claimed heretofore, jealously guarded by the states as their monopoly, and widely considered by the public and the most influential opinion makers as the state's inalienable obligation and mission seemed suddenly too heavy for nation states to carry. Peter Drucker famously declared that people *need, should* and shortly *will* abandon hopes of salvation descending 'from above' – from the state or society; the number of ears keen to absorb that message grew at accelerating pace. In the popular perception, aided and abetted by the chorus of a fast-growing part of the learned and opinion-making public, the state was demoted from the rank of the most powerful engine of universal well-being to that of the most obnoxious and annoying obstacle to economic progress and indeed efficiency of human enterprise.

Just as during the Great Depression of the 1930s, opinion formers as well as the widening circles of the general public deemed *to know* this time what kind of vehicles were called for to replace the existing ones, not so long ago viewed as trusty, yet increasingly rusty, and overdue for the scrap yard. Once more, it seemed to be obvious as well what kind of powerful force was destined, willing and able to lead the way out of the crisis. This time, however, public trust was all but withdrawn from the political state, only to be reinvested in the 'invisible hand of the market'. Indeed, as Milton Friedman, Ronald Reagan, Margaret

Thatcher and the fast expanding bevy of their enthusiastic acolytes kept hammering home, it was the market ability for spotting profit chances that would accomplish what the ethics-inspired state bureaucrats abominably failed to achieve. 'Deregulation', 'privatization', 'subsidiarization' were to bring what regulation, nationalization and the communal, state-guided undertakings so obviously failed to deliver. State functions had to be shifted sideways, to the market, that admittedly 'politics-free' zone, or dropped downwards, onto the shoulders of human individuals. These men and women were now expected to accomplish individually, inspired and set in motion by their greed, what they did not manage to produce collectively, inspired and moved by communal spirit.

The 'glorious thirty' were therefore followed by the 'opulent thirty'; the years of a consumerist orgy and continuous, seemingly unstoppable growth of GNP indices across the board. The wager put on pursuit of profits seemed to be paying off: its benefits, as later transpired, came into view much earlier than its costs. It took us twenty years or so to find out what fuelled the consumerist miracle: not so much the magic 'invisible hand of the market', as the discovery by the banks and the credit card issuers of a vast virgin land open to exploitation: a land populated by millions of people indoctrinated by the precepts of 'saving-books culture' and still in the throes of the puritan commandment to resist the temptation of spending money, particularly its unearned variety. And it took a few years more to awaken to the sombre truth that initially fabulous returns of investing in virgin lands must soon reach their natural limits, slow down and eventually stop altogether. When that ultimately happened, the bubble burst and the *fata morgana* of perpetual and infinitely expanding opulence vanished from view under a sky covered with dark clouds of prospectless redundancy, bankruptcies, infinite debt-repayment, drastically falling living standards, the curtailing of life ambitions – and the social degradation of the upward-looking middle classes to the status of defenceless 'precariat'.

Another crisis of another agency, then? A collapse of one more vehicle in which the hope of the 'economic progress' *perpetuum mobile* had been invested? Yes, but this time with a difference – and a fateful, seminal one. As in the previous cases, old vehicles of 'progress' appear today to be overdue for the scrap heap, but there is no promising invention in sight, in which one could reinvest the hope of carrying the rudderless victims out of trouble. After the loss of public trust in the wisdom and potency of the state, the turn has come for the 'invisible hand of the market' to lose credibility. While almost all the old ways of doing things lie discredited, the new ways are – at best – on the drawing board or at an early experimentation stage. No one can swear to, hand on heart, the effectiveness of any of the latter. Too well aware of the hopes that failed, we have no promising runners-up to bet on. Crisis being the time of deciding what way of proceeding to choose, in the arsenal of human experience there seem to be no trustworthy strategies left to choose from.

We are now painfully aware, at least for the moment and until the human, all-too-human, forgetfulness therapy will have done its job, that if left to their own devices the profit-guided markets lead to economic and social catastrophes. But should we – and above all *could* we – return to the previously deployed devices of state supervision, control, regulation and management? Whether we *should*, is obviously a moot question. What is well-nigh certain, however, is that we *couldn't* – whatever answer we choose to that question. We couldn't because the state is no longer what it was a hundred years ago, or what it was believed/hoped then it soon would become. In its present condition, the state lacks the means and resources to perform the task which effective supervision and control

of the markets, not to mention their regulation and management, requires.

Trust in the state's capacity to deliver rested on the supposition that both conditions of effective management of social realities – power and politics – are in the hands of states assumed to be sovereign (exclusive and indivisible) within its territorial boundaries. By now, however, the state has been expropriated of a large part of its past genuine or imputed power, which has been captured by the supra-state, in practice exterritorial global forces operating in a politically uncontrolled 'space of flows' (Manuel Castells' term). The effective reach of the existing political agencies does not progress beyond state boundaries. Which means that finance, investment capital, labour markets and the circulation of commodities are beyond the remit and reach of the only political agencies currently available to do the job of supervision and regulation. It is the politics chronically afflicted with the deficit of power, and so also of coercion, that confronts the challenge of powers emancipated from political control.

To cut a long story short: the present crisis differs from its historical precedents in as far as it is lived through in the situation of a *divorce between power and politics*. That divorce results in the inability to do what every 'crisis' by definition requires: choose the way to proceed and apply the therapy which that choice calls for. The absence, it seems, will continue to paralyse the search for a viable solution until power and politics, now in the state of divorce, are re-married. However, under conditions of global interdependence such a remarriage is hardly conceivable inside one state, even if large and resourceful; or even inside an aggregate of states, as long as power is free to abandon at will and without notice any territory politically monitored and controlled by political units clutching to the ghosts of post-Westphalian illusions. We are now facing the awesome yet imperative task of raising politics and its institutions to the global level, on which a large part of effective power to have things done already resides. All pressures, from the brutally mundane to the sublimely philosophical, whether derived from survival interests or dictated by ethical duty, tend to point nowadays in the same direction – however little we have thus far advanced on the road leading there. Inside the European Union, *a half-way inn on that road*, those pressures feel more severe and painful than in any other area of the globalized planet.

Deficit of democracy is by no means a unique affliction of the European Union. Every single democratic state – every political body that aims or pretends to a full sovereign rule over its territory in the name of its citizens and not by the will of a Machiavellian Prince or Schmittian Führer – finds itself currently *in a double bind*. It is exposed to the pressures of extraterritorial powers immune to the political will and demands of the citizenship, which it can't meet anyway due to its chronic deficit of power. With power and politics subject to separate and mutually autonomous sets of interests, and state governments tussling between two pressures impossible to reconcile, trust in the ability and will of the political establishment to deliver on its promises is fast fading. Communication between ruling elites and the *hoi polloi* is all but broken; in election after election, voters are guided by the frustration of their past hopes invested in the currently ruling team – rather than by their preference for a specific policy, or commitment and loyalty to a specific sector in the spectrum of ideologies.

The European Union, as an aggregate of nation states charged statutorily with the replacement of an inter-state competition with cooperation and sharing, finds itself in a truly unenviable plight. It has a need to assume an incongruous mix of mutually

incompatible roles – of a protective shield or a lightning rod intercepting and arresting, or at least attenuating, the impact of powers freely roaming the global ‘space of flows’ but also of an enforcer pressing its member states to absorb the remainder of the force of impact that resisted interception and managed to break in through the outer circle of trenches. No wonder that the attitudes of the member states’ populations to the Union’s policies tend to be ambivalent, vacillating between the extremes of *Hass* and *Liebe*: an attitude mirroring the persistent ambivalence of the two-in-one role which the Union is bound to play, more by the stark necessity it cannot control than by a choice it is free to make.

There is no doubt that there is much yearning for reform and improvement in the Union’s ailing structures, struggling for a modicum of coherence under the condition of unmitigated ambivalence. There is, however, only so much which the most ingenious reforms can achieve as long as they are considered and handled as a solely internal European affair. The roots of Europe’s problems – lack of coordination of power and politics brought about by the globality of powers confronting locally confined and territorially constricted politics – lie far beyond Europe’s control. The problems Europe faces can be alleviated, but they can scarcely be fully resolved and prevented from rebounding unless power and politics, presently separated, are brought back into wedlock and forced to work in tandem.

And so, in the case of badly needed and urgently demanded constitutional adjustments, quick fixes – let alone ultimate and lasting solutions to the current problems – are unlikely to be found and put in place. Whatever else the sought-after reform of the Union will be, it can’t be a one-off deed, but only a process of perpetual reinvention. This is the reality we have little choice but to accept and consider in our thoughts and actions.

And there is something else we need to consider and focus our thoughts and actions on. Whether we are aware of it or not, and whether by design or by default, the European Union is a laboratory (if not unique, then surely the currently most advanced on a global scale) in which ways to deal with the outcomes of the present lack of coordination of power and politics are designed, explored and put to the test. This is, arguably, the most important and consequential among Europe’s current contributions to the condition and prospects of the planet; indeed, to its chances of survival. Europe’s present quandary anticipates the challenges which the rest of the planet – and all of its inhabitants – are bound, sooner or later, to experience first-hand, face up to and live through. Our present pains may yet (are destined to?) prove to be the birth pangs of a humanity at ease with itself and drawing proper conclusions from the demands of its new – irreversibly globalized – condition. What presently feels like an unbearably painful squeeze of a vice may yet be found in retrospect to have been a severe, yet transient affliction caused by forceps wresting salvation out of an impending doom.

To keep that in mind is our, Europeans, joint responsibility.

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# Pragmatism, Idealism And European Democracy

*By Kalypso Nicolaidis*

Europe has never been so crowded with Cassandras than in the last three years since the Eurocrisis began – pundits and politicians predicting that the Euro or even the European Union would collapse if we did not at last achieve ‘unity’ while claiming that they themselves were cursed with public disbelief in their predictions – predictions echoed on the other side of the ideological divide by those heralding the end of national democracy as we know it unless we got rid of the Euro.

Yet, neither the EU nor the Eurozone have disintegrated. Instead the muddlers through have, well, muddled through, causing much damage to Europe’s social fabric in the process, but nevertheless keeping the show on the road. Jürgen Habermas cogently names the main culprit in his Leuven speech published here on Social Europe Journal: unfettered capitalism. Absolutely. This is not just an abstract system, it is a bunch of people tainted by the greedy and corrupt among them. The latter will hopefully be reigned in and we may yet one day progress to a truly new kind of fairer and greener capitalism. Habermas is right, this is what is at stake in Europe and around the world today.

As part of this vast agenda, the immediate question is whether EU politics as we know it can help do the job. And here, Europe’s tragedy has been that the Cassandras in question are false Cassandras with real agendas. False Cassandras, for their predictions are flawed and unfortunately believed by many. We must resist the idea that the only alternative ‘solutions’ be either the disintegration of the Eurozone or to turn the EU into a state-like entity, turning coordinated national policies into common EU politics and adopting democratic recipes aping national models at the EU level.

As Weiler has put it, the EU is still fuelled by the messianism of at least part of its elites and the idea that the ends of integration per se justifies the means, even if such means involve overlooking publics everywhere. An unholy alliance between ‘market pressures’ and messianic zeal – as Habermas puts it ‘when economic constraints imposed by markets happily meet the flexibility of a free-floating European technocracy’ – can be tremendously powerful. With the crisis, those who see ‘more integration’ as an end in itself have found their Messiah shrouded in veils of yields and spreads, one that will bring the project to their desired end. But of course it is a false Messiah – as Messiahs always are – who might be defeated but bring much despair upon the citizens of Europe in the process. Or maybe in the end, the profligacy of modern Greeks will have helped make the story crafted by their ancestors come true: Europe kidnapped by a wild bull, the bull of financial markets...

In this sense, the management of the Eurocrisis is simply a microcosmos of European politics at large. Politicians are unsurprisingly a mixed bunch in this story, sometimes decent, all too often complicit, always fallible. But whatever their relative merits, it is an illusion to believe that there is some sort of revolutionary alternative to the art of muddle through in the EU today. The issue is not that they muddle through but how. In debtor countries, some have managed to create political space for democratically sustainable reform – indeed the creation of temporary political space seems to be the ECB remit these days. In creditor countries, some have managed to create political space for some eventual



degree of transnational redistribution – ready public opinions for transfers that have not happened yet. To give her credit, if Angela Merkel follows through on current policy change in Germany, she may be able to face the inevitable further debt restructurings awaiting countries like Greece and Portugal. If and when this happens, we may well realise that instead of doing ‘too little too late,’ she will have been pursuing a steady course of ‘just enough, just in time’ in order to buy and keep that domestic political space she so much needs to address external expectations. In the best of all worlds, next year could showcase European incremental consensus at its best: a German sense of responsibility in spite of an annoying dose of self-righteousness, a Greek sense of accountability in spite of a frustrating dose of ineffectiveness, a French sense of reckoning in sense of continued wishful thinking. That is in the best of all worlds.

And so, here is for me the tension, a tension that seems to live in many European minds at the moment. On one hand, we must defend this European way against its detractors and remain vigilant in preserving its main features. On the other, we must also aim for something more radical, some kind of radical democratic transformation, if the EU is going to acquire the kind democratic appeal that will ensure its sustainability in the years to come.

### **Perils of federal Unity, promise of transnational Union: Why European democracy is an ideal worth fighting for**

Can we reconcile these two imperatives? I have argued along with other like-minded scholars that to start with we need a compass but not a destination point. This compass is a certain understanding and valuing of the EU as a European democracy in the making, defined as a Union of peoples, understood both as states and as citizens, who govern together but not as one. In contrast with the classic representation of the EU as an ‘in-between’ an alliance and a federal state, this represents a third way against both these alternatives which both equate democracy with a single demos – the first, a Union of democratic states as ‘sovereignists’ would have it, the second, a Union-as-a-democratic state to be as ‘federalists’ would have it. In this sense, the EU is a truly unique political experiment and should remain an open-ended process of transformation which seeks to accommodate the tensions inherent in the pursuit of radical mutual opening between separate peoples.

Is this also turning out to be a rather unstable equilibrium – as we would expect from the history of federal unions turned federal states? In my view, while the EU seemed to approximate such an understanding of democracy as far as its constitutional and institutional features were concerned and evolved over time, the management of the Eurocrisis has taken it off course as it were and we should be seeking a restoration, not a revolution. At the same time, the crisis has also highlighted more than ever before the distance between the praxis and democratic ideal.

It is important to stress that such a democratic understanding of the EU is both pragmatic and idealist. This is, pragmatically, an argument from what Europe is. European integration is democracy at its best when it accommodates the deep diversity of our national political and economic systems, under a modus operandi that is multi-centred and not only multi-level. Indeed, diversity is not a static factor but what we make of it. European diversity is not a constraint that we must work around or try to overcome through the right kind of

pedagogy or the right kind of incentives for convergence at all cost. Each member state is an arena for different social bargains, state-society relationships as well as different debates which overlap and echo across borders but are also grounded in different 'languages' in the full sense of the term (as discussed in *European Stories*). The role of the EU should be to engineer their permanent compatibility and horizontal contagion, not their homogeneity. And the prize here is of an inclusive EU that will keep all its member states in, including Britain – albeit in a differentiated fashion – as well as embrace publics with widely different expectations of integration.

But our European democracy is also about what Europe should be, an ideal worth nurturing, in fact a post-war ideal which translate 'peace' into its component, its long term preconditions, a kind of political ethics. For one, this Union shall abide by the imperative of transnational non-domination as an anti-hegemonic, not an anti-national, project. The idea was and still is that the peoples of France or Germany qua states would never again be allowed to subjugate others on the continent thanks to a system of institutionalized balance of power between states. But nor should this happen through a new kind of domination. In this sense, Germany today cannot simply address its hegemonic dilemma (how not to turn desired responsibility into undesired coercion) by replacing horizontal power from Berlin by vertical domination from 'Brussels.' Instead, the second imperative for running a peace union is that of true and genuine transnational mutual recognition between its peoples who in an ideal world would engage in deep and demanding mutual recognition if they are to persevere in 'governing together but not as one.' It is an understatement to note that such a political ethics is greatly lacking in today's crisis-ridden EU.

There is no ready blue print on how to translate such a broad ethos into a litmus test for the changing pattern of European integration under the EU crisis. Indeed, as Luuk Van Middelaar would argue, the spirit of open-ended transformation is to recover the contingent and unpredictable nature of genuine politics. This is true wherever politics takes place, in capitals, in cities, in assemblies, or in subterranean politics. Moreover, it seems crucial not to confuse today's exceptional circumstances dictated by the imperative of 'saving the Euro' (whether or not this is a good thing is a separate question) with the required long term structural changes required to manage the Eurozone as well as the EU democratically. In short, European democracy should not be hostage to 'legacy measures.' Instead, the question is how to improve it qua democracy without then crossing the rubicon to a classical federal form of multilevel democracy. Again, we are back to the challenge of combining conservation with radical transformation. In order to continue to walk this fine line, judgements ought to be made in three realms.

- The first is that of national democratic self-government. European democracy starts with and rests on the health and integrity of national democracies, the 'cratos' of individual demoi. The crisis has led us to ask with ever greater urgency what are the minimum requirements for each of the member state polities to maintain their own democratic integrity. This is an agenda shared by many scholars these days including Damian Chalmers, Ben Crum, Christian Joerges, Peter Lindseth, Giandomenico Majone, Andrew Moravcsik or Fritz Scharpf. In my view, the EU ought to adopt a 'do no harm' principle and test its planned interventions in domestic arena against it, thus weeding out interventions that are democratically counterproductive or actions with other aims that have democratic negative

spillover effects.

- Crucially, democracy is above all a transnational democracy: the demoi so protected ought not to be considered as any old demoi if democracy means governing together. Democracy is about the common 'cratos' even if such cratos is itself a fragmented and diffuse creature. So the type and extent of delegation of power to the EU level ought also to be determined by the need to manage not only economic but also democratic interdependence – which implies that the EU should nurture and maximize positive externalities and discipline certain negative externalities between national democracies. Especially because we value member states as the sites where democracy and social justice have been progressively and imperfectly shaped historically implies that states should interact on fair terms and their actions be democratically compatible. Addressing democratic failings in a member state can only be sustained if done democratically.
- So thirdly, the way in which the first two realms are to be balanced is in turn dependent on what happens at the center. The supranational locus of democracy in a democracy ought to remain a consensus democracy within the bounds of 'reasonable disagreements.' The pooling of sovereignty – eg how member states decide together – must respect national self-determination, small states cannot be bullied into submission when the Council decides on Treaty change; and crucially, the delegation of sovereignty – how the Commission, ECJ, ECB and EP are empowered to act ought not to break the umbilical cord with some sort of genuine politics – be it through its own way of functioning (EP) or its legitimacy as a mediator or enabler of political action (Commission, ECB). If what Peter Lindseth calls the 'postwar constitutional settlement of administrative governance,' is to remain compatible with European integration, the architects of the latter must keep in mind that the separation of norm-production by the state apparatus from institutions that embody the capacity of historical political communities to rule themselves in a strongly legitimated fashion was compensated domestically through mechanisms of political control whether in the US or in European states. Hence, the crucial issue if we want to recover the spirit of the Community method is not about each locus of power individually but about their relationship. How the European Council delegates to the Commission and how it works with the EP to do so. And crucially that the democratic control of supranational rule making includes durable mechanisms of collective oversight from national executives, national high courts and increased recourse to national parliamentary scrutiny.

### **Sustaining Europe's democratic third way: The political art of crabbing in a political union**

Many questions arise from this crude characterisation of European democracy and the effects of the crisis which cannot be explored here. The current impetus for so-called 'political union' amounts to pouring old wines into new bottles. The EU from its inception was fueled by the wine of politics where the three realms above are brought into tension – struggle between political visions of Europe, political fights and compromises between states and governments of the moment, resistance to attempts at political bypass by supranational bodies, political indoctrination or cooptation of passive citizenries into the European project followed by continued attempts to placate discontent, political agency in

the rest of the world. Political union may be a fact of the matter but its renewed invocation today is a response to the heightened degree of democratic interdependence – and corollary perceptions of ‘democratic disconnect’ in the formulation of the Transatlantic Academy. So everyone is looking for new bottles but to serve different aims.

To put it bluntly, at a time of crisis, creditor states want mechanisms to control how debtor states (or their banks) use of their money and the latter want the control how the former craft the conditions for such control. There is compatibility there: creditor countries think of political union as a way of legitimizing their dictate, while debtors think of political union as a way of co-shaping them. In a European democracy, these national concerns, obsessions, predicaments, must be respected and mutually accommodated. The problem is that the new kind of EU governance envisaged to repair EMU is now shaped by an emergency led old fashion IMF type struggle. Can conditionality *modus operandi* truly shape a polity like the EU? Is it right to legitimise a deeply interventionist *droit de regard* by the Commission (albeit stamped by the Council) over the composition of budgets which cover close to 50% of national GDPs in the name of budget deficits? Instead of accommodating the politics of conditionality, EU governance must remain faithful to the tenets of democracy – a balancing act which entails a light touch on the part of EU bodies.

In the end, member states must expect more of each other through mutual trust-cum-spying according to the art of political crabbing (in flight lingua, overshooting your target destination when confronted with side winds). As holocaust survivor and psychiatrist Viktor Frankl argued in the post-68 era of political optimism, we need to recover Goethe’s belief that ‘if we take man as he is we make him worse but if we take man as he should be we make him capable of becoming what he can be.’ Should this old wisdom not guide our European democracy today? Can European peoples as national and European citizens not learn to over-estimate each other? For this, we need to energise all fields of democracies and accountability at the same time. As Heather Grabbe recently argued our new global era of protest is part much bigger battle between ‘leader knows best’ politics and modern social participation. If the art of crabbing means that idealism adapted to changing winds is true realism, we can rely on such social participation to renew and reenergise the European process of reconciling national, transnational and supranational democracy.

Whatever else the sought-after reform of the Union will be, as Zygmunt Bauman argues here on Social Europe Journal, it can’t be a one-off deed, but only a process of perpetual reinvention. Not only must we insist that no one can ‘force the end’ today in the EU, but that there is no such end to be contemplated, divorced from a process of deeper and sustained democratic political experimentation within and across member states and their politics and socio-economic contracts. More than ever, the EU may succumb to its demon, its obsession with Oneness, at its peril. But if it doesn’t, it may still come out of this crisis stronger in its capacity to manage rather than negate differences among its peoples.

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# What Is The Social Dimension Of The EU?

*Edited Interview with Martin Seeleib-Kaiser (16<sup>th</sup> May 2013)*

## **Against the backdrop of the current crisis, what is a social dimension for the EU?**

Core to our understanding of the current crisis should be the acknowledgement that we are facing economic and public financing problems and not problems that are the result of 'overextended' welfare states in the European Union. What we also have to understand is that comprehensive welfare states and the social dimension are not only here for good times but for bad times. If welfare states and social cohesion within the Eurozone are not viable in bad times, we have a big problem with the legitimacy of European integration.

The crucial issue is not whether technocratically we can achieve a Social Europe, it is whether *politically* we can achieve greater solidarity within the European Union, which cuts across nation states and integrates Europe.

The social dimension of the EU needs to focus on increased redistribution between member states. Building on current systems of transfers within the EU, here I just want to mention the agricultural and structural funds. We should be in a position to establish a more comprehensive transfer union. One way to Europeanise the welfare state or social policy elements, whilst at the same time increasing the viability of the monetary union, would be to have an automatic trigger for redistribution between member states in times of economic crisis. Once unemployment in a member state reaches a certain limit, or once we witness a pronounced economic recession, the EU Commission would automatically transfer funds to the member states suffering from asymmetric economic shocks and high unemployment.

Political questions that need to be answered are, how do we fund such redistribution and what should be the level? The big underlying issue is not whether technocratically we can design or devise such mechanisms, but whether we can achieve political support for such a policy. A precondition for a compromise among member states, and support by its peoples, must be increased trust in government institutions and policies of member states beyond national boundaries.

In other words, the key question we are faced with is, who is 'us'? The definition of 'us' is crucial for any conceptualisation of solidarity. If we go back in history and analyze the historical development of national welfare states, we have to acknowledge that newly formed nation states at times have used social policy for nation building. Solidarity within the nation state is not 'natural', but had to be established. So the question we are facing right now is, can the EU mobilize social policies to build solidarity beyond national borders within the European Union?

In addition to the issue of solidarity beyond national borders, we seem to have increasing difficulties in achieving solidarity within nation states due to what we have called the 'dualization' of labour markets and social protection. That is why we increasingly seem to be confronted with a core workforce and a growing group of labour market outsiders – call it precarious or atypical employment –, who are not sufficiently covered through the various social protection systems. If we consider support for unemployment insurance programmes, we are witnessing a significant drop in public support within some countries. This might be associated with the fact that labour market insiders face a very low

likelihood of becoming unemployed or labour market outsiders even in an economic crisis. Moreover, unemployment seems to be increasingly perceived in a number of European countries as a consequence of individual behaviour.

### **Has solidarity eroded over recent years?**

Solidarity is indeed eroding within Europe. However, we have to ask, why is solidarity, and especially solidarity within the European Union, declining? At least partly the decline in solidarity would seem to be a consequence of the dominant political discourse among elites. We are at a crossroads and could potentially once again enter a nationalistic era. As people increasingly become sceptical about the European Union and further European integration, pushing for greater solidarity between countries might be an uphill battle, although surely not impossible to achieve. We need the political leadership to think beyond the short-term gains and the next election. A disintegrating European Union might lead to political crises and conflicts between nation states. Solidarity is not natural, but is always contested.

Social democratic parties and unions face a political dilemma, due to the increasing dualization of labour markets and social protection systems, as well as fiscal pressures in an 'era of austerity'. However, every crisis also entails opportunities. From an organisational perspective, it will be key for social democratic parties and unions to reinvigorate and develop (new) approaches to solidarity in Europe.

### **How do you judge current European politics?**

The current situation is not only bleak – the European Union offers its citizens the freedom of movement. And during the current economic crisis, European citizens are on the move. People take advantage of their (social) right, as citizens of the European Union, which is the result of previous European integration. People migrate to Britain, to Germany or other places – countries with labour markets that are currently not in such dire straits, compared to those in some countries of the EU periphery. The freedom of movement is something positive that we in Europe should cherish as a great achievement and core element of the social dimension within the EU. 20 or 30 years ago it was much harder to move within Europe, and social rights were not automatically granted to citizens of other EU member states.

### **High levels of migration are often considered a double-edged sword. Where do you see the limits?**

Well, we have to be really careful with numbers, as very often we do not have reliable numbers. The overall positive effects of migration within the European Union or a nation state might coincide with negative consequences at the local or regional level, as public services might be severely burdened in areas which have seen a particular rapid increase in immigration. The limits of migration are determined by the political legitimacy of the migration regime. From an economic perspective we might yet not have seen enough migration, as we are still faced with significant regional labour market imbalances within the European Union. Germany, for instance, is still faced with relatively high levels of skill shortages, despite the fact that net migration into Germany during the last year was approximately more than 300,000. People do not migrate to take away jobs from others. They migrate because there are opportunities of jobs - that cannot be filled by the local population - and for various other reasons such as family unification.

Furthermore, migration flows and patterns vary over time and space, i.e. it's not always the same countries that witness processes of net immigration. If you think a couple of years back, Germany was exporting workers. So one might imagine that in a couple of years' time, new regional clusters develop in certain areas, whereby let's say Thessaloniki might become a hub of rapid economic development and people migrate there.

One needs to put current migration flows into a longer time perspective. Over the long term increased migration within the European Union could lead not only to a more integrated labour market, but also to higher levels of solidarity beyond national boundaries.

### **If you were an EU policy-maker what would be your top priorities?**

First, a precondition to any prioritization of policy measures would be to acknowledge that we are not primarily Greeks, Germans, Spaniards, Brits or whatever, but that we are Europeans. We're united in diversity and in this together. Second, the European Social Model is an achievement — culturally, politically and socially — that should be protected.

There are regional differences, and differences between nation states; but what we should really understand is that European integration is about a social model. If we don't think of the European Social Model as an integral part of European integration, we are bound to lose the support of the European citizens.

In terms of immediate policy responses, there are two elements that we need to rethink. As I mentioned at the beginning of this interview, we should think about European-wide automatic stabilisers and a transfer union. The threshold that triggers the transfers as well as the level of the transfers need to be determined politically. But no one should doubt that within a monetary union such transfers are a necessity, if one wants to preserve the social dimension of Europe!

The second element that we need to think about is a minimum European pension. This is important, especially as we are witnessing increased labour migration within the EU. If you imagine that you migrate from a low-wage country into a high-wage country in your mid to late thirties - even if your accrued pension rights from the low-wage country are portable - you will face poverty in retirement, should you decide to stay in the 'high-wage' country during old age.

A minimum European pension could be one element of a common European approach to providing a minimum level of income security across Europe. In addition to addressing the issue of inadequate old-age income among migrants, it could be something – even if it is relatively modest at the beginning – that could eventually foster greater labour market integration and solidarity across national boundaries. From a macro-economic perspective such a minimum European pension might function as a stabilizer during asymmetric shocks.

### **What about European wages?**

One could imagine a European minimum wage level that is related to the respective median national wage levels. However, one needs to be extremely careful and be aware of the possibility of ratchet-down effects, as a European minimum wage might undermine national collective bargaining agreements.

To conclude: Key for a Social Europe of the future is the establishment of a transfer union,



which entails elements of direct redistribution between member states in times of economic crisis and transfers at the individual level!

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# What Does A Social Europe Look Like Today?

*By Jean-Paul Fitoussi and Xavier Timbeau*

The crisis that began in 2008 is still ongoing. It is therefore tempting to consider that something that has now lasted for five years is no longer a crisis, but rather a new world that has taken hold. The rise in unemployment, which since 2008 has increased by more than 8 million in the Eurozone alone, and the increase in long-term unemployment, affecting almost 10% of the active population in Spain for example demonstrates, if at all necessary, that the Eurozone economy is sinking into recession.

In 2012, there was a new turning point in the crisis. In the countries of southern Europe, where the recession has hit hardest, a movement towards salary reduction began. The decrease in average salaries reached more than 7% in Spain, something that has never been seen in modern times in a developed country. This reduction was in part deliberate, given that the pay of civil servants was reduced, but it was mainly the high level of unemployment that led to this decrease in remuneration. This means that employees who still have a job fear that they might lose it and thus are forced to accept a reduction in pay. Unemployment is not limited to those who have lost their jobs or people newly arriving on the labour market, but in this recession it also affects those who thought that they would escape unemployment because of their status.

This decrease in salaries leads to an improvement of the current account balance. Combined with a drop in demand, the recovery of the external accounts has been spectacular in the southern countries. Spain, which had registered a record current account deficit of more than 7% of GDP, was in balance by the end of 2012. Thus, one could see in this the necessary adjustment of a situation that was totally unsustainable. The brutality of the correction, it seems, was the direct result of the totally casual manner in which the problem had been considered beforehand.

Given all the circumstances, this view is not acceptable. And it is precisely here that a Social Europe should play its part. It depends on the way in which we reduce the series of macroeconomic disequilibria and encourage a different pathway from that of recession and unemployment, whether we will be able to emerge from this crisis with less inequality, less poverty and less injustice. A Social Europe cannot be reduced to a mere project of macroeconomic equilibrium.

The first argument is that, at the end of the day, a reduction of wages resolves nothing. Sandwiched between the southern countries whose competitiveness is increasing very rapidly and northern Europe, which has an excellent and resilient production system, France and Italy are today the only countries in the Eurozone to show a current account deficit. The path to higher productivity demands long-term investment, but now Italy and France are going to adopt the policy of wage reduction. The case of Germany, looking at the labour market reforms of the 2000s, indicates what will happen: for those sectors outside traditional industry, that contribute to the costs of industry and thus to German competitiveness, the pressure is on reducing wages.

There are three major consequences of this. The first one is that macroeconomic re-

balancing is built on the quicksand of the zeal with which wage reduction is being implemented. This is an old argument, used countless times in the past, for example, when Laval introduced deflation or the policies introduced by Schacht and Brüning in Germany. Wage reduction does not produce adjustment of relative competitiveness, wage reduction only produces deflation.

The second consequence is macroeconomic. Wage reduction affects households that are indebted and whose real debt (or to be more exact, the debt related to income) increases in line with the prolongation of deflation. After five years of crisis, an increase in real debt at best means prolonging the recession. More than likely, it will be deepened through new defaults on private debt, building up the pressure in the banking system, and, finally, a collectivisation of these private debts. But in Spain and in other southern countries, more public debt means being one step closer to public default and thus the break-up of the Eurozone.

The third consequence encompasses the whole scenario. Deflation is not the solution to macroeconomic disequilibrium, but it is the process through which inequalities will explode. The German lesson is exemplary for seeing that the decrease in unemployment since 2000 corresponds point by point with an increase in the poverty rate. This is what deflation has in store for the entire Eurozone. This is also what will make it unbearable socially and politically, as was the case in Europe in the 1930s.

In order to get out of this spiral, we need a Social Europe. A new proposal for a Social Europe must be associated with a rapid exit from the recession and a decrease in unemployment. The essential elements of this are the pace of budgetary adjustment and monetary policy. Yet there is another element that could also be put on the table: a minimum wage for Europe, with national variations, that respects the collective bargaining practices dear to different countries. A minimum wage would be a relevant bulwark against deflation (it should be noted that the minimum wage has been reduced in Greece). Such a minimum wage would be different in each country. The relative levels would express the differences in productivity and progress of each country. They would thus follow the increases in productivity by adding the inflation target of the European Central Bank.

This would cure the anticipated inflation and limit the devastating effect of unemployment on inequality. It would also ensure a more stable distribution of added value between employees and shareholders. And by expressing the surplus or deficit in the current account in terms of the relative levels of the minimum wage, such a device could be a powerful corrective for macroeconomic disequilibrium. In Germany today, it would lead to a more dynamic increase, all other things being equal, of the minimum wage than in France or Italy. The dynamic of inequality would only be partially solved by this mechanism, as high incomes are escaping control and intermediate incomes are running the risk of lower incomes catching up with them. And yet this is something that would make Europe more stable because it would be more social and more just.

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## Social Policy Will Be Critical To A Sustainable EMU

*By Simon Deakin*

European policy-makers have some vitally important decisions to make in the coming weeks. The June meeting of the European Council is due to consider the role of social policy in the wider context of economic and monetary union ('EMU'). The background to this process consists, firstly, of the adoption in November 2012 of the Blueprint for a deep and genuine EMU, which referred to the need for greater policy coordination in the 'field of employment'. Then, in May 2013, the Commission Vice-President and Commissioner for Monetary Affairs informed the European Parliament that he was 'working on preparing proposals to strengthen the social dimension of EMU' and on 'finding ways to better integrate the social dimension in the current structures for economic governance', including 'strengthening the surveillance of employment and social developments within the European Semester framework.'

It is clear what this could mean: a renewed effort to impose deregulatory policies on the member states, of the kind put forward by the Troika in its dealings with Greece, Portugal and Ireland. The logic of this approach is that 'structural reforms' in labour markets, by cutting nominal wages and enhancing flexibility in hiring and firing, will restore competitiveness in the states and regions adversely affected by the crisis.

This approach is consistent with the new economic governance which has been developing since 2010 around measures including the 'six pack', the Euro Plus Pact and the Treaty on Stability, Coordination and Governance (TSCG). These measures are based on the premise that if a stricter regime of macroeconomic surveillance had been in place during the 2000s, the fiscal imbalances which threatened the stability of the single currency and the wider Eurozone after 2008 could have been avoided. This is a false premise. Prior to the onset of the crisis, all the Eurozone states with the exception of Greece were in compliance with the convergence criteria.

The problem was that their real economies were far from aligned. The future debtor states were mostly pursuing policies of financially-driven growth, which were dependent on an expansion of private credit and on increasing asset prices in the markets for commercial and residential property. Thanks in part to loose arrangements for wage determination, wages in these states rose faster than productivity (Johnston and Hancké, 2009). The future creditor states, by contrast, were mostly following policies of 'endogenous' or industry-led growth, which depended on targeted investment in capital goods, public support for training and labour force upgrading, and wage moderation supported by coordinated collective bargaining. They were better placed to deal with the shock induced by the financial crisis when it arrived in 2008, but it must be remembered that their competitive advantage was, in part, the result of policies in the 'core' which were, in effect, exporting wage and price inflation to the faster-growing 'periphery' (Armingeon and Baccaro, 2012).

The policy of enforced austerity, administered at first through the interventions of the Troika and subsequently through the 'new economic governance', does not address these fundamental imbalances. The TSCG, in its attempt to embed a pro-cyclical fiscal policy at

the level of constitutional governance, is in danger of becoming a dead letter within months of its implementation. Wage cuts and casualisation of employment are inducing depression-type conditions in the indebted states, but in the absence of productivity improvements they cannot address the underlying causes of the competitiveness gap, as the IMF has recently acknowledged in its assessment of the response to the Greek crisis (IMF, 2013).

The question now facing the European institutions is whether they can demonstrate the flexibility needed to effect a change of course. The debate over the 'social dimension' of EMU is to be welcomed for at least putting the relationship between social policy and monetary policy on the agenda. A 'deep and sustainable EMU' can only be one which promotes sustainable growth and social cohesion. To get to this point, a deepening of efforts at economic and social policy coordination will be needed. But this cannot plausibly take the form of the socially divisive and economically counter-productive policies which have been pursued to this point.

What would a sustainable EMU look like? To begin with, it would acknowledge that the most successful countries and regions within the single currency area during the past decade have been those that combined investment in human capital with strong welfare states and coordinated wage bargaining. Egalitarian policies in labour and social security law, designed to narrow earnings inequalities while promoting labour-market access, help to build a stable tax base. Active labour-market policies, coupled with legally-mandated vocational-training systems, enable economies to adapt to global competitive pressures and the 'creative destruction' associated with technological change. Solidaristic wage bargaining, based on the principle of maintaining a floor to wages and conditions at sectoral and national level, has helped to ensure effective demand for locally produced goods and services in the face of recessionary conditions.

The EU already has in place the institutional mechanisms needed to promote learning around 'what works' in economic and social policy. To this extent, the new economic governance marks a step forward. A shift of emphasis within EMU, towards a growth-orientated and egalitarian form of economic union, does not have to wait for Treaty revisions.

The European institutions have shown a high degree of adaptability in the face of the crisis. This is most clearly so in the case of the ECB, which has overcome supposed limitations on its mandate to become an effective line of defence against the destabilising effects of currency speculation, through its outright market transactions programme. The Court, in the Pringle Judgment, also demonstrated flexibility in finding a solution to the constitutional issues surrounding the adoption of the European Stability Mechanism Treaty, at the same time validating the central bank's interventions in the market for sovereign debt.

It is now down to the other institutions to show similar flexibility. The June European Council provides the ideal moment.

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# Social Europe Is The Only Solution

By Robin Wilson

The current crisis of legitimacy of the EU can be traced in a path-dependent fashion to its roots in the aftermath of World War II. Subsequent historical distance has elided together the anti-fascist popular consensus across the continent after the defeat and delegitimisation of Nazism with the elite integration 'project' which came to fruition in the 1957 Treaty of Rome.

In fact that consensus would have been much better expressed in the post-war plans of radicals like Altiero Spinelli for a federal Europe. Antonio Gramsci, victim of Italian fascism, had envisaged an integrated Europe in which the 'nation-state' would be reduced to local government.

What defeated the progressives in the wake of war turned on the reconstruction of the word liberty. From the obverse pole to fascist dictatorship, 'freedom' became attached not to actual human agents united across the devastated continent in hope of a secure future but to capital and commodities, anthropomorphised into the bearers of 'free movement'. Indeed the only actual human beings which the Treaty of Rome was to address were the workers who were, with a jaundiced eye, to enjoy 'free movement' too—an afterthought added at the behest of the Italian Christian Democrat government, anxious to ensure that it could offload its surplus labour to northern Europe.

The theory was that a Common Market, by outlawing protectionism, would somehow dissolve the nationalistic antagonisms that had led to war. The problem with this theory, of course, is that it was more economically reductionist than the most vulgar Marxism. Moreover, it would be known only to its founders and sponsors, so to speak, who assumed it merely required a 'permissive consensus' to progress. It was the Marshall Plan and national Keynesianism which actually engendered the *trentes glorieuses*, but the coincidence of post-war reconstruction made the theory, at that time, seem to work.

In fact, the Council of Europe, established in 1949, said a much more effective 'never again' to fascism (and Stalinism) by its overt promotion of universal norms, which confined nationalistic particularism and xenophobia to the margins of the post-war continent (Northern Ireland, Cyprus and the Basque Country) for decades, until the wars of the Yugoslav succession. The council now dwarfs the European Union, with 47 members, and its much more intrusive human-rights interventions rarely excite the 'Eurosceptic' response which the EU has increasingly faced in recent years.

Euroscepticism first emerged on the political stage with the 1991 Treaty of Maastricht, when the 'no' from Denmark in the subsequent referendum—many Danes feared for their universal welfare state in the Big Market—indicated that the 'project' was incompatible with a no-longer deferential citizenry. The Christian-Socialist European Commission president Jacques Delors tried to ensure that the final phase of national market deregulation was accompanied by a 'Social Europe'. But this was merely an offsetting, compensatory project which did not challenge the fundamental opening towards a further concentration and centralisation of capital in Europe, from which growing social inequality

—as the Gulliver of capital escaped its Lilliputian national constraints—and core-periphery tensions could only follow. Even the social democratic pioneer, Sweden, saw its income Gini coefficient soar as ‘social democracy in one country’ became increasingly impossible in subsequent decades.

The crisis of legitimacy was consolidated in 2005 with the Dutch and French popular votes against the draft constitution—at least in part because of its neo-liberal inflections. The accession in 2004 of states for whom ‘actually existing socialism’ had been abhorrent and a series of European Court of Justice rulings enforcing further deregulation of the labour market deeply entrenched the neo-liberal outlook in the European institutions, particularly the Commission.

In other words, the crisis was in long gestation before its current manifestations. Lenin once defined socialism in the USSR (hardly persuasively) as = soviet power + electrification. And the fundamental European contradiction is this: if markets can only work to the degree that they are socially embedded in a dense network of appropriate institutions and norms, then the idea of Europe as = deregulation of markets + a supervisory technocracy could only mean a Europe in which the movement of capital is fundamentally destabilising, and ever more so. The origins of the Eurozone crisis, let us not forget, lay in banks, including German banks, placing hot money in the poor periphery as asset bubbles were inflated – not (outside of Greece), in fiscal profligacy by individual member states.

For a young generation for whom the war is sepia-tinted history and neo-liberalism offers only insecurity—including in some countries a more than even chance of being unemployed —‘Europe’ therefore now holds no meaning except Erasmus programmes for the educated elite. This is the real reason behind the ever-declining turnout in EP elections, often seen as paradoxical given the parliament’s somewhat enhanced powers, as each new cohort finds the process ever-more ‘second-order’.

It can only be if Europe is seen to be the site of collective solutions to global challenges, challenges far too large to cope with on the national level—such as stemming climate change or re-regulating the continent-wide labour market—that it can acquire a new legitimacy. Indeed, outside of the oil-buttressed exception of Norway, there is no other site where solutions *can* adequately be found.

So Social Europe becomes the question of the institutional and normative elaboration of the embedding of markets, which can also be the potential of a ‘social pact’ (as the Foundation for European Progressive Studies and the European Trade Union Confederation have advocated) to engage the social partners and NGOs beyond the institutional arena. The successful Party of European Socialists campaign for a youth guarantee shows this can be rendered meaningful in practice. The next campaign should be for a Europe-wide minimum wage.

Before the crisis, Vivien Schmidt could apparently reasonably claim that the EU suffered from a challenge of ‘output’ rather than ‘input’ legitimacy. Her argument[1] was that really the problem was national elites anxious to blame ‘Brussels’ for everything emanating from the union they didn’t like, while claiming national credit for everything they did. But it is clear now that the EU has entered a chronic crisis on the ‘input’ side, as citizens in Greece, Italy and Cyprus in particular find themselves victims of neo-liberal dogma, facing punitive



social recessions regardless of how they might actually have voted in national elections.

Social Democrats should be at the heart of resolving this crisis of legitimacy, by articulating a popular and progressive project for Europe, in alliance with Greens, social liberals and progressive NGOs. It is crucial that the PES manifesto for the 2014 EP elections sets out that project in crystal-clear fashion. A lowest-common-denominator campaign with little traction across the continent as national issues are allowed to predominate could see not just a further plummeting of turnout but, worse, real victories for the authoritarian radical right—despite the echoes of the 1930s—who have been much more effective than Social Democrats in tapping popular despair.

There is an old Irish joke about an American, driving round the narrow roads of the west of Ireland, who stops a passer-by to ask the quickest way to Dublin—'I wouldn't start from here' is the terse response. The European liberal-left has no other place to start apart from the one in which it finds itself. A break-up of the Euro, with the inevitable beggar-thy-neighbour competitive devaluations that would follow, would be no answer. The way has to be charted to a Social Europe which can tame the capitalist tiger in the only way it now can be tamed after decades of neo-liberal globalization - on a European and ultimately a global scale.

I have set out before the elements of the architecture of a genuinely Social Europe, which is not merely a palliative but a new social model which can provide an inspiration to others struggling across the world—where, since the demise of 'actually existing socialism', Islam, utterly counter-intuitively, has provided the main adversary pole. These are by no means original and have indeed been widely rehearsed by others.

The problem is not a dearth of concrete policies and proposals. The key question is whether next year Europe's Social Democratic family can act as a sufficiently coherent and compelling political force to redefine anew the basic discourse of Europe, so that the left's core values, of liberty, equality and solidarity, trump the neo-liberal narrative of 'free markets' that has triumphed for so long—to, we now know, disastrous effect.

## References

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# Europe's Democracy Deficit: Putting Some Meat On The Bones Of Habermas' Critique

*By Steven Hill*

## **A Blueprint for Redesigning European Democracy**

The renowned German philosopher and sociologist Jürgen Habermas has been one of the foremost advocates of 'more Europe'; he also has been one of the most visible critics of the perceived 'democracy deficit' that has resulted from the European Union's and the Eurozone's ad hoc policy responses to the economic crisis. In a recent address to the University Leuven - introduced by the President of the European Council, Herman Van Rompuy – Professor Habermas took a firm stance against Euroscepticism, even as he voiced some of his own scepticisms. He mounted a passionate defense of the European 'workfare system' as a crucial form of social insurance against the disruptive whirlwinds of globalization; he also reiterated his long-standing support for supra-national institutions like the EU as the best hedge for preserving a distinctive 'European way' in the face of powerful global forces.

But at the same time, Habermas was sternly critical of the growing gap between these supra-national institutions and the European public. On the one hand, he said, 'It is to the credit of the Commission and the Presidency of the Council that they have addressed the actual cause of the crisis – namely, the faulty design of a monetary union that nevertheless holds fast to the political self-understanding of an alliance of sovereign states.' On the other hand, he was impatient with the pace at which political evolution has kept pace with this economic transformation. 'The ultimate democratization,' said Habermas 'is presented as a promise like a light at the end of the tunnel. Supranational democracy remains the declared long-term goal on paper. But postponing democracy is a rather dangerous move.'

Habermas' lecture amounted to a plea for a quick evolution toward transnational forms of solidarity and continental democracy that would rebalance the politics of Europe with the economics. But what would a Habermasian design for a European-level democracy look like? Here, the venerable philosopher was disappointingly light on the details. Even when prompted by an audience member to provide some basic elements he declined, saying, 'That is not my competence.'

Unfortunately, most of the advocates of 'more Europe' who are also critics of the democracy deficit have been similarly vague on the details of their proposed institutional redesign. Yet 'democracy' is more than a warm, fuzzy, feel-good catchphrase that one can print on a bumper sticker or toss off in a lecture. If it is to amount to more than an academic value or principle, it must be designed and constructed with specific institutions and practices. If ever there was a case in which 'the devil is in the details,' this is one of them.

And yet so many of the 'more Europe' critics of the democracy deficit never get past their surface critique to the point of rolling up their sleeves and designing what the New Europe might look like. Certainly many ideas have been tossed around in the public sphere, yet to

date these have not gone much past the point of parlor discussions and op-ed rants. No leader or organization, for example, has stepped forward with the outlines of their proposed new political redesign for Europe; no serious convenings have even attempted such a task. Yet if Europe is ever to reduce its democracy deficit, then this discussion needs to progress to a much deeper and broader level where a blueprint with specific details begins to emerge.

And it's urgent that the advocates of 'more Europe' address this task, because the opposition that would like to see 'less Europe' is organizing and fomenting to enact its own regressive vision. British Foreign Secretary William Hague recently gave a speech in Berlin calling for a new 'red card' system that would allow national parliaments to block unwelcome laws from Brussels, which would surely lead to the unraveling of the EU as well as the Eurozone. One can imagine what the 'United' States of America would have amounted to if each member state had been allowed to cherry pick which federal laws passed by Washington DC to obey. Yet interestingly, Hague and his allies are arguing for their proposal under the guise that it will 'restore the democracy deficit.' They argue that only by clawing back greater powers to national MPs, rather than MEPs in the European Parliament, will Europe be able to close the gap between European-level governance and the public. Mats Persson, director of the eurosceptic Open Europe piled on this subterfuge by saying that 'Allowing national parliaments to block unwanted EU laws would go a long way to bring back democratic accountability over EU decisions.'

So it's clear that there is a battle going on over what the 'democracy deficit' means, what its causes are, and how to close the gap. Yet the battle has been a fairly one-sided one, because the 'less Europe' side is better organized and has more money for its campaign, supported by wealthy elites like Lord Rodney Leach, a Conservative life peer in the British House of Lords, who is a climate change sceptic and opponent of political reform in the UK. And the 'less Europe' sceptics have an easier task, since all they have to do is spread 'F-U-D' – fear, uncertainty and doubt – to derail the European project.

So proponents of 'more Europe' have their work cut out for them. While Professor Habermas enjoys great esteem among many across Europe and Germany, his and others' lack of details over how to tackle this democracy deficit is ultimately disempowering. His forceful message only serves to add to the general malaise of dissatisfaction, but offers little substance as a solution and therefore allows the likes of William Hague and Open Europe to fill that void.

In the hopes of putting some meat on the bones of the Habermasian critique, I offer the following basic blueprint for redesigning European-level democracy. This design has to do with the structure of government, and less to do with the function and specific powers attached to this structure, which requires a separate but parallel conversation too long for this short article. But as we have seen again and again during this Eurozone crisis, function in many ways follows from form, so it's important to get the structure right.

If you don't like this structure, or disagree with some elements, what's yours? The time for fuzziness is past. To build a proper Social Europe a functioning European democracy is needed that will empower the public to have a say in European affairs.

## Europe 2.0 – A Redesign for the Future

As a first step toward outlining the details of a political union, we must place the democracy deficit under a microscope so that we can be clear about what isn't working. Much vigorous debate, as well as some major steps in response to the Eurozone crisis, already have sketched the outline of the necessary foundations for a more integrated economic union. But much less discussion has been devoted to how to redesign European-level political institutions. So it's important to develop a more precise analysis of the current system.

There's no doubt that Europe's political institutions are inadequate. Frankly, they are as messy as a scrambled egg. As one small example, only the most ardent Europhile can tell the difference between the European Council, the Council of the European Union (also known as the Council of Ministers, or simply 'the Council') and the Council of Europe. All of them have their own president, as does the European Commission and the European Parliament. Presidents and councils, everywhere you look, with names so similar that few can tell them apart. Beyond that, lines of authority are vague and esoteric and the public hardly knows who does what. To the public it all looks like a tangled mess of bureaucrats nestled in Brussels. At the most basic level, more imagination needs to be put into naming these important bodies and leadership positions with distinctive titles that make them easily distinguishable.

But that's just the beginning. A huge contributor to the democracy deficit is the fact that the average voter is stupefied by being four times removed from the chief legislative and executive body of the European Union, which is the European Commission. The Commission is a powerful body, increasingly so in reaction to the economic crisis, endowed to be both the enforcement arm as well as the only body that is permitted to initiate European-level legislation. Yet it is not even remotely elected directly by 'We the People.'

Instead, voters directly elect their national members of Parliament, who in turn elect the 27 national heads of government, who in turn sit on the European Council; this body then nominates the European Commission and its President, subject to the approval of the European Parliament (whose members at least are directly elected). So national parliaments, which are the closest to the voters in each member state, are reduced to the role of a kind of electoral college while the heads of state who actually select the chief executive of the EU comprise an 'electorate' of a mere 27 voters. Sorry, but that's not very democratic.

Despite the recent Lisbon Treaty endowing it with a bit more power, the European Parliament is still less than a full legislature, as it can only pass, amend or reject the Commission's legislation, not initiate it. So unlike the American model, which has a clear separation of powers between the executive and legislative branches, the European Union has invested the functions of both the executive and legislative branches into the hands of the Commission, with the Parliament – the only body that is elected directly – very much a miniature partner.

Another miniature partner in this odd European tricameralism is the Council of Ministers. Similarly restricted to passing, amending or rejecting the Commission's legislation, this council is composed of 27 national ministers, one for each of the member states. But to

confuse the public further, the exact membership of the Council depends upon the topic. When discussing foreign, economic or agricultural policy, for example, the Council is composed of the 27 national ministers who oversee that competence area for their member state. On the one hand, this structure is kind of innovative, or at least different in its quirkiness, compared to how most other representative governments have always been structured. On the other hand, it means this Council has a constantly rotating configuration of 'representatives,' each siloed in their respective issue, with connection to only the narrowest of constituencies that cares about their single issue. This further undermines transparency, accountability and coherence across issues, or a focus on the big picture. Nice try, but this is a deeply flawed design if the goal is to reduce the democracy deficit.

From the time of Montesquieu and Madison, the theory of democratic governance has been grounded in noble values that often conflict, such as separation of powers, authentic representation, transparency, accountability and efficiency of outcomes. US economist Kenneth Arrow won a Nobel Prize for proving that a well-designed government could attain many of these values, but never all of them. The problem with the European political system is that, in trying to prevent a strong centralized government that could undermine member state sovereignty, it leans so far toward an enshrinement of a hyper separation of powers that it has given too short shrift to the other democratic values. Confusion and incoherence can't help but result, tragically so. Students of US history will recognize the similarities to America's Articles of Confederation era, which eventually gave way by necessity to the drafting of a new structure of federal government.

That's not to say that the track record of European governance has all been one of bungling and miscues. Until the American-instigated economic collapse in 2008, followed by the Eurozone crisis of 2010, the Commission and other governance bodies had displayed competent leadership, and the European Union had progressed along its expected trajectory, including adding twelve new member states from 2004-2007 and becoming a global force in a short time following its 'birthquake.' When European governance works well it's like a majestic flock of birds, diving and swooping in colorful blue-and-gold unison; when it's not working well, it's a flock of birds flying off in too many directions. The Eurozone crisis has stretched EU governance capacities to its limits because the EU's current political institutions are mostly adequate for a loose confederation of member states – but a loose confederation is inadequate for a monetary union.

As more and more powers have been transferred to the Commission, giving it unprecedented ability to intervene in national economic policies, these structural defects matter more. Electorates are used to voting directly for or against their national government and its policy proposals, playing a decisive role in national politics. But when it comes to European governance they can only vote to change the electors which themselves only nominate the members of the Commission. Contrary to what its harshest critics say, the Commission actually is accountable to lots of bodies and people – but it's not directly accountable to 'We the Voters.' There are too many degrees of separation between the governed and those doing the governing. And that must change.

At this point Europe's political institutions are looking like a strange, mangled beast that has emerged after being tossed in a clothes dryer. If you compare European political institutions to those of most national governments the problem is plain to see. Whether

the nation is Germany, the United Kingdom, France, Japan, Brazil or the United States, there is a directly elected legislature and a more or less popularly declared and in some cases directly elected chief executive. It's fairly simple, structure-wise. And simpler is better, as a foundation for fulfilling the goals of transparency, accountability and representation.

Yet simplicity has proven to be elusive at the European level. And now with the Eurozone crisis and the prospect of a 'two speed Europe,' where the Eurozone appears to be carving out its own governance separate from the EU, things have become even more complex.

### **A New Parliament for a New Europe**

So here's my back-of-the-napkin proposal for redesigning European-level political institutions. As a starting point, Europe can learn something from the political and economic structures that America originally designed at the federal level, and how they evolved over two centuries.

Initially America empowered member states' legislatures as well as individual voters, both because each member state was sufficiently diverse to have legitimate state-based interests, but also because they needed buy-in from the political elites of each member state (and many political elites, like Washington, Jay and Hamilton, truly didn't trust the average voter, much more so than European elites today). So while voters directly elected the federal House of Representatives, the member states' legislatures were given the mandate to elect the powerful upper chamber of the Senate, as well as to elect presidential electors that chose the national president. For decades after the first government in 1789, both the member states and the elites played a significant role in selecting the political leadership of the federal government.

Eventually, America amended its constitutional structures to empower individual voters over the state legislatures, both with popular direct election of US Senators (starting in 1916, a full 127 years after the founding) and with state legislatures agreeing to abide by each state's popular vote in selecting presidential electors who now are mostly bound by custom (and in some cases state law) to vote for their state's winning candidate.

So in drafting a more federalized political structure for Europe, it would be wise if initially both a direct popular vote as well as member states' legislatures were empowered in the European legislature. German statesman Joschka Fischer and others have sensibly proposed such a design. This structure also has the virtue of turning on its head the proposal from William Hague to close the democracy gap by giving greater powers to national MPs over MEPs.

How would this look in practice? A more democratic European governance would have a parliament with two chambers, one directly elected like the current European Parliament by voters using a system of proportional representation, with the number of representatives per member state a close reflection of each state's population (so the more populous member states would have more representatives). The second chamber would be selected by member state legislatures (as the European Council and Council of Ministers sort of are now), with the number of representatives being mostly proportional to the population of each member state, but with a few additional representatives granted to the

low population states so that they are not easily overrun by bigger member states (WARNING: do not make the mistake that the US made by granting equal representation per member state in this second chamber; that has allowed conservative, low-population American states to strangle legislation supported by popular majorities in the Senate and created perverse incentives for minority rule). It would be additionally wise to establish a process for amendment that would allow the second chamber to evolve over time into direct popular election as a pan-European political consciousness and culture takes root.

The lower chamber of this European legislature would then select a Prime Minister of Europe, who would in turn nominate her or his cabinet, with one cabinet member each from a member state (similar to the current selection process for the Commission), to be approved by the upper legislative chamber. In addition, a largely ceremonial post of President of Europe would be directly elected on a continent-wide basis (as German chancellor Angela Merkel and French President François Hollande have jointly proposed). At some point down the road, this directly elected president could be invested with more power via the amendment process if that better matched the zeitgeist.

This kind of streamlined structure – a two chamber parliament that provides direct representation to voters as well as to member states, and empowers an executive branch selected by both types of representatives, as well as a directly-elected figurehead – would do much to simplify continental governance for European citizens, as well as to clarify lines of authority, make decision-making more efficient and transparent, and better connect the public with their continental government.

### **The Reality of Two-Speed Europe**

In addition to the inherent challenges of such an evolution, we have to deal with the current realities of a two-speed Europe. It seems most likely that a 17 (or so) member core would be the entity that adopts this sort of federal structure initially, as the momentum of monetary union drives the need for a more streamlined political union. This more federalized entity – whether it's called a United States of Europe or some other name – would have its own set of laws, political institutions, budgetary agreements, banking union and tax policies. It also would institutionalize economic assistance flowing from better off member states to the more struggling states – much like California, New York and Illinois today annually subsidize Mississippi, Alabama and Alaska – through an ongoing federal appropriations process. This core would have merged their political economies and bound their destinies together in a way that is irreversible. Clearly, that is a big step, especially considering Europe's bitter history between current member states, still not that distant in the rearview mirror. Yet at this point it's clear that the demands of a monetary union require it.

But an additional advantage is that this Eurozone-based entity could co-exist with a more loosely confederated European Union of the current 28 member states. This structure would allow the EU to retain its present governance, with the European Commission continuing as the executive of the EU along with the European Parliament and the Council of Ministers. The EU would be able to retain its degree of confederation but operate under much less pressure to integrate more than its disparate members are capable or willing. And those who want to use the Euro currency would be able to forge ahead not only with a fiscal and monetary union but also with the political institutions that are necessary to

properly regulate a monetary union and to maintain democratic legitimacy. They could do this without being slowed down by reluctant foot-draggers like the UK. Just as important, this two-tiered structure should be constructed so there is the possibility of individual member states migrating from the EU into the Eurozone when it made sense.

There are historical precedents for such an inside-outside arrangement, such as the early British Commonwealth or even the current United Kingdom, where there is a core Great Britain and other 'members' (like Northern Ireland and some islands) that are more loosely confederated.

Europeans, whether they realize it or not, have passed only the first few bends in the road of a years-long journey to overhaul their key economic and political institutions. It is important to understand that Europe today is in its own Articles of Confederation stage, entangled by many contradictions and tensions as it tries to fashion its union and decide how integrated it wants to be. This process took decades for a young United States of America, which fought a civil war over not just slavery but states' rights and member states' sovereignty a full 70 years after its founding. The tensions pulling at Europe are not nearly as severe as those America faced, and it might not take as long to resolve them given the reach and power of modern communications. But the road toward union is a long and winding one because it takes time for people and cultures to adapt. It may take a change of generations, at least.

Many of the 'less Europe' critics of the democracy deficit are scared to death that European governance actually might become more democratic, since that would confer greater legitimacy, and what they really want is for each European country to retreat further inside its own castle walls. This would be a mistake, given the economic rise of population behemoths like China and India that are increasingly assertive in global markets and putting pressure on Europe's much smaller member states to band together or become less relevant and secure. Nevertheless, many of the criticisms advanced by the sceptics are correct, and those who want 'more Europe' should respond in a way that makes European-level governance more democratic, representative, transparent, accountable, responsive, and effective.

To redefine Social Europe, the advocates of 'more Europe' should engage with their opponents on the rhetorical battlefield armed with a clear blueprint for political-economic governance that will allow the European audience to envision what a New Europe will look like. During the first few years of the Eurozone crisis, it was understandable that advocates would remain vague in their institutional remedies. But the opponents are using this vagueness now to spread their pernicious brand of F-U-D. It's time to put some meat on the bones of the Habermasian 'more Europe' critique of the democracy deficit in order to counter the Hagueian 'less Europe' critique. The time for vagueness and abstraction is over. Social Europe needs a functioning democracy, so let the debate begin about what that should look like.

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# The Euro-Dividend

*By Philippe van Parijs*

Criticizing is easy. Making proposals is harder. Here is one, simple and radical, yet — I shall argue — reasonable and urgent.

Euro-dividend is what I shall call it. It consists of paying a modest basic income to every legal resident of the European Union, or at least of the subset of member states that either have adopted the Euro or are committed to doing so soon. This income provides each resident with a universal and unconditional floor that can be supplemented at will by labour income, capital income and social benefits. Its level can vary from country to country to track the cost of living, and it can be lower for the young and higher for the elderly. It is to be financed by the Value Added Tax. To fund a Euro-dividend averaging 200 Euros per month for all EU residents, one needs to tax the EU's harmonized VAT-base at a rate of about 20%, which amounts to nearly 10% of the EU's GDP.

Why do we need such an unprecedented scheme? For four reasons. The most urgent one has to do with the crisis in the Eurozone. Why is it that the US has been managing for many decennia with a single currency, despite the diversity of its fifty states and their divergent economic fates, whereas the Eurozone is in deep trouble after just one decade? From Milton Friedman to Amartya Sen, economists have kept warning us: Europe lacks two buffering mechanisms that serve in the US as powerful substitutes for exchange rate adjustments by individual states.

One of them is inter-state migration. The proportion of US residents who move to another state in any given period is about six times higher than the proportion of EU residents who move to another member state. Europeans may become somewhat more mobile. But our entrenched linguistic diversity imposes very strict limits on how far we can expect — or indeed hope — to amplify this first mechanism. Athens' unemployed will never migrate as smoothly to Munich as Detroit's to Austin.

The Dollar zone's second powerful buffering mechanism consists of automatic inter-state transfers, essentially through the working of a welfare state largely organized and funded at the federal level. If Michigan or Missouri suffer economically, they do not sink into a downward spiral. Not only is their unemployment tempered by emigration. In addition, owing to tax liabilities shrinking and benefit payments swelling, a growing part of their social expenditures is de facto funded by the rest of the country. Depending on the methodology used, the estimates of the extent of this automatic compensation vary between 20% and 40%. In the EU, by contrast, the dampening of a member's state downturn through adjustments of net transfers across states amounts to less than 1%. Given the poor prospects of the migration mechanism, the Eurozone simply cannot afford to neglect this second one. What form should it take? We shall not nor should we ever have an EU-wide mega welfare state. Something more modest, far rougher, namely a lump-sum, and therefore more compatible with the EU's subsidiarity principle, is what we need. If it is to be viable, our monetary union needs to equip itself with a number of new tools. One of them is a buffering mechanism which can only be something like a Euro-dividend.

The second reason why we need such a transnational transfer scheme applies to the EU as a whole. The linguistic and cultural diversity of the European continent does not only make inter-state migration more costly and therefore less likely for the individuals involved. It also reduces the benefits and increases the costs for the communities involved. Integration into the new environment, both economic and social, takes more time, requires more administrative and educational resources, creates more lasting tensions than is the case with inter-state migration in the US. As migrants from poorer countries flock into the more affluent metropolitan areas, the feeling of being invaded by indigestible crowds feeds the drive to reinstate thick boundaries and repudiate both free movement and non-discrimination. There is an alternative, however: organized systematic transfers from the centre to the periphery. People will no longer need to be uprooted and driven away from their relatives and communities by the sheer need to survive. Instead, populations will be sufficiently stabilized to make immigration digestible in the magnet areas and to stop emigration being badly debilitating in the peripheral areas. If it is to be politically sustainable and socio-economically efficient, a European Union with free internal migration must introduce something along the lines of a Euro-dividend.

Thirdly and most fundamentally, the free movement of capital, human capital, goods and services across the borders of member states erodes the capacity of each of these to perform the redistributive tasks they discharged well in the past. Member states are no longer sovereign states able to set their own priorities and to realize solidarity among their citizens. They are more and more compelled to behave as if they were firms, obsessed by their competitiveness, anxious to attract or keep their capital and their human capital, eager to eradicate any social expenditure that cannot be sold as an investment and to phase out any scheme likely to attract welfare tourists and other unproductive people. It is no longer democracy that imposes its rules on markets and uses them for its purposes. It is the single market that imposes its laws on democracies and forces them to give competitiveness top priority. If our diverse ways of organizing social solidarity are to be saved from the grip of fiscal and social competition, part of it must be lifted to a higher level. The power and diversity of our welfare states will not survive the murderous pressure of competitiveness unless the united European market operates on the foundation of something like a Euro-dividend.

Finally, it is important for all dimensions of the functioning of the European Union that its decisions should be regarded as legitimate, so that governments and citizens will not feel entitled to circumvent them in all sorts of ways. One important factor turns on whether citizens perceive very tangibly that the Union does something for all of them, not only for the elites, for the influential, for those who are in a position to seize the new opportunities, but also for the underdogs, those left out or the stay-at-homes. Bismarck helped secure the shaky legitimacy of his unified Germany by creating the world's first public pension system. If the Union is to be more in people's eyes than a heartless bureaucracy, if it is to be perceived as a caring Europe with which all can identify, it will need to find a way of bringing about something totally unprecedented: a universal Euro-dividend.

Are there any reasonable objections to this proposal? Of course there are. Some, for example, may question the wisdom of using VAT to fund the scheme. True, VAT is the most Europeanized of all major forms of taxation. But would it not make more sense to use a Tobin tax or a carbon tax instead? We can do so, but what these taxes could fund, under

quite optimistic assumptions, is an EU-wide monthly Euro-dividend of between 10 and 14 Euros. Why not the more progressive personal income tax then? Because the definition of the income tax base varies greatly from country to country and is highly sensitive politically. Moreover, today's income tax is de facto hardly more progressive than VAT. When added to national rates, would a 20% rate of VAT not be unsustainable? It does not need to be added to unchanged VAT rates: the member states' social expenditures can and should be adjusted downward and the revenues of the income tax upward, as a straightforward implication of the sheer presence of the Euro-dividend.

Others are likely to object that each of the four functions listed above could be served better through some more complicated, more sophisticated device. Most of these arguments will be correct. My claim is simply that no other manageable mechanism would serve all four functions as well while being intelligible to the ordinary European citizen.

A more fundamental objection is that however desirable the expected effects, it would be unfair to give everyone something for nothing. This objection rests on a misperception. A Euro-dividend does not amount to an unfair redistribution of the fruits of somebody's hard work. It rather amounts to sharing among all European residents, in the form of a modest basic income, part of the benefits of European integration. How much did we save as a result of not having to conduct or prepare war with our neighbours? How much did we gain as a result of having increased competition between our firms or of having allowed factors of production to move wherever in Europe they are most productive? No one knows and no one will ever know. But what is certain is that these benefits are distributed very unequally in the European population, depending on whether they are resourceful or unemployed, depending on whether or not the situation created by European integration happened to make their consumption cheaper or their skills more valuable. A modest Euro-dividend is simply a straightforward and efficient means of guaranteeing that some of these benefits will reach each European in a tangible way.

Is this not utopian? Of course it is, in the sense in which the European Union itself was utopian until not so long ago, and also in the sense in which the social security system was utopian before Bismarck put together its first building blocks. But Otto von Bismarck did not create his pension system from kindness. He did so because people started mobilizing in favour of radical reforms across the whole of the *Reich* he was trying to unify. What are we waiting for?

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## **Part II – European Trade Unions' Vision Of A Social Europe**

# Why We Need An Ambitious Social Europe

*By Bernadette Ségol*

The European Trade Union Confederation (ETUC) has, for many reasons, always been supportive of the European project, but primarily because this regional integration model aimed not only at economic integration but was also meant to foster social progress and full employment. We have stressed this point on many occasions over the years. The response from the Institutions has been worse than disappointing and, we fear, for reasons that are based on ideology rather than sound economics.

One year ago we presented our Social Compact for Europe. It was obvious to us - and indeed many others - that the policies chosen to deal with the crisis were dismantling the European social model instead of strengthening it, thereby undermining popular support.

Why is that support undermined?

Over the recent period there has been no social initiative from the EU, no serious effort to stop wage and social dumping and no demand made to Member States to promote an effective social dialogue. Political leaders view social regulation as an obstacle to competitiveness. Here are a few examples: No social program in recent years, no health and safety program, no initiative on restructuring – although requested by the European Parliament. Essential directives on subjects such as information and consultation, parental leave or posting of workers are considered to be costly burdens. By anticipating the Council's negative reaction, the European Commission is giving up any social initiative. This is not the way forward.

Do they not see that the EU's social foundation is being eroded to a vanishing point? Minimum social standards should be an integral part of EU's social dimension. And why else is trade union and popular support for the EU dwindling? Because the policies imposed by the Troika on Greece, Spain, Ireland and Portugal and, generally, the famous 'six-pack' of macroeconomic policies have a single objective, namely structural reform. These reforms have made ordinary people carry the whole weight of economic adjustment. Inequalities as well as poverty have increased. Public services have been weakened and so has social protection. And we have not seen any meaningful initiative in favour of growth or employment.

In that very negative context, we welcomed the European Council decision of December 2012 to put the question of Social Europe on the table. We see this as an echo – albeit faint – to our claims. It is essential that the roadmap on the social dimension of EMU, which will be published in June, is more than just a gimmick, more than just a fig leaf hiding the nudity of Social Europe.

The roadmap must address the social dimension of EMU. We know that a single monetary area requires coordination and convergence which will have a considerable impact on working conditions. But where exactly does EMU start and where does it end? Austerity does not stop at the Euro area's borders. Macroeconomic policies implemented under the fiscal compact will be felt well beyond it.

For us, the EMU social dimension should result in a positive social process for all EU countries. We oppose the repatriation of social rights to the national level by those countries not members of the Euro area, which we know is what the British Prime Minister wants and others may follow.

Current policies threaten our social fabric. There will be no serious roadmap on the social dimension of EMU without a clear indication that these policies will change. It should be clearly said that the number one priority is to fight unemployment by way of a moratorium on austerity policies and an investment program for growth and jobs amounting to 1 to 2% of Europe's GDP. We have not seen the implementation of the growth plan as decided in June 2012. We know that the capital of the EIB was increased by 10 billion Euros with leverage effect. But where are the projects? Who will they benefit and how? That amount will in any case hardly be sufficient for growth to pick up again in Europe.

We are told that no public money is available. But public money was there to save the banks. And it was ordinary people who forked out. Working people and their families do not understand why it was considered acceptable to increase public debts and deficits to save the banks and why no effort is being made to save jobs. And what about mobilising private funds? What about fighting tax evasion or tax avoidance? Every year, one thousand billion Euros escape tax collection. It is time to stop this scandal.

We welcome the attention given to the social dialogue at European level. But, let us be clear, this dialogue must bear fruit. We will not be taken hostage in the process. And the European dialogue depends on a strong dialogue at the national level. Weakening or destroying industrial relations at national level goes against EU fundamentals. What happened in Greece is against basic rights as defined by the ILO. In Romania and in Hungary, trade union rights and social dialogue are being flouted. What will the roadmap say about that?

It is first at the national level, in the negotiation of recovery programs, that the social dialogue must take place. In many countries, the conditions are just not there, simply because the right to negotiate is being denied. The roadmap cannot ignore that. Talking about the European social dialogue without looking at what is happening at the national level would be a waste of time. Likewise, the very *raison d'être* of the social dialogue will be lost if the necessary follow-up to the sectoral social dialogue at European level, as provided for by the Treaties, is disregarded. But this is happening now.

Then there is the question of the ETUC's participation in the economic governance process. We are ready to get involved in defining the broad lines of the European Semester. But will our participation contribute to changing the direction of current policies? Could the tripartite social dialogue or macroeconomic dialogue be turned into platforms going beyond interesting and polite exchange of views? The answer to those questions is of course of paramount importance. The ETUC will not be hostage to participation in economic governance for the sake of it.

We are fully aware that, in the EMU convergence process, national comparisons of unit labour costs are looked at and discussed at length by finance and employment ministers. And we do know that wages are an important element of unit labour costs. This is a highly

sensitive issue, a red line. Wage-setting systems are outside EU or EMU competences. The autonomy of social partners must be guaranteed in that area.

We support the inclusion of social indicators such as unemployment, poverty, inequalities or active labour market policies in the country-specific recommendations. The implementation of the youth guarantee should also be included in these recommendations. Social indicators should weigh as much as economic indicators and not just serve as an excuse or occasional option. If indeed social indicators are taken seriously, they will have an influence on macroeconomic policies.

Now, a few words about social and wage dumping: It exists almost everywhere in the EU and it sets people against the EU. The damage caused by the decisions of the European Court of Justice in the Laval, Rüffert, Viking and Luxembourg cases has not been repaired. As long as the EU allows social dumping, it will be viewed as an instrument working against the people's interests and as a socially negative factor.

Our position on the social dimension of the EU must be taken very seriously. Pressure is high to limit the debate on the social dimension to some secondary aspects. It would be extremely regrettable if, at the end of June, the Council were to adopt an unambitious roadmap. Unfortunately, trade union support for European integration could well disappear in this case.

**Bernadette Ségol is the Secretary General of the European Trade Union Confederation (ETUC).**

# A Social Europe Requires A Change Of Course For The Young Generation

*By Berthold Huber*

A social Europe does not come about on the drawing board – only a concerted effort will allow it to develop. The path to another Europe, a social one, therefore has to start with the concrete needs and concerns of its citizens. The current crisis is showing the people of Europe just how great an impact Europe has on them like never before. This especially holds true for Europe's younger generation.

It is indeed the case that Europe's young people are bearing the brunt of the crisis, and the unilateral belt-tightening measures being taken by the Euro states. Soaring unemployment among youth in Europe has assumed massive proportions, and is thus one of the fundamental problems faced by European societies.

Europe can only legitimise itself over the long haul if it banishes the problem of youth unemployment. It is time for a social Europe meriting the name instead of merely paying lip service to it by once again offering young people in Europe prospects for social and economic progress. Social and economic fears and anxieties on the part of the young generation have to be taken seriously. A mounting number of young people in Europe think that EU policy above all panders to business enterprises and lobbyists. As a result, the European Union's policies are frequently perceived as dire threats. This tarnishes the attractiveness of the 'European Project'.

It is without a doubt one of the most blatant contradictions of our age that the best-educated younger generation in the history of Europe either does not have any work or is only employed in poorly paid, insecure jobs. The youth unemployment rate averages 23.4% in the 27 EU countries at present, and is thus roughly twice the rate as for adults. 7.5 million young people between the ages of 15 and 24 as well as another 6.5 million young people between 25 and 29 were either out of work or were undergoing vocational training in schools in 2012. In some southern European countries such as Spain or Greece, for instance, more than one out of every two persons between 15 and 24 does not have a job. Even in Sweden, considered to be a shining example of a modern welfare state down to the present, almost one in every four young persons does not have work.

Never before have Europe's youth faced such dismal future prospects. It is becoming ever more difficult to get a foothold in working life, while young employees with atypical or precarious jobs are fast becoming nothing more than a flexible labour pool to be hired and fired at will. Europe's youth thus face the peril of becoming a lost generation. This is undermining trust and confidence in one of Europe's key pledges – that each generation will have the possibility of employment and economic advancement. Not only does this jeopardize the social cohesion of our societies. European unification may also suffer setbacks if especially young people, who are supposed to carry the ideal of a united Europe into the future, associate Europe above all with unemployment and an erosion of social standards.

The problem of unemployment among youth is putting the very essence of the European



Project to the test. When millions of talented people are fighting against a bleak future, the very foundations of the European welfare state are at stake.

We know from many scholarly studies that the beginning of a lifetime of gainful employment is frequently the stage where young adults establish the foundations for the level of self-determination, prosperity, or conversely relative poverty (in old age) and social marginalization they will face over the course of their lives. A resolute, comprehensive political response addressing both youth unemployment and the precarious nature of existing jobs is therefore absolutely imperative for a Social Europe, a healthy society and social systems which are viable in the long term. Young people whose periods of gainful employment are interrupted generally earn a lower income during their entire working lives. The risk of renewed unemployment is moreover considerably greater. Unemployment today is thus frequently followed by a precarious situation tomorrow. On top of this, young people need a certain degree of planning security and financial security if they are to establish autonomous lives or have a family. When a significant percentage of the young generation continues to be excluded from a society based on the principle of solidarity, and as a result lacks the financial means to make a contribution to the social system of this very society, youth employment is undermining the very foundations of the European welfare state.

To confront this desolate situation, the EU is only planning on making €6 billion available over the next 7 years. By way of comparison, the EU was willing to fork out over € 700 billion to bail out insolvent banks. The President of the EU Parliament, Martin Schulz, was therefore completely right when he stressed that the young generation is just as 'system-critical as banks'.

We cannot afford to sacrifice the young generation, otherwise the realization of our 'vision' for a social and just Europe will become more elusive than ever. That is why combating alarmingly high youth unemployment must be made one of the common strategic priorities of the European Union's and its member states' policies. The objective must be to slash youth unemployment in Europe over the next few years. To this end, binding targets and goals need to be agreed without delay.

Anyone who is serious about combating youth unemployment in Europe must above all reform the labour markets with their deep rifts and bring about a new order. To achieve this requires regulation and limits on atypical and precarious jobs as well as low wages. Normal, permanent employment agreements must become the norm once again. Beyond this, measures need to be taken to curb wage discrimination. The principle of 'the same wage for the same work at the same place' must apply throughout Europe.

In addition to labour-market policy, additional binding measures must be agreed in order to turn the tide on youth unemployment. At the heart of this are the following:

- a European program to start up immediately aimed at combating youth unemployment and providing financial resources to make the EU's 'youth guarantee' a reality. This means to guarantee the right to initial or further training within a period of 4 months after receiving a secondary school graduation certificate.
- a growth program for Europe instead of one-sided austerity policies.
- a change in course in educational policy characterised by:

higher levels of investment in education and training, job-creation and further training measures for the period of at least one year, fostering and expanding the dual training system.

Young people are the most important capital the European Union has. They are Europe's societal and economic foundations for the future. It is only through a resolute change in course towards a Social Europe based on solidarity that we will be successful in improving economic and social prospects for young Europeans and getting them back on board behind the European Project.

**Berthold Huber is Chairman of the German trade union IG Metall and President of the International Metalworkers' Federation.**

# The Social And Political Scope Of EU Reform Policy

*By Ignacio Fernández Toxo and Cándido Méndez*

At the end of next June the European Council summit will debate a proposal to reform the Economic and Monetary Union (EMU) based on the roadmap approved last December. The debate and decisions adopted will discuss the worst crisis faced by the EU since its birth in 1957. The nature of this crisis is, at present, not only economic, but also social and political. It is, to a great degree, the result of the incapacity of European political officers to face up to the second stage of the international financial and economic crisis, as well as that of the EU 'periphery' countries.

Austerity and structural policies – in other words, the undermining of social and labour rights – as imposed by the European Council starting in May 2010, have resulted not only in an absolute failure in economic terms, but have also brought about devastating social and political results. This particularly refers to debtor countries, but also has a bearing on the EU as a whole and its future, understood as a political project.

This analysis reflects not only the trade-union view in facing up to the severe deterioration of the European Social Model, but also highlights the *de facto* disappearance of the social contract in which, after World War II, a long-standing period of peace and economic progress flourished, based on welfare and social justice, and recognized as the undeniable hallmark of the EU. The more rigorous economic and political analysts today believe that austerity and relinquished social benefit policies have now failed, as do international economic institutions such as the IMF and the non-European G20, in spite of the contradictions and ambiguities which are part of the diplomatic language. The only agents who seem to not be aware of this are Angela Merkel and those governments who support her, the only real political power, and Olli Rehn.

Austerity policies have driven Europe into a new recession, unlike other regions of the world that did not apply such measures. There are currently 27 million jobless workers, and countries such as Spain or Greece now face an unemployment rate of 27% (as was the case in the US during the Great Depression). European economies have thus fallen into a vicious circle of austerity-recession. The increase in poverty and inequality rates has reached a level unseen since 1945, together with a severe deterioration in social and basic public services, especially so in debtor countries, but felt at varying levels of intensity throughout almost the entire EU. Not only that, but the result is a deep lack of confidence and a de-legitimization of national democratic institutions and, beyond that, of European institutions. Populism, Euro-scepticism, and anti-system movements continue to grow, while the political and cultural gap widens between northern and southern states.

How can the roadmap proposals help in facing such a deep and extensive crisis? Barely, if at all. On the one hand, regarding the social dimension, the role of social dialogue and the democratization of European institutions, the Council document provides nothing new, only the usual observations. On the other hand, there is no single social dimension compatible with those austerity and structural reform policies that continue to be the official Council doctrine for a solution to the crisis.

What credibility can we award to the wishful statements made by officials such as Mr Van Rompuy and Mr Barroso? They claim that reforms will include elements to evidence their social awareness, or else a purported strengthening of social dialogue, while simultaneously continuing to inflict adversary policies. In many European countries they impose, by means of non-democratic systems, salary and pension cuts, changes in labour legislation resulting in the elimination of rights, a weakening of collective bargaining procedures, and a general reduction of social rights. At the end of the day, all these issues are not even within the purview of the EU's authority. The answer is evident – there is no credibility whatsoever.

The ETUC Executive Committee has recently approved several proposals concerning the social dimension of the reforms under discussion. However, it is our opinion that the most severe political situation now facing Europe requires further efforts: we are bound to ensure that basic social rights, which must be included in the New European Social Contract defended by the ETUC, are in fact guaranteed in the text of future treaties; that the economic government of Europe is democratic; and to include measures aimed at rebuilding European workers' and citizens' trust in a new EU political project.

The philosophy and specific measures included in the 'six-pack', as well as those of the 'Agreement for a Euro-plus' and the 'European Semester' and its executive instrument, the new Treaty or 'Fiscal Compact', are only seen as a means to impose upon Eurozone debtor countries a domestic devaluation of wages, social outlays, and prices, without upholding basic democratic norms nor providing authority of any sort, neither to the European Parliament nor to national parliaments.

This is the reverse of the opposition of those who truly rule in the EU and in the Eurogroup to accepting what now appears to be obvious: a common currency requires a central bank working with clear inflation and growth targets, and operating as the lender of last resort – a single Treasury with the authority to issue common debt instruments, manage fiscal harmonization, and set solid bases for economic governance.

Reforms in economic governance leading beyond a limited banking union and guaranteeing a social dimension for the EU, with real democracy, must necessarily rely on an in-depth reform of European Treaties. CCOO and UGT called for this in the joint document submitted to internal ETUC debates, entitled 'Political Reform in Europe'. The proposal included three pillars: economic government, with a harmonized fiscal system and a true central bank for the Eurozone; democratic governance in all European institutions; and a strengthened social dimension including basic labour and social rights as guaranteed in the Treaties. In order to achieve these aims, we believe it indispensable to approve a convention for a true democratic debate involving social counterparts and civil society institutions and organizations.

It will only be by means of a proposal of this nature, based on democracy, transparency, cooperation, solidarity and social justice – values which lead to political action within nations and among European nations – that European workers and citizens may once again believe in Europe as a common project. The Europe which has resulted from crisis and bad governance has run its course. We must now build a new Europe.

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# A Social Dimension For A Changing European Union: The Irish Case

*By David Begg*

The problem with the concept of 'Social Europe' is that there is no one social model that applies. Moreover, there is a collective action problem for member states even if they wish to achieve a single model – a point discussed later. But without a social dimension as a counterfoil to monetary and economic integration, the European project will increasingly lose the support of the people as recent research by the Pew Centre (2013) suggests.

There is an extensive literature outlining a typology of social models in Europe (Esping-Andersen, 1990; Huber and Stephens, 2001; Pontusson, 2005). The seminal work in this area is that of Gøsta Esping-Andersen (ibid) in which the degree of decommodification – the extent to which social security systems allow a person to survive outside the labour market – is the principal criterion for judging welfare regimes. There is broad agreement on categorising the Nordic countries as having a social democratic model with a high degree of universality of benefits and public services delivered by the public sector. Continental countries are characterised by an insurance-based, male breadwinner type model based on Christian Democratic values. As liberal market economies, Ireland and Britain have lower levels of universality and rely on means testing for many benefits with attendant lower decommodification achievement.

In Ireland's case particularly, welfare effort tends to compare unfavourably with the Nordic and continental models not least because public spending is lower.

**Table 1: Public Social Expenditure as % of GDP**

<b>Welfare Regime</b>	<b>Total Social Expenditure</b>
<b>Nordic</b>	
Denmark	27.3
Finland	26.1
Sweden	29.8
Norway	22.9
<b>Continental</b>	
Germany	27.9
France	29.5
Netherlands	21.6
Belgium	26.4
Austria	28.1
<b>Liberal</b>	
Ireland	16.7
United Kingdom	22.1

Source: Hemerijck, (2013:232)

Ireland also has what is sometimes described as a 'mixed economy of welfare' meaning that a high percentage of services in health and education, although funded and regulated by government, are delivered by the community and voluntary sector. This is mainly for historical reasons associated with the role of the Catholic Church.

There are a number of challenges to the sustainability of Ireland's welfare regime. The most formidable is an unemployment level of 14.2% overall and a youth unemployment component of 30%. The structural element is particularly worrying as long-term unemployment now stands at 62%. The construction industry in particular was badly affected by the onset of the recession, with employment falling from a peak of 286,000 in 2006 to 102,000 in 2013. Employment trends for the different economic sectors are set out in table 2 below:

**Table 2: Ireland: Employment Trends by Sector**

	Annual Averages, 000s			
	2011	2012	2013	2014
<b>Agriculture</b>	83	86	84	84
<b>Industry</b>	348	336	338	344
<b>of which: Construction</b>	108	102	102	104
<b>Services</b>	1,414	1,415	1,418	1,420
<b>Total at work</b>	1,849	1,839	1,842	1,849
<b>Of which: non-agri.employees</b>	1,534	1,526	1,534	1,546
<b>self employed</b>	293	289	285	280
<b>Unemployed</b>	317	316	305	298
<b>Labour Force</b>	2,166	2,155	2,148	2,147
<b>Unemployment Rate%</b>	14.6	14.7	14.2	13.9
<b>Participation Rate, %</b>	60.4	60.2	59.9	59.9
<b>Net Migration</b>	-27.4	-34.4	-32.0	-22.0

Source: Central Statistics Office and ESRI Forecasts.

Although the demographic profile of Ireland's population is generally more favourable than the rest of Europe, the country is still facing an increasing population of over 65s, living longer, with implications for pensions, health and care for the elderly. Even now the country's occupational pension funds are in tatters with 80 per cent of defined benefit schemes being underfunded.

Childcare is regulated and subsidised by grants to parents to a limited extent, but is totally provided by the private sector. Recent investigative journalism has revealed serious shortcomings in the quality of care provided and in the standards of regulation. Care of the elderly is being progressively privatised and similar problems have arisen in this sector. In a nutshell, the state decided on market solutions to care as female labour force participation increased in the 'Celtic Tiger' years (1994-2008). It is not a successful model.

With regard to labour-market institutions, Ireland pioneered a very sophisticated and inclusive model of social partnership from 1987 to 2009. A discussion of this model and the reasons for its collapse would be beyond the scope of this article. Unfortunately, judicial activism at Supreme Court level has, since the onset of the recession, more or less unravelled all the labour-market institutions for wage setting, apart from the Labour Court itself. It did this by declaring a 1946 Industrial Relations Act *ultra vires* the constitution in important respects. Taken in conjunction with the fact that unions have no legal right to collective bargaining, this further erosion of rights is highly debilitating to the achievement of equality in society through collective bargaining.

This course of events cannot be realistically separated from the fact that Ireland is a



programme country under the control of the EU/ECB/IMF Troika. The policy pursued has been to engineer an internal wage devaluation to restore 'competitiveness'. The social consequences of this programme, especially its impact on public services, have been very severe.

The truth about EMU is that without the ability to devalue the currency and in the event of a macroeconomic shock, the whole burden of adjustment falls on labour markets.

For Europe this poses some dilemmas. Because there is no social institution to match the power and independence of the ECB, there is no balance between the social and the economic. Yet globalisation constantly throws up new social risks. The further European economic integration progresses, the more it infringes upon the basic rights, provisions, and redistributive functions of national welfare states. At the same time, member states are collectively unable to further social integration in return. It is a dilemma well captured in the following passage from a recent publication:

'The more European economic integration deepens and widens, the more it infringes upon the basic protective and redistributive functions of national welfare states. Moreover, as price stability and sound fiscal policy are constitutive pillars of the EMU architecture, economic and monetary integration have been granted institutional privilege, through the Maastricht Treaty, over national and supranational social policy repertoires. In other words, European economic integration is not just about a 'functional decoupling' between EU economic integration and national welfare states but also about 'hierarchical subordination'. Even if EU member governments would wish to collectively step up EU social policy integration to counterbalance market and monetary integration, their hugely different levels of economic development, variation in development generosity, financing and service provision make it extremely difficult to find appropriate solutions for all twenty-seven member states to agree upon. Moreover, following the Treaty, any expansion in the scope of 'positive' social policy interaction critically depends on unanimity (or qualified majorities) within the Council of Ministers. Unanimity, in the shadow of extreme diversity and divergent political preferences, thus conjures up a situation of 'joint-decision trap'.' (Hemerijck, 2013:294)

One solution would be to change the remit of the ECB to require it to focus on issues such as employment and not just on the narrow focus of price stability and inflation below 2 per cent. In other words, to make it more like the Federal Reserve Board in the United States. Actually without making that kind of institutional adjustment, it is hard to see how social Europe will ever become a reality.

But here is another dilemma. Changing the remit of the ECB requires Treaty change. It can be argued that the decision to engage in Outright Monetary Transactions (OMT) is already pushing the boundaries of the ECB's remit. Indeed that is what the Bundesbank is currently arguing before Germany's Constitutional Court. So a willingness to change the Treaty to make ECB more like the Fed would possibly prompt the German Government to seek to specifically limit its powers to engage in OMT (Steen, 2013).

The final dilemma for Europe is that to resolve the financial crisis it must complete the institutional architecture of EMU, thus embarking on the most ambitious phase of integration at a time when Europe's citizens don't want it. And they are unlikely ever again

to want more integration until they see it brings social progress, not just economic hardship.

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# A Concept For Deepening The Social Dimension Of The European Union

*By Frank Bsirske and Klaus Busch*

The aim of this article is to put forward a proposal for deepening the social dimension within the European Union and thus to contribute to the debate surrounding the future of Europe's Economic and Monetary Union. In doing so, we are, on the one hand, following on from our 'European Policy Manifesto' (Verdi 2010), which we submitted back in 2010, and, on the other, from ideas that emerged from the EU Commissioner for Social Affairs, László Andor, in March of this year. Given that these ideas distance themselves from neo-liberalism they unfortunately have little chance of seeing the light of day as a European Commission communication. It is our objective to submit the most comprehensive concept possible for how the Union's social dimension can be further developed, as we consider this to be the decisive desideratum in the current debate.

We perceive social policy not just as the policies relating to social security systems (pensions, health care, family, unemployment), i.e. social policy in the narrow sense, but also encompassing all policies pertaining to the social situation of dependent employees. These people are largely dependent on three aspects: A) the labour market situation, B) wage and income developments, and C) the protection provided by welfare state systems (pensions, health care, etc.). Social policy in its broader sense therefore includes labour market and employment policy, wage and income policy as well as welfare state policy.

European social policy aims to eliminate inequalities and disparities in existence in Europe's labour market, in wage and income developments at the EU level, and in European social security systems. By striving to overcome the aforementioned inequalities and disparities, European social policy is, above all, taking on a social stabilisation function.

Our proposed consolidation of the social dimension of the European Union involves all three policy areas. This proposal comprises two dimensions across all three areas:

1. a set of indicators that provide details of inequalities and disparities in the labour market, in wage and income development, and in social security systems, and
2. a set of instruments suited to eliminating the respective inequalities and disparities.

As regards the indicators and instruments, we further differentiate between main parameters and supplementary parameters. This differentiation serves to establish priority levels for political action and thus also priority levels for deepening the social dimension within the European Union. By way of example: loan and income policy has one main indicator, 'share of the low-wage sector', which indicates disparities in wage and income developments, plus one main instrument for eliminating these disparities: coordination of national minimum wages at the European level. In addition there is the 'Gini coefficient' indicator in this area, which measures the extent of inequality in the income distribution, plus the supplementary instrument of 'tax policy' to overcome the income distribution disparities. European solutions are required, above all, with respect to the main instrument 'minimum wage', plus, during a later phase, the supplementary instrument of 'tax policy'.

With respect to all of these indicators, we believe that analyses should be submitted every year in which, for each individual member state, the development of the indicators, their current deviations from the historical trend in each respective country, and their deviations from the mean value across the EU states and/or the member states of the Eurozone are examined. Threshold values should be established for deviations, which would trigger preventive measures. On top of this, threshold values should be set which result in sanction-related corrective measures. Based on such analyses, the European Commission would then need to submit an annual report on 'The development of the social situation in the EU'. In turn, the member states would each need to draft a national action plan describing the envisaged preventive and corrective measures and discussing the achievements and failures recorded to date in implementing the agreed European instruments.

### **European labour market and employment policy**

Since the beginning of the global financial crisis in 2008, a rise in unemployment rates has been observed within the EU, as has a dramatic hike in youth unemployment rates and a significant increase in precarious employment. Historically speaking, the inequalities and disparities in the labour market are at an all-time high.

There should be three main indicators in this policy area: the unemployment rate, the youth NEET rate (Not in Employment, Education or Training) and the share of precarious employment. These parameters shed light on labour-market inequalities, on the share of young people not in employment, education or training as well as on the number of people in part-time employment, temporary work, on fixed-term contracts, contracts for work and services as well as in mini and midi jobs (labour market disparities). Since the statistics on precarious employment in the EU are incomplete, the share of employment in the low-wage sector could be used as an auxiliary parameter. These indicators should be recorded over a period of ten years, with national and European mean values being established and threshold values for national and European deviations being set. National and European reports should analyse the causes of such developments and deviations: cyclical development, impact of austerity policy, potential shifts in the country's competitiveness, exogenous influences of the global market, etc.

The main instruments for combating inequalities and disparities are a national and European macroeconomic policy designed to overcome unemployment, a coordinated European youth guarantee as well as a set of European labour market regulations to combat precarious employment, e.g. equal pay for permanent and temporary workers, strict limitation of contracts for work and services, plus stringent controls of posted workers within the EU, based on the principle of 'equal pay for equal work at the same location' (host country principle). By establishing an indicator for the labour-market situation (unemployment rate) and an expansive macroeconomic policy for overcoming the labour market crisis, European social policy would consciously be providing a contrast to the macroeconomic policy that prevails in the EU. If such a European social policy were to be taken seriously, and if it were set on the same pedestal as economic policy, the EU would be forced to end its neoliberal austerity policy and focus on a new economic policy paradigm.

The supplementary indicators for labour and employment policy could include: the number of long-term unemployed, the average duration of unemployment, the share of hidden unemployment as well as the employment rates for various groups (men, women, young people, older employees).

	Labour market inequality	Social situation of young people	Precarious employment
Main indicators	Unemployment rate: 2000 to 2012	Youth NEET rate: 2000-2012	Share of precarious employment: 2000-2012 (alternatively: low-wage sector)
Threshold values (national and European values)	To be determined (tbd)	tbd	tbd
Main instruments	Expansive macro-economic policy	Youth guarantee	European regulations on temporary employment, contracts for work and services...
Supplementary indicators	Long-term unemployment rate, duration of unemployment, share of hidden unemployment, employment rates (women, men, 55-64 yrs)	Youth unemployment rate 15-24 yrs  Employment rate 15-24 yrs	
Supplementary instruments	Active labour market policies, Increase of the share of employed with secondary and tertiary qualifications, Increase of investments in education, further education/training and preventive health care	Increase of investments in primary, secondary and tertiary education	Increase of investments in primary, secondary and tertiary education, Increase of investments in further education/training and preventive health care

Source: self-compiled

The supplementary instruments would be an increase in the share of active labour-market policies, the number of people employed with secondary and tertiary qualifications; investments in primary, secondary and tertiary education as a percentage of GDP, as well as investments in further education/training and preventive health care as a percentage of GDP.

### European wage and income policy

Wage and income development within the EU has also been characterised by significant inequalities and disparities for over a decade: virtually everywhere, income has been redistributed in favour of capital income, no country more so than Germany. At the same

time, many countries have seen a dramatic growth in the low-wage sector and poverty rates.

The main indicators in this policy area are: real unit labour costs, the share of the low-wage sector, and poverty rates. These indicators show the change in the share of labour and capital in total income (income distribution), the degree to which the low-wage sector has expanded, and the number of people having an income of up to 60% of the mean equivalent income. Here, too, the development of these parameters should be examined over a period of ten years and the causes of the potential income distribution inequalities analysed. By the same token, any diverging developments among the EU member states should be recorded and explained. National and European threshold values could be established for the share of the low-wage sector and poverty rates. Deviation margins could be agreed for income distribution, which would indicate when redistributions detrimental to wages and salary incomes necessitate corrective measures.

In this area, the main instruments for avoiding inequalities and combating disparities are: Europe-wide coordination of national collective bargaining policies, based on the rule 'inflation rate plus productivity growth'; European rules for national minimum wages as well as European rules for national minimum income (social welfare standards). Whilst the parties involved in collective bargaining would be vested with the task of coordinating collective wages, the rules for minimum wages and minimum income would need to be agreed upon by the legislators. One major stumbling block is the current weakness of European trade unions, which, for various reasons, are frequently no longer in a position to assert pay increases on the basis of the aforementioned rule. The supplementary instruments (see below) are of great significance here.

The supplementary indicators of inequalities and disparities in wage and income development within the EU could be: the development of real wages (coupled with a reduction in real unit labour costs, countries can record significant differences in the development of real wages due to their differing productivity advances, e.g. Sweden and Germany); collective bargaining coverage rates; the Gini coefficient; income replacement rates in retirement and of unemployment benefit. The supplementary instruments would be: measures to strengthen the collective bargaining systems (e.g. rules for the general implementation of collective wage agreements; precedence given to industry-wide agreements); regulations aimed at restricting precarious employment (see labour and employment policy); European rules for replacement rates in retirement and for unemployment benefit; redistributive tax policies. (To be able to introduce indicators and instruments at the EU level which seek to correct wealth inequality, the comparative statistics used for the development and distribution of the various types of wealth in the member states must be improved significantly).

	Wage development	Low-wage sector	Poverty
Main indicators	Real unit labour costs: 2000-2012	Share of low-wage sector: 2000- 2012	Poverty rates: 2000-2012 (60% of mean equivalent income)
Threshold values (national and European values)	tbd	tbd	tbd
Main instruments	Europe-wide wage coordination: "inflation rate plus productivity"	European rules for national minimum wages	European rules for national minimum income
Supplementary indicators	Development of real wages; collective bargaining coverage rates	Gini coefficient	Replacement rates in unemployment and retirement
Supplementary instruments	Rules for general bindingness; precedence to industry-wide agreements	European regulations for temporary employment, contracts for work and services, ...; distributive tax policies	European minimum standards for replacement rates in unemployment and retirement; distributive tax policies

Source: self-compiled

### European rules for coordinating social security systems

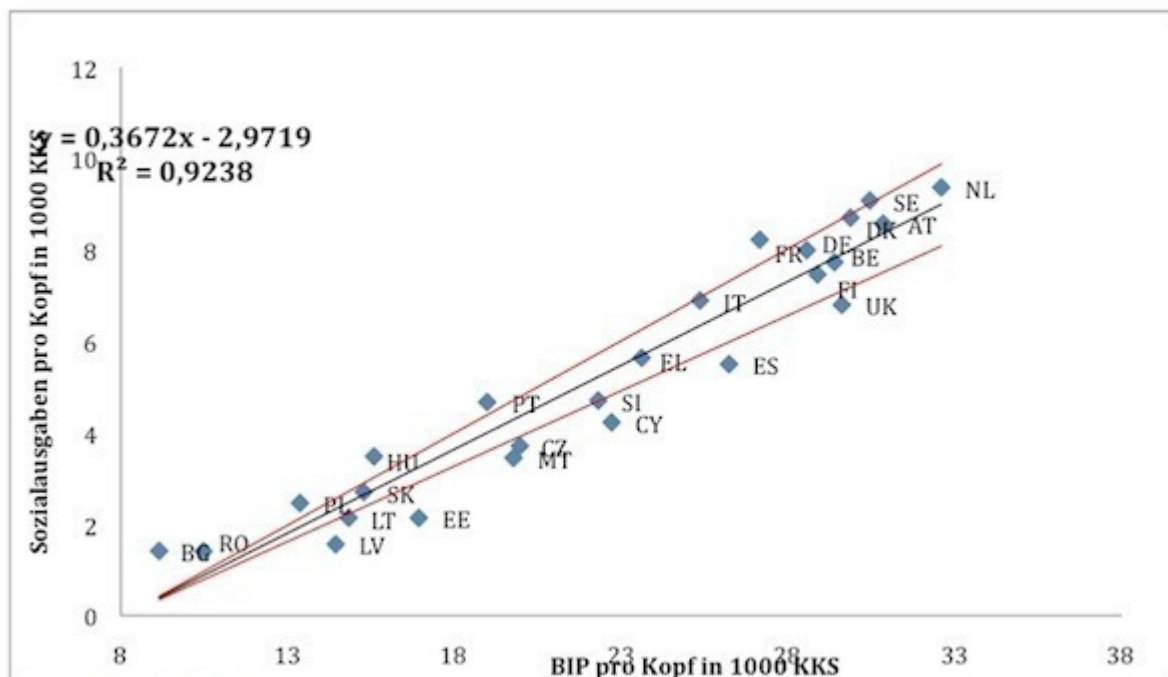
Until 2007, the year preceding the crisis, the levels of social protection expenditure among member states and their economic development bore a close statistical relationship. The higher the per capita income, the higher the per capita social protection expenditure. The coefficient of determination stood at over 90%. The variation in social protection expenditure therefore 'avowed' itself to be 90% derived from the per capita income variation of the countries. Even in the years preceding the crisis, however, some states had rates below this figure – in other words, they were spending less on social protection than befitted their level of development. This was, above all, true of Ireland, but could also be found in Estonia, Latvia, Lithuania, the United Kingdom and Spain. It is to be expected that, due to austerity policies pursued in Southern European countries, which have also resulted in drastic cuts in welfare state spending, the negative deviations will have increased again within the EU (cf. Busch/Hermann/Hinrichs/Schulten 2013). Prior to the crisis, a very close connection could be observed between total social protection expenditure and the level of development. But no such connection existed between individual areas of social protection and per capita income. Hence, the coefficient of determination for pensions in relation to per capita income was a mere 60%. Therefore, EU member states set different priorities when it came to allocating social protection expenditure to individual functions (pensions, health care, families, unemployment benefit). Countries in Southern Europe preferred pension schemes and spent less on families and the unemployed in relative terms, unlike countries in Central and Northern Europe, where, in relative terms, more funds were ploughed into families and

unemployment.

These observations give rise to two conclusions:

1. In order to maintain the close connection between social protection expenditure and the level of development, and to suppress the negative deviations found in certain countries and thus to avoid social dumping, it is expedient to agree on coordination rules at the EU level.
2. The regulatory approach should not relate to the individual social protection functions but apply to overall social protection expenditure (neither absolute nor relative minimum standard rules make any sense in the light of the empirical knowledge). The corridor model proposed below takes these prerequisites into account. It is a quantitative regulation approach, which can be supplemented by qualitative regulations at the additional instrument level.

**Example of a corridor (plus/minus ten per cent) around the regression line social protection expenditure per capita in 1000 PPS/GDP per capita in 1000 PPS, EU25, 2007**



Source: Busch 2011; 5

The main indicator in this policy area would be the social protection expenditure per capita in purchasing power standards (PPS) since the year 2000. The main instrument would be a corridor of 5%, 10% or 15% around the regression of social protection expenditure in PPS per capita in relation to per capita income in PPS (see graph). Given the very close relationship between social protection expenditure per capita and income per capita, the corridor model can be very easily presented with the help of the indicator 'social protection expenditure per capita in PPS' (cf. Busch 2011; 4f). For each value of per capita income in PPS a range of variation could be established for per capita social protection expenditure in PPS to which individual states would have to adhere. A point on the y-axis can now be assigned to every point on the x-axis using the formula given above the regression lines:  $y = 0,3672x - 2,9719$



=  $0.3672x - 2.9719$ . The regression line is the locus of the intersection of the y-target values for social protection expenditure per capita and the x-actual values for GDP per capita for the various countries. For each y-target value for individual states, two points are calculated which are 5% (7.5%, 10% ...) higher or lower than the y-target value (the exact percentages would be decided on politically). In this way, a range of variation would be laid down for each member state for the values of social protection expenditure per capita which mid-point is represented by the value on the regression lines. The distance of the two lines of deviation from the regression lines would increase as per capita income grows, because the absolute amounts of deviation increase with higher incomes at the same percentage of deviation.

Using the supplementary indicators for the key social security functions (see table below), supplementary instruments could be developed at a later stage of the deepening of the social dimension within the EU, which would be heavily geared towards the quality of services. With respect to pensions policy, these could be European minimum replacement rates as well as health care and further education/training measures which help raise the de facto retirement age. In the health care sector, these could be minimum standards for the quality of the services, which would deviate according to the level of economic development of the individual countries. A case in point would, for example, be data on life expectancy, infant mortality, heart disease, strokes and cancer survival rates. The quality of the labour-market measures should be improved through European standards for minimum replacement rates among passive services, as well as a relative increase in expenditure for active labour market policies. In the mid-term (and also for economic reasons), the possibility of a European supplementary unemployment insurance plan could be considered. In family policy, the main focus would be on measures to raise the level of employment among women.

	Social protection expenditure	Pensions	Health care	Unemployment	Families
Main indicator	Social protection expenditure per capita in PPS, 2000-2012				
Threshold value	tbd				
Main Instrument	Social protection expenditure per capita in PPS in relation to GDP in PPS (with deviation margin +/- 10%)				
Supplementary indicators		Relative pension level; wage replacement rate; pensionable age (de facto and statutory)	Various indicators for the quality of the health sector	Wage replacement rate; share of passive and active labour market policy measures	Share of child benefit; share of pre-school education expenditure in GDP
Supplementary instruments		Europe-wide minimum replacement rates for pensions; measures to raise the de facto pensionable age (health care, Further education/training),	Minimum standards for quality indicators independent of level of development	Europe-wide minimum replacement rates for unemployment benefit; increased share of active labour market policy (European supplementary unemployment insurance)	Measures to raise level of employment among women

## Outlook

The concept for deepening the social dimension within the European Union put forward here breaks with the prevailing neoliberal EU policies. It calls for a policy of sustainable growth as well as European regulations to eliminate precarious employment in order to overcome the labour market crisis. With respect to wage and income policy, the concept above all advocates measures which will ensure that ruinous wage competition and wage dumping in Europe are overcome. Regarding social security, the development of the welfare state should be pegged to the economic efficiency of the respective countries so as to prevent social dumping.

Our proposal should be seen as an enhancement and substantiation of the Social Compact for Europe, which the ETUC published in June 2012 (ETUC 2012). By catering to all three

policy areas, i.e. labour and employment policy, wage and income policy as well as social security policy, the concept already represents a very comprehensive approach. It could be completed by considering further enhancing the instruments of European economic democracy (works councils, co-determination, social dialogue) as well as the European dimension of services for the common good (services of general interest).

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# Towards A More Social Europe – A Change Of Course Is Necessary

*By Anne Demelenne, Claude Rolin and Bernard Noël*

Recently, hundreds of lawyers specialised in social and labour law have signed a manifesto to protest against the systematic attacks on social dialogue and social justice of the European Union; an attack that could lead to the disappearance of the European Social Model.

The European Social Model is not doing well. In the past, some have even announced its demise. However, it remains the element of value that still distinguishes us from the United States or China. It is our asset. Social dialogue and collective bargaining are the markers of the European Social Model. There was hope to see the model restored to the taste of the day at the time when the EU, in its configuration limited to the EMU, asked itself whether it would be useful to rethink and to promote 'the social dimension of the European Economic and Monetary Union'. In the meantime, the model undergoes unprecedented attacks. Social and wage inequalities are increasing between member states and within individual countries. The fear is real that the European Commission sacrifices 60 million workers on the altar of the sacred economic governance. Can Europe survive while being indifferent to workers ?

So there is urgency. Even in Belgium, recognised as a country that is traditionally very supportive of the European construction, scepticism is growing especially in the world of labour. And that is understandable. Europe is increasingly seen as a threat. As it was shown by the latest Eurobarometer, the two principal concerns of Europeans, and Belgium is no exception, are unemployment and the current economic situation. And yet Europe remains largely deaf to these appeals. Confined to what we could call a real autism in favour of austerity policies and structural reforms, she does not want to, or is incapable of hearing the increasing number of voices of reason that call out to loosen the budgetary straitjacket and to invest in favour of employment. The IMF has recognized its errors. The ILO continues to talk about the risks of social instability and Europe agrees to talk about it, but acts far too timidly. Where are the achievements of the pact for the recovery of employment that was adopted in June 2012 by the European Council? Where are the effects of the decisions, ever so loudly announced, on youth employment, the package of measures for social investments or the fight against tax evasion?

Meanwhile, the social situation has become intolerable. Unemployment and job insecurity increase, especially among young people. Will we accept to speak of a lost generation? Wages stagnate. Protection systems and public services are being undermined and the labour law is being challenged. The crisis is surely more acute in some countries than in others, but we are all concerned.

Almost five years have passed since the onset of the financial crisis and yet workers continue to suffer directly from its effects. If a change to revive our economy is not initiated, the medium-term prospects are far from optimistic. The latest economic outlook presented by the Federal Planning Bureau announced a growth again revised downwards for 2013 (0,2% instead of 0,7%) and is counting on extremely modest forecasts for the next

five years.

A real European Union – and *a fortiori* economic and monetary union – needs to rediscover a strong social dimension. The contribution of the Belgian government at the June Summit will certainly go in the right direction but, again, when will there be final decisions and moreover, will the words be followed by concrete and swift actions? In the meantime, we continue to be very concerned and mobilized about the national socio-economic situation. Public services and the system of social protection are put under pressure by budgetary constraints. The freedom of collective bargaining has been harmed. And the protection against dismissal is under attack.

The Belgian trade unions demand that a key role is given to the social partners to draw up the social dimension of EMU. Remember that the Belgian trade unions (and employers' organisations) have, throughout the evolution of the EU – made significant contributions to the development of the socio-economic dimension of the EU. These contributions have often been realized in transitional periods. This applies in particular to the realization of the 1991 social protocol of the EU, as it is integrated into the Maastricht Treaty. Social dialogue is thus anchored in the social chapter of the EU Treaty in the context of the internal market and the initial launch of the EMU.

Without a change of course, without putting a stop to the wide ranging austerity policies and without economic recovery in favour of employment, the democratic support for the European construction will continue to deteriorate, including in countries such as Belgium. A Europe that disregards the majority of its workers, its unemployed and its pensioners simply has no future.

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# A Social Dimension For A Changing European Union – The Bulgarian Perspective

By Plamen Dimitrov

For the trade unions in Bulgaria, the largest organisations in civil society seeking the protection of the workers' rights and interests, the values of Social Europe have been mobilising milestones, defining activities since the beginning of the transition. Building a competitive economy, reducing poverty, promoting social cohesion, the development of education and health care, investment in human capital and the observance of human rights, based on the unity of economic, employment and social policy in line with European values, have been key priorities of CITUB also in times of crisis.

With the adoption of the *social acquis communautaire* as part of European legislation on social policy, Bulgaria joined the framework of common rules aiming to ensure that economic growth and competitiveness as the goal of a United Europe will not be achieved by reducing the social standards, undermining workers' rights or the deterioration of working and living conditions.

Today, Europe is different. The European Union is changing and while the social dimension is among its main pillars, it is challenged because of the crisis and the asymmetries of a strong economic and fiscal integration leaving the social integration behind. Global competition and the global financial crisis forced the EU and many of the member states to change some of their policies and even to step back from some of the established social policies and practices. The European Social Model has been undermined and weakened.

At the same time, the social and labour issues are still national, rather than European, although there is a single market and many steps for economic integration, including the EMU, have been made. In this sense, the challenges facing Bulgaria bring some national characteristics to the fore, but overcoming these challenges requires both internal efforts and joint actions with the European Community. That is why we support the position of the ETUC on a strong social dimension and the demand of a radical change of course.

Among the peculiarities of the 'social' Europe we see today are the following:

- There is a clear social divide between centre and periphery;
- Unfair competition, based on the low wages and social dumping is on the rise;
- Double standards in the freedom of movement. On the one hand, the workers from low-income countries are used in higher income countries to contravene labour law and social standards, on the other undue restrictions on the free movement of workers are still in place. The conditions of work of the immigrants from the EU-member states and of immigrants from third countries are often much worse than those of the domestic workers, and racism and radical nationalism are on the rise.
- During the last few years the concept of 'flexicurity' was dominant in labour market

policies. However, the flexibility has often been implemented without any security;

- There are many and various national/regional patterns of industrial relations, although in most of the West European countries they still are based on the post-war consensus. However, in many of the new EU member states most of these main principles (with the exception of the national consultations between the social partners) are hardly accepted even after more than 20 years of democracy. Sometimes even the freedom of association of the employees is challenged by the employers.
- Both in the new and in the old member states the deregulation of industrial relations and the decentralization of collective bargaining were observed even before the start of the crisis. These trends are on the rise.
- The transnational dimension of labour and of industrial relations continues to develop, however, not always with appropriate social protection. Capital/employers' interests are instead dominant.

Sunk in the maelstrom of the crisis, we are likely to ignore the long-term issues of development. Both the near and the more distant future of the economy and society depends on the policies and decisions we should take at the present time. From this perspective, I would like to discuss some of the challenges facing our country relating to the social dimension for a changing European Union.

There are clear indications that overcoming the negative effects of the crisis on economic growth, the labour market, income and social security systems requires a change in macroeconomic policy, which is currently focused on fiscal restrictions. A change is needed that should ensure both the stability of the fiscal system and also create conditions for growth and employment. Austerity policy does not encourage enough investment and instead leads to more job losses.

The unity of 'smart, sustainable and inclusive growth' means that in parallel with the implementation of structural and macroeconomic policies, the necessary synergy with social policy objectives of increasing the social integration of vulnerable groups through employment and poverty reduction needs to be achieved. Crucial in this regard is the support and solidarity of the European Community for the implementation of a 'catch-up policy' in the newest members states through the distribution mechanism of the EU funds.

From this background the social dimension development faces a range of internal challenges.

- The economics of supply has exhausted all its possibilities in Bulgaria (tax rates are at the lowest level in Europe; consistent reduction of social security contributions led to the collapse of the pension fund). However, employment has continued to decline. Exports cannot permanently maintain GDP growth. Efforts should be directed to attract foreign direct investment and to encourage internal investment activity through appropriate credit and interest rate policies and encouraging household consumption through adequate income policy.

- The implemented tax policy not only does not lead to sustainable employment, but is exacerbating poverty and social inequality. The policy of low direct and high indirect taxes leads to an unusual structure of tax revenues that imposes a relatively higher burden on the low- and middle- income population groups. This 'inverted tax structure' actually exacerbates poverty and income differentiation, rather than serving the purpose of a more equitable taxation and enhanced solidarity in the promotion of social inclusion.
- A serious challenge is the implementation of the 'flexicurity' approach. In our view, an optimal balance between flexibility and security in the labour market ('flexicurity') is only possible through the provision of security by the law and the implementation of flexibility through collective bargaining. We support the labour market flexibility, but insist it should not be at the expense of the employees: undermining core labour standards, implementing precarious working conditions and marginalising large groups of workers in the name of uncontrolled and misguided competitiveness.
- Economic growth should be linked to the creation of a better regulated and functioning labour market. The priority in the improvement of the labour market is high-quality jobs, which in itself implies decent incomes and working conditions and the prevention of poverty and social exclusion.
- Bulgaria needs clear and balanced economic and social policies, adopted and implemented with the participation of social partners and civil society. Social partnership, social dialogue and the full participation of workers are not only key elements of the European social model, but are also important production factors that can affect and accelerate the innovation and reforms in line with the objectives set by the country.

Social Europe is both an achievement and a goal which many generations have sought and continue to struggle for. It is not solely a creation of the post-war boom that gave rise to the 'miracle' which today seems of the distant past. We must fight against austerity to regain the social dimension of the European Union. The social dimension must be an integral part of economic and fiscal governance and must be grounded in the respect for fundamental social rights and the improvement of living and working conditions. It must promote the European Social Model comprising strong social protection and inclusion, quality public services and social dialogue.

In conclusion, we support the demand of the European trade union movement for a social dimension and believe that the Economic Union, the Monetary Union and the Banking Union must be complemented by a strong Social Union.

**Plamen Dimitrov is President of the Confederation of Independent Trade Unions in Bulgaria.**



# A Social Dimension For A Changing European Union - The British Perspective

By Frances O'Grady

The so-called Europe debate in Britain has been framed by Prime Minister David Cameron as a false choice between a free-trade, liberalised common market stripped of workplace rights or any social dimension, and exiting altogether. It's not so much that he's channelling his inner Thatcherite in arguing that there is 'no such thing as society', he's just denying that the European Union should have any social role.

This is a profoundly unpalatable choice, not just for trade unionists. It is also very dangerous, giving confidence and political momentum to those on the right and to the right of his party (the 'swivel-eyed loons' inside the Conservative Party and the 'fruitcakes' outside in UKIP).

Meanwhile, it threatens to bleed whatever support still exists for the European Union among working people and ordinary voters, already profoundly disaffected by the EU's role in promoting austerity around Europe. And it worries those inward investors looking to site their operations in Britain as a bridge to the continent, and domestic potential investors interested in the long-term future of the UK economy.

On the one hand, leaving the EU would be disastrous economically. It would relegate the UK to an offshore tax haven even less capable of rebalancing our economy away from over-reliance on the City towards a revitalised manufacturing and exporting industry. Potential manufacturers are putting investments on hold until they find out whether they will allow them access to an entire European market or not. And on the other, repatriating control over the social dimension of Europe from Brussels to Westminster would make Britain's economy less just and less efficient. The TUC is particularly concerned that workplace rights, painstakingly negotiated over the last two decades since the single market was established, would be under threat.

There are those who argue that we don't yet know what David Cameron would do if he got control of the Working Time Directive (although his silence about how he would reform it actually speaks volumes). On the contrary, I think we do. Because there was a time when the UK *did* have control over working time, rest breaks and holiday entitlements. It was before the Working Time Directive came into force. When the UK Parliament last controlled working people's working time, we had a free-for-all, with people's working time dependent on whatever their employer wanted or what their union could negotiate through collective bargaining that then covered more people and workplaces. Why would the situation differ if the Directive was repatriated?

It's not just rest breaks, paid holidays and work-life balance that are threatened. Equal rights for women, as well as part-time and temporary agency workers are at stake. Even the limited rights British workers have to find out what their employer is up to and to have a collective voice, depend on the European social dimension.

Measures requiring employers to respect people's rights at work put a higher premium on

those workers. Yes, they make them more expensive. But experience from manufacturing to the health service suggests that putting a higher value on workers' labour encourages employers to invest in skills, equipment and processes, so that working time can be more productive.

That's why the Netherlands, with some of the lowest working time in Europe, has some of the highest productivity. In an economy like the UK, where productivity has actually fallen since the global financial crisis struck in 2008, we need more value-added employment, rather than more low-skill, low-wage jobs.

And that vision, of investment in skills, in infrastructure and manufacturing capital, and in productivity, is the answer to Europe's economic and social woes, too. Unions and progressive politicians are arguing for a new approach that will restore Europe's competitiveness, like the ETUC's Social Compact. At the very least, we want to see the European Commission and European Central Bank stop their current, damaging promotion of austerity and the undermining of collective bargaining (whether indirectly by promoting market freedoms over social rights, or directly, by attacking automatic indexation of wages, maintenance of minimum wages or sectoral wage bargaining mechanisms).

We would want the European authorities to go further – for example giving the ECB a mandate to promote growth and full employment instead of just limiting inflation, and giving it a role as lender of last resort, including the issuance of Eurobonds. We want to see a significant injection of investment equivalent to at least 1% of GDP and possibly more, either coordinated by or even implemented by the Commission, as well as an effective Youth Guarantee of employment, training or education. We also want more investment in skills throughout working life, as well as boosting R&D. The initiative by 11 EU states to implement a Financial Transactions Tax is a useful step forward, as a revenue-raising method, but also to reorient the financial sector away from speculation and short-termism, putting finance at the service of the real economy rather than vice versa.

This would represent the high road: increasing domestic demand, promoting trade by making things (and providing services) people can and want to buy, in turn delivering governments with the budgets needed to defend and extend quality public services in a virtuous circle, rather than the deathly downward economic spiral austerity is imposing.

Even the Chinese have abandoned the low-wage, low-skill route to economic success. A race to the bottom with the Bangladesh economy simply isn't possible, let alone desirable: it's a race we can't and shouldn't try to win.

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# Austerity Destroys The European Social Model

*By Yannis Panagopoulos and Kostas Tsirikas*

On 27 and 28 June 2013 the EU Council will meet to discuss and decide on the social dimension of the EMU. This debate will take place amid the worst crisis Europe is facing in decades, that starting as an economic and financial crisis is acquiring the characteristics of a social, humanitarian and political crisis.

Policies pursued by the EU/IMF/ECB troika to 'rescue' countries in Southern Europe focus on relentless austerity and have a detrimental social and economic impact as a result of sweeping cuts in wages, pensions and welfare, tax hikes and a broad privatisation agenda. At the same time, far reaching labour market adjustment dismantles key labour institutions and diminishes hard-won rights with particular emphasis on collective bargaining. As Eurozone economies continue to stagnate, soaring unemployment rates – that in Spain and Greece stand at unprecedented levels – attest to the wholesale failure of the austerity project. As regional imbalances between the 'surplus' countries in Northern Europe and the 'deficit' countries of the periphery grow, inequalities deepen.

Austerity is undermining the principles of the European Social Model that since the Second World War has come to embody what Europe stands for. The European 'social dimension' effectively emerged in 1984 with Jacques Delor's vision of a Social Europe where solidarity and cooperation co-existed alongside with regulated economic competition. Today, Europe, which is in a significant turning point in its postwar history, proves unable to articulate a coherent response to the attack of the financial capitalism on its weak link, the social dimension.

Social policies have rather lost their relative weight than gaining ground. The plans to amend the Lisbon Treaty, which has done little to bolster the EU's social policy, the instruments of the new economic governance architecture ('Six-Pack', 'Two-Pack', Fiscal Compact and the European Semester) promote yet greater fiscal discipline and competitiveness in Europe taking wages as a central adjustment mechanism and dismantling the labour market instead of strengthening the welfare state and combating recession, unemployment and poverty.

Clearly, Europe's political identity is at stake. At stake are also the future of values, institutions and norms that underpin the political, social and cultural European heritage. Clearly it is down to us as trade unions to defend these principles and values and fight back the neoliberal model of globalisation and unbridled competition.

The EU social dimension should safeguard and promote a European Social Model of effective welfare systems, strong social protection, efficient and high quality public services and social dialogue. Europe will fail without a vision on the future of our social model. By putting markets above people Europe places itself in danger. The disintegration of the social fabric in Europe puts at risk social cohesion and human rights.

It is imperative to deliver a strong message that the fulfillment of social objectives conditions the effectiveness of any economic objectives. No measure of 'economic governance' should be implemented without respect for fundamental social rights. This

should be emphasized in a Social Progress Protocol to be attached in the Treaties while steps should be made to reinforce the EU social dimension in legislation and in daily life to restore confidence in the renewed European political project.

There are alternatives out of the vicious neoliberal circle where austerity breeds recession followed by harsher austerity and deeper recession: a radically different policy mix to support investment, growth and employment, actions for tax justice, to protect workers' income and purchasing power, to reinforce the supervisory and regulatory role of the state, to safeguard social cohesion, to strengthen welfare and sustain the environment.

Instead of the senseless austerity that is crippling countries and their people, we need economically viable and socially acceptable plans that are negotiated with the trade unions through effective social dialogue. Social dialogue is a fundamental political, economic and social process, which must be part of the solution to the crisis. Marginalising social dialogue is not only inefficient but politically hazardous and undemocratic as well.

The Greek debt crisis is surely rooted in domestic flaws of political and economic governance. This crisis has, however, become uncontrollable due to the devastating dynamics of uncontrolled financial capital.

The problems of the debt-ridden Europe periphery ultimately pose a major challenge to the viability of European integration and the values that sustain the European Social Model. If debtor countries need to recover in a spirit of real solidarity and cohesion aimed at growth, employment and innovative investment, Europe needs a solidarity and growth pact for economically sustainable and socially acceptable solutions with workers' participation, democratic control and respect for institutions.

The European trade union movement and the working people are called on to articulate a new economic policy agenda in the European Union: A new European architecture with employment, welfare and prosperity as the main pillars of peace, democracy and solidarity. It should be stressed that combating unemployment, in particular youth unemployment, should be a priority for the European Union. Investments are needed to create jobs and not just nice words. Otherwise, we will be indeed in danger of creating a lost generation. Europe can't afford that.

The European Union needs to be there for its citizens in a spirit of solidarity and cohesion. The European Union needs to address its social, democratic and ecological deficit and the problems of economy by shifting away from the fixated belief in the supremacy of the markets over society towards a new architecture that puts people and solidarity first.

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# The Italian Trade Unions' Proposals For Inclusive Growth In Italy And Europe

*By Anna Rea, Fausto Durante and Raffaele Bonanni*

The crisis of our country is ever more tragic. Italy's current economic situation is characterized by the shrinking of production, unemployment and the continued lack of investment. The failure to pay attention to labour issues prevents the country from following a path which, by stopping the free fall of the economy, would allow restoring confidence in the possibility of growth again.

CGIL, CISL and UIL think that the labour issue as a whole must urgently be placed again at the core of political and economic choices and list the necessary measures to be taken with a view to changing course. These are:

- to solve the emergencies which fuel unemployment by taking action, in particular, to refinance the extension of unemployment benefit (the so-called 'CIG in deroga') and fully protect the rights of the so-called 'esodati' (namely income-deprived voluntarily early retirees, who are victims of the Fornero pension reform law);
- to cut taxes for employees, pensioners and companies which will hire staff over the next two years, by automatically allocating to this end the resources resulting from an effective fight against tax evasion, which must be considered a criminal offence;
- to relaunch countercyclical policies including the possibility for municipalities to have resources available to invest and starting building activities already approved and authorized. This should be outside the framework of the Stability Pact. The measure taken to pay companies' credits is a first positive step in the right direction;
- to modernize and streamline the public administration not through indiscriminate cuts (the so-called linear cuts), but by reorganizing and simplifying its operation to make it more effective, curbing concurrent legislation and removing all the unnecessary formalities which slow down the decision-making process. With a view to sustaining growth, we shall invest in public education, universities, as well as public and private research and innovation;
- to reduce the cost of politics is the prerequisite for good institutions and good policies (on the one hand by rearranging and simplifying Italy's institutional and administrative structure, following the example of the other European partners and, on the other, by vigorously putting an end to the waste of resources and duplication of efforts, as well as the privileges which are not consistent with efficiency, good administration and governance);
- to define an industrial policy relaunching production by helping companies which invest in research and innovation and protect employment and skills.

Furthermore, CGIL-CISL-UIL highlight the need to define a tool capable of combating poverty and funding long-term care for those who are not self-sufficient; to extend the temporary contracts which are about to expire in the public administration and education sectors; to reform the municipal real estate property tax (the so-called IMU) by envisaging exemptions only for those who own the house in which they live with a cap relating to the value of the property.

These are the choices we have to make in order to stop the fall in production and set growth in motion again, thus creating new job opportunities. Investment, income redistribution and a relaunch of consumption are the prerequisites for supporting recovery. Social partners are committed to renewing labour contracts and protect employment, also by means of social safety nets and solidarity contracts, as well as identifying ways and means to correct the inequalities inherent in the pension reform law.

CGIL, CISL and UIL supported these claims with the mobilization organized with confederal and industry-wide local initiatives from May 11, resulting in the large national demonstration which was held in Rome on June 22 . Also the European issues and the ETUC's proposals were at the core of this event.

With specific reference to union representation and democracy, CGIL, CISL and UIL agree to define with Confindustria (the Italian Business Association) an agreement regulating – on the basis of specific principles – the recognition and certification of representation, the ownership of national collective bargaining and the definition of the agreements. Based on these principles CGIL, CISL and UIL are engaged to starting an exchange of views also with the other employers' associations.

The Italian situation, albeit with its own features, is closely interwoven with the European Union's. To this end, CGIL, CISL and UIL reaffirm their commitment to deepen European integration by rejecting approaches based on excessive austerity measures not considering social impact and development implications. We call for more economic and political governance of the European Union and greater involvement of the social partners. The EU's federal development leading to the construction of the United States of Europe needs to be undertaken immediately and with concrete actions. The lack of a real European political architecture supporting the monetary one, which after all lacks the economic component, has been at the root of the problems noted by the European Union in terms of legitimacy and effectiveness. For these reasons, we now need to take resolute actions for a more integrated Europe, especially at political level, as a prerequisite for a project ensuring the democracy, stability and competitiveness of the whole system.

We believe that the proposals for a new roadmap 'Towards a Genuine Economic and Monetary Union' adopted by the Council last December, which will be structured with targeted measures by next June, cannot have positive effects on EU growth and competitiveness, without a radical reversal of the austerity policy adopted so far. The pursuit of fiscal consolidation and macroeconomic policies at the European level – several years after the outbreak of the crisis and precisely because of the lack of concurrent inclusive growth plans – has resulted in growing unemployment, social inequalities and poverty with no growth prospects in the short and medium term. A strong social dimension of the European Monetary Union shall be incorporated into European policies by envisaging the social partners' direct involvement and negotiations with them. The challenges posed

by increasing poverty, social exclusion and unemployment (especially among young people) need to be addressed urgently, and the proposals envisaged in the Roadmap are inadequate and not up to the unprecedented severity of the situation. With specific reference to the proposals which shall be put in place immediately we wish to highlight the following ones:

- to launch a concrete EU plan for growth (a European New Deal), employment and stability funded by the EIB with Eurobonds, which would attract global savings surpluses. Such a plan could be immediately preceded by public off-balance sheet investment in the social, environmental and research areas;
- to loosen the Stability Pact for member states by not considering investment for growth and sustainable development as governed by the Pact;
- to reduce economic imbalances between countries to make the Euro sustainable;
- to strengthen and extend the rules regarding the Financial Transaction Tax (FTT) and the role played by the European Central Bank (ECB) to give it a full role as lender of the last resort, thus reducing the speculation dangers and directing financial markets towards the real economy, also by means of measures facilitating access to credit.

These are only some of the priorities set by CGIL, CISL and UIL, in the hope that Italy will continue to contribute more vigorously to the progress of the whole European and world system. They note the end of the infringement procedure initiated by the European Union against Italy for excessive deficits.

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# Europe Needs A Change Of Course

By Michael Sommer

Europe is in deep crisis and people are more and more losing trust. According to the EU-Eurobarometer, distrust runs at 53% in Italy, 56% in France, 59% in Germany, 69% in the UK and 72% in Spain. As the EU has lost the support of two-thirds of its citizens, *The Guardian* recently asked: 'does it matter?' Does this social and political crisis matter to the political elites in Europe?

Some think this could be solved by better explaining what is at stake, as the President of the Commission stated on April 23. In his view, the European institutions and the member states have collectively not been able so far 'to explain what was really at stake and to build the necessary support.'<sup>[1]</sup>

It is obviously not only a problem of narrative. There is a growing social and democratic problem in Europe.

As a consequence of the EU austerity policy, poverty and inequality are increasing in many European countries, workers' rights are under attack and regional disparities are growing. The private assets of the richest ten per cent of the population are growing, while the states themselves become poorer. European trade unions see the European model at stake.

Prominent politicians like the President of the Council Mr. van Rompuy started a new debate about the necessity of 'a new social dimension of the EMU'. Governments, the Council of Ministers, social partners and civil society are invited to come up with proposals by June 2013, when the European Council discusses the new roadmap towards a 'deep and genuine Economic and Monetary Union'.

## **1. No deep and genuine EMU without a strong and binding social dimension**

The debate on the social dimension of EMU rings a bell. In September 1988, the European Commission adopted a working paper on the social dimension of the internal market<sup>[2]</sup>. Governments, the Council of Ministers and social partners were involved in a broad debate. In the end the European Council noted that, 'as the internal market had to be conceived in such a manner as to benefit all of the Community's citizens, it was necessary to improve working conditions and the standard of living, the protection of health and safety, access to vocational training and information, and consultation and dialogue with the two sides of industry.'<sup>[3]</sup>

While the instruments and procedures of the single market became precise and binding, the social dimension remained much weaker. The Social Protocol never worked as an equivalent of market integration. While the market developed its own dynamics, social policy depended on the often non-existent consensus of national governments. With the ECJ rulings on Viking, Laval and Ruffert, it became even more obvious that there is a need for a better balance of economic freedoms and social basic rights.



We should keep this in mind while discussing the social dimension of the EMU.

Without binding guarantees, rules and procedure for the social dimension, the new economic and fiscal procedures, which are binding and ambitious will work as 'thumbscrews' for social policies like pensions, welfare and also workers' rights unless they are supplemented with equally binding and ambitious safeguards of the social dimension. This includes legally binding guarantees for the autonomy of collective bargaining, stopping interventions in national wage systems as well as safeguarding and promoting workers' rights and democracy at work. It also includes binding standards for a social minimum income in Europe.

## **2. A social dimension of EMU has to be embedded in a stronger social policy agenda for Europe**

The respect of fundamental social rights and the improvement of living and working conditions are binding obligations under the Treaties. But with the crisis, a new regime was established: attacks on social and workers' rights, on collective agreements etc.

Therefore we need to stop this neoliberal wave and evaluate and improve the social situation in Europe immediately. This implies an ambitious social agenda for Europe, including a special programme for the crisis countries to stabilize their social realities. There is definitely a need to reshape the world of work. We need to reduce insecurity, minimize risk and create new rules for decent work in Europe that would provide employees with better protection, strengthen their rights and ensure the required flexibility in a globalized labour market.

It was definitely a mistake to abolish the existing annual social agenda and, connected with that, a visible monitoring of Social Europe. Europe needs a new strong social agenda. What is necessary is an ex-ante evaluation of the social consequences of any new 'convergence and competitiveness instruments' (i.e. contractual arrangements) to check whether and, if so, how they undermine or harm workers' rights, social standards and wellbeing in the member states.

## **3. A major investment programme – a kind of new Marshall plan is necessary**

Instead of more austerity policies, Europe needs a long-term path towards growth and modernization that will equip our continent for the future and create wealth and jobs for the 21st century. This requires investments in sustainable power generation, in reducing energy consumption, in sustainable industries and services, in training and education, in research and development, in modern transport infrastructures, low-emission cities and municipalities, and in the efficiency of the public service. It will also require all social groups to have a fair share in a better future.

Therefore the DGB proposes to create a new Marshall Plan for Europe, designed as an investment and development program for all 27 EU countries for a 10-year period (from 2013 to 2022). It is not a 'one size fits all' solution but needs a specially tailored program for each country, based on solidarity and cooperation.

#### **4. Neither a more social nor a more democratic Union is possible without treaty changes**

The debate about the social dimension of EMU should not work as a diversionary tactic. Without treaty changes a deep, genuine Social, Economic and Monetary Union is not possible.

Intergovernmental initiatives should – if at all - only be limited and temporary, because they undermine the community method. The progress of the last treaty revisions, an increasing share of legislative power of the European Parliament, is at risk. It is not only the Eurosceptics that undermine the European project; it is also the dangerous increase of intergovernmentalism.

Rebuilding trust needs a transparent and participatory process to bring Europe back on track. It needs an ordinary revision of the Treaties through a new convention, involving not only governments and parliamentarians but also social partners and civil society. The EP should be the motor for this, using the next elections in 2014 as an accelerator. If there is a lesson to be learned from the process of the last constitutional convention, it is that these debates should start at the national level instead of only being reduced to the European elites in Brussels.

A series of national pre-conventions could help to start a new grounding of the European project by European citizens. A more social and democratic Europe is the future – but only if the elites realize that business as usual is not an option.  
Europe does matter!

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# Proposal For A Real Social Dimension Of The EMU

*By Bente Sorgenfrey and Harald Børsting*

For many years, the European Union's recommendations regarding economic policy have emphasized the need to lead rigorous economic policies. This is, partly, seen in the European Semester and in the country-specific recommendations in general, as well as in the economic requirements imposed on the southern European countries that have been struck very hard by the financial crisis. This trend has sharpened competition between the EU member states and will, in all likelihood, further accelerate the race to bring down a number of different types of costs.

The ETUC describes this approach as a one-sided policy that will devalue employment conditions and damage the European Social Model in favour of increasing the competitiveness of member states through free-market forces.

Therefore, the ETUC has advocated that we strengthen the social dimension in future collaboration initiatives within the EU. We support the ETUC's advocacy for the social dimension.

Never has the need to take action to stop downward competition on wages and working conditions been more pressing. Equal treatment must apply to all workers and must be a fundamental starting point for all EU legislation in future. The ETUC reiterates its demand for a Social Progress Protocol to be annexed to the Treaties with the aim of securing respect for fundamental social rights.

In general, we know that the general public in Denmark has a limited interest in amendments to the Treaties. We therefore need a thorough debate on the political as well as the constitutional development of the European Union. However, in order to have a fruitful and constructive debate, it is necessary that the EU starts taking initiatives that will strengthen sustainable growth and employment with decent conditions. This is why specific details and realisation of a social dimension will be decisive with regard to the public's attitude toward European collaboration in the future.

Social dumping is an increasing problem, not just in southern Europe, but also in northern European countries, including Denmark, as it has a direct and indirect effect on the labour markets in these countries. Social dumping not only lowers social standards for the individual, it also makes it more difficult for employees to improve unfavourable terms of employment or completely avoid such terms.

A Social Union, as presented by the ETUC and as a concept, is still very much open to interpretation. This is why it must be operationalised in the near future. An important part of realising a social dimension – and quite possibly the most important part – is to establish specific initiatives aimed at improving the employment situation.

For this reason, we suggest two small but not insignificant improvements to the present economic governance. (1) The country-specific recommendations should promote the European Social Model rather than challenge national social standards. At the national

level, they must be negotiated with the social partners. (2) The scoreboard indicators must include employment, social indicators and benchmarking of active labour market policy. In this way we ensure an ongoing assessment of whether member states comply with the Europe 2020 Strategy.

The requirements put forward by the European Union regarding public spending in a number of countries rest on the realistic assumption that countries with substantial liabilities cannot increase their indebtedness much further. This is why the issue of financing, i.e. taxation policies, is one of the central elements in the realisation of a Social Union.

We are concerned about the existing political understanding in the EU institutions, which reflects an excessive cautiousness to propose a modified and progressive tax system in the member states. It is a misunderstanding to expect the EU to emerge from this job- and growth crisis solely with deregulation and neo-liberal instruments. A strong and efficiently run public sector is a precondition for a flexible and inclusive labour market.

Another precondition to realise a social dimension is a binding social dialogue at the European level leading to involvement of the social partners, including the trade union movement, in the EU's overall crisis management with a view to increasing growth, employment and social equality. This also requires that member states enter into social dialogue at national level.

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# A Social Dimension For A Changing European Union - The Czech Perspective

*By Jaroslav Zavadil*

'It is exactly nine years since our country became a full member of the EU'.

The Czech Republic set out to join the EU in a period dominated by the challenging process of transformation to adapt the economy to market conditions and in a situation in which its economy was remarkably open to the dramatic onset of globalization. Within this process, the social market economy has always remained our trade union vision. This was the underlying conviction in the Czech trade unions' expectations and support for EU accession. We continue to promote the European Social Model based on high levels of social protection, quality public services, and on social dialogue – a model which builds on sustainable growth of the economy and employment support.

However, what has become of these safeguards of prosperity and cohesion lately? Will they be able to inspire hope after the devastating effects of drastic reforms and measures introduced all over the EU, allegedly to curb the effects of the crisis? What should be done to restore the appeal of the European project for the 26 million unemployed in EU countries and for millions of other citizens who have found themselves in an insecure and precarious situation? Can European politicians and national governments attempting to solve the crisis be made to avoid adopting austerity measures, reducing social standards and wages and pursuing wage moderation?

It is perhaps interesting to remember here the words of José Manuel Barroso, President of the European Commission, who in his 2012 State of the Union speech highlighted: 'It is precisely those European countries with the most effective social protection systems and with the most developed social partnerships that are among the most successful and competitive economies in the world.'

For several years, European trade unions have been engaging in a campaign which defines their own cure for the crisis. This is equally true at the national level – the CMKOS has also come up with its own vision. The main requirement is for politicians to stop capitulating to the banks and financial markets, to make sure that effective measures tackle speculation, corruption, tax evasion and tax havens and that no measures are adopted which make those not responsible for the crisis suffer, especially employees and a large part of the European population.

The search for shared political solutions appears to be increasingly difficult, though. The four fundamental freedoms (free movement of goods, people, services and capital) are guaranteed in the EU. Nevertheless, these freedoms are out of balance. Within the ETUC, we are engaged in a joint struggle to carry through the social protocol to make sure that social rights and freedoms are not outweighed by economic rights and freedoms. The creation of the single market has given rise to certain disconcerting phenomena – there is concern about the loss of industrial and economic sovereignty given the decline of domestic manufacturing, with even prosperous factories and plants being shut down by multinationals expanding into low-cost regions, and given the off-shoring of considerable

profits which are subsequently not reinvested 'at home'. The crisis reinforces these concerns. They are used against the trade unions in line with the 'charity begins at home' logic. As trade unionists, we must protest against this attitude. For this reason, the decision-making process must be subject to a greater influence by social partners who must be involved at all levels, thus strengthening participative democracy.

Yet, in the period of centre-right coalition governments, social dialogue has been difficult in the Czech Republic, and often merely perfunctory. The government is seeking only 'mandatory' dialogue with social partners, after which it often implements the reforms set down in the government programme, regardless of the views of the social partners. A number of new legal provisions and so-called reforms which are all to the detriment of employees, lead to the destruction of the welfare state and will have a long-term negative effect on the lives of citizens. More pressure is also exerted by employers on the rights of employees – employers are increasingly taking advantage of employees' fear of losing their job. This has a clear effect on wages and on working conditions.

It needs to be pointed out that there was a decent degree of social cohesion in the Czech Republic prior to the reforms, thanks to a relatively efficient system of social protection, inter-generational or family solidarity. As a result, the rate of poverty and social exclusion in the Czech Republic was among the lowest in the EU.

The CMKOS is firmly convinced that the current problems are the result not of the 'profligacy' of the welfare state, but of a decline in the social and financial standing of ordinary employees and of citizens in general. The cause of the crisis is to be found on the demand side of the economy (on the side of aggregate demand linked to purchasing power), which fails to stimulate economic growth sufficiently and is further undermined by ever stronger attacks on the income of a majority of the population. The present debt crisis and fiscal deficits must be explained by a massive reduction in budget revenues caused by the abrogation of progressive taxation and by the introduction of various caps on social security premiums by centre-right governments. The course of the crisis has made it quite clear that the reduction in direct taxation and increase in labour market flexibility have no positive effect on economic performance and job creation.

Unfair reforms thus contribute to the widening of income disparities. The percentage of people threatened by poverty is bound to increase. As in the rest of the EU, we are increasingly worried about the young generation.

Understandably, the objective of the CMKOS and its affiliates is to maintain and, where possible, improve social standards. We believe that employees must receive fair pay, must be allowed to work and live in decent conditions, and must not fall victim to social dumping.

To this effect, we use all democratic tools available to us as trade unions. We also rely on international commitments and standards guaranteed by ILO conventions, on the European social *acquis*, and especially on the guarantee of labour and social rights highlighted in the Charter of Fundamental Rights of the EU. For this reason, the CMKOS is strictly opposed to the Czech exception, which was negotiated under pressure and which the present government is seeking to uphold. We appeal to the help of all who can lobby Members of the European Parliament and their governments to make sure this exception does not gain

support.

As far as the future of the social dimension of the EU is concerned, we, as members of the ETUC, refer to the documents and resolutions adopted by ETUC bodies – documents of the Athens ETUC Congress or a number of other resolutions, among them the resolution ‘Social Compact for Europe’ from June 2012 deserves a special mention.

Mutual solidarity represents one of the inestimable values of the EU. It needs to be constantly cultivated at various levels in the name of cohesion and fair working and living conditions. In this respect, we must appreciate the part played by European structural funds and use them to help restore the lost faith of citizens and to involve the ‘vulnerable’ in active participation in public affairs. Solidarity, the foundation of developed societies, remains the key trade union principle.

This requires the EU to enforce a truly serious and effective social dimension and respect and cultivate the values on which it is built – democracy, rights, solidarity, cohesion, peace. We must not forget unity – essential for our success in the face of international opposition and in our efforts to achieve sustainable growth and a decent life for all.

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## **Part III – Action For A Social Europe**



# A Change In Course Towards A Social Europe

*By Martin Allespach and Jan Machnig*

A unified Europe without dividing borders, with the certainty of a peaceful future and social security accompanied by social and economic progress – this has always been and still is the essence of the ‘European dream’. To us it describes the hope we associate with the project of a Social Europe. After all that we have been through recently, however, we now know better than ever before: our aims and desires cannot be attained merely by dreaming. We have to work towards these, rather, in a concerted, deliberate manner. The European dream has very little to do with the free movement of capital, nor is it just a candy shop for international financial markets. Europe must be more than a community that is there to benefit banks – it has to be a community that protects its citizens as well. That is the Europe we are fighting for – a Europe offering better living conditions and better job prospects for all its citizens. A Europe marked by socially responsible, sustainable business and economics. A Europe that serves as a global model for a vibrant, living diversity of cultures.

Probably no other topic stirs up more emotions at present than the international and European financial crisis, its repercussions for Europe and its people. Europe’s elites’ answer to the Euro crisis has thus far been to slash spending, pensions, social services, fire civil servants and lower minimum wages while raising taxes and levies. These various measures have among other things included the rollback of protection against redundancy in Italy. But none of them have truly targeted the root of the problem and grabbed it by the horns: slumping industry and rampant tax evasion. To take another example: in Spain ailing companies can now unilaterally cut wages and lengthen working hours. Europe is trying to save itself from the crisis. Cyprus has also recently imposed belt-tightening measures. The aim and intentions? If government spending can be cut and wage costs lowered enough for business enterprises, the engine of growth will somehow be kick-started and the public deficit will recede. Only in this way, it is argued, can government budgets be saved from oblivion.

United Europe has lost its attractions for many of its citizens. Individual member countries are being force-fed austerity policies with the support of European institutions. The EU Commission never tires of initiating yet another round of deregulation. That is why many people are blaming the European Union for the erosion of their living conditions and for policies solely serving the interests of ruling business elites. This is destroying the consensus on the European project. This is why we need a change of course towards a united Europe without any dividing borders, a future living in peace, with guaranteed social security accompanied by economic progress.

What we need is a political and social Union. A European social package has to create a new order in labour markets and combat social dumping while enabling participation, democracy and co-determination. This can only happen if EU countries adopt a common economic and social policy. The economic and social policies of the member states should be coordinated by an economic administration democratically elected by the EU Parliament.

The preliminary balance sheet of European policy in confronting the crisis to date shows ever more clearly that the neo-liberal model does not work: austerity policy is sharpening the recession and causing the debt burden to mount further. Rampant unemployment among youth in the crisis countries has in the meantime reached dramatic levels. The economist Peter Bofinger hit the nail on the head when he said that saving aggravates the crisis because it slows growth. He considers the drastic measures imposed on Greece by the EU Troika (EU Commission, European Central Bank and International Monetary Fund), for instance, to be counter-productive. The policy of budget consolidation is above all being pushed through at the expense of lower and medium-income persons, as well as Europe's younger generation.

No political strategy is 'without any alternative'. The longer the crisis lingers, the more urgent it is becoming to change course in the direction of a Social Europe based on solidarity. There are various strategies for making Europe more viable in the future. In its 'Karlsruhe Declaration', IG Metall advocated as far back as 2011 a solution to the crisis based on European solidarity – a strategy marked by 'an unwavering, immediate change in course with respect to the EU Commission's and German government's financial, economic and labour market policy towards a democratic, ecological and social Europe.' It reaffirmed its call for a Europe united in solidarity and democratically legitimised at the 'Change-of-Course' Congress in 2011. To spell it out in concrete terms:

- Europe needs sustainable growth through an active, coordinated and democratically legitimated economic and industrial policy to ensure the viability of its industrial base and value-creation.
- Saving the Euro requires that the Community assumes joint liability and establishes Community controls over national budgets.
- Europe needs comprehensive regulation of the financial market.
- The European Union needs the backing of its people. To this end it has to become a social Union.
- The European Union needs to become a political Union.

Europe requires a European Marshall Plan. The contours of such a plan have been developed together with other German trade unions under the umbrella of the Confederation of German Trade Unions (DGB). This plan provides a package of various measures to boost public and private investment and creates instruments to lift consumption. Instead of strangling demand by tightening the belt ever further, it has to be ensured that the enormous amounts of capital awash in the world at present is channelled into investments in the future. Europe has to fight the crisis, make its economy and infrastructure viable for the future and create permanent, secure jobs. To this end, it is absolutely essential that the member states curb the power of banks, regulate financial markets and establish a just tax regime. Banks have to be forced to perform their primary role: serving the real economy. In addition, highly speculative investments must be regulated and rendered less attractive by means of a financial transaction tax. A European supervisory authority for banking and a common rating agency need to be created. The deposit and credit business must be detached from investment banking.

It is only a combination of measures like these that can bring about a change in course towards a Social Europe. Political decisions and not the market need to have primacy in designing Europe's structure. Finally, Europe has once again to become a project of the

broad majority of its citizens and not its so-called elites. Strengthening the social dimension of Europe hence requires a colossal effort. Let's roll up our shirtsleeves and tackle it together – in Europe and for Europe.

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# How To Finance A Social Europe?

*By Brigitte Unger*

As previously shown in this eBook by Professor Martin Seeleib-Kaiser from Oxford University, Europe is a social model and it is time that the European Union understands this. As historically welfare states have been used for nation building, if the EU wants to become a strong entity it needs a European welfare state including solidarity and certain minimum welfare provisions, such as minimum pensions, he claims. One way to Europeanize the welfare state, he further suggests, would be a transfer union, in which an EU fund has an automatic trigger: if unemployment rates in an EU country exceed a certain limit, money is automatically transferred from the EU Fund to the EU country in need.

There are also several other models which may establish a fairer, more just and more social Europe, yet all face the criticism that these proposals cannot be financed. It seems the problem lies in the public revenue side, or rather this is used as an excuse for not progressing. In the following I want to put forth sources of income that the EU and EU member countries could use to create a Social Europe.

## **1. Taxes**

If one looks at the harm done to European welfare states by financial markets, it seems time for a financial transaction tax (FTT). According to the latest calculations by the EU from May 2013, a FTT (a tax of 0.1% on bond and equity transactions and of 0.01% on derivative transactions) would yield 20bn Euros till 2020. If one included a tax of 0.1% on transactions in foreign currencies, total tax revenues would rise to 50bn Euros. Including derivatives (= bets on financial assets) in particular would increase public revenues substantially and may be legitimized with political efforts to make speculators, the major actors in the financial crisis, at least partly pay for the damages they caused. An alternative tax, the financial activity tax (FAT, 5% on the sum of profits and wages of financial institutions) would yield 25bn Euros.

## **2. Tax Avoidance**

Starting with the British Parliament that accused large companies such as Starbucks, Google and Amazon UK of immoral behavior, using loopholes in the tax system, a series of reports on misbehavior of companies has been revealed through media and offshore leaks. Contracts, certificates and emails from offshore islands shed light on the thus far secret underworld of company and individual finance. Mostly company taxes are not even illegally evaded but legally avoided using loopholes in the tax system. Starbucks, advertising 'fair trade coffee' worldwide buys its coffee in – guess – low tax Switzerland in order to use the high costs for buying coffee there to reduce its profits, which are then taxed at low Swiss tax rates. Fair trade thus does not always equal fair tax payment. Amazon UK holds its book stocks and book sales in the UK, yet pays its taxes in Luxembourg.

James Henry from the Tax Justice Network estimates global offshore financial assets amount to around 32tn US Dollars. More than 122.000 letter boxes and trusts have been discovered through offshore leaks, in offshore centers such as the British Virgin Islands,

Singapore and the Cayman Islands.

A sophisticated transnational private infrastructure of service systems has emerged, 'which now launders, shelters, manages and if necessary re-domiciles the riches of many of the world's worst villains, as well as the tangible and intangible assets and liabilities of many of our wealthiest individuals, alongside our most successful mainstream banks, corporations, shipping companies, insurance companies, accounting firms and law firms' (James Henry).

Closing loopholes in the tax systems – at least within Europe, is important. This would help EU countries increase their tax revenues, in particular the corporate tax income.

### **3. Tax Evasion**

Tax evasion is the illegal way of not paying taxes and has also increased. Estimates range between large parts of the 32tn US Dollars of global offshore financial assets, to 15% of GDP in some countries and to around 3% of GDP in others (estimates by Friedrich Schneider on the shadow economy and tax evasion). Especially after the financial crisis, as EU countries had to cut expenditures due to budget problems, tax revenues in percentage of GDP dropped and therefore counteracted the planned budget consolidation.

'Taxes are the price we pay for a civilized society', said Oliver Holmes, Associate Justice of the Supreme Court of the United States, early in the 20<sup>th</sup> century. Tax evasion increases when the elites do not feel responsible for the public commons anymore. Not paying taxes means not wanting to participate in the provision of public goods. This is the consequence of an income distribution that has become extremely uneven. Evidently, a billionaire does not need public health care but has his private doctors. The rich seem to have lost the link with the society to which they belong and have opted for not paying taxes. Calculations for Germany of the DIW in 2012 show that taxing only 0.2% of the richest Germans by one percent of their wealth would bring an annual tax revenue of 8.9 bn Euros. Investing this into a Social Germany and a Social Europe would already be an important first step.

A study done by Booz and Company in Zurich in 2011 showed that 102 bn Euros of German tax evasion money lays in Switzerland. Recovering this money from the Swiss neighbor would help finance a Social Germany and could be an important second step in financing a Social Europe.

The European Union has a GDP of over 12.8 tn Euros in 2012, making it the largest economy in the world. 502 million inhabitants with a per capita income ranging between 11.400 Euros (Bulgaria and Romania) and above 30.000 Euros (Germany, the Netherlands, Austria, Sweden, Denmark, Ireland) contribute to this wealth. The largest social expenditures in Europe are pensions followed by health care. Total social spending in EU member countries is around 3.6 tn Euros, between 17.8% (Slovak Republic), 26.3% (Germany) and 32% (France) of GDP.

Comparing this sum to the revenue which could be derived from taxing wealth, from closing tax loopholes and reducing tax avoidance, and from recuperating evaded taxes shows a Social Europe can be financed. It can be financed easily once one recognizes a Social Europe, with solidarity and welfare, is the very core of Europe. Political leadership is needed to set the path for a Social Europe. This also requires an elite who is politically and

financially willing to support Europe.

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# Stop The Emergence Of A Liberal European Social Model!

By Björn Hacker

The Monetary Union needs a 'genuine' social dimension instead of austerity dogma.

The new European governance architecture with its central European Semester mechanism of coordination, reporting and monitoring in economic, budgetary, employment, social and many other policies, enables the EU to better organise the decentralised policies by common targets and rules. But as progress in the field of European *social* governance is rather modest, most of the new instruments belong to the *economic* governance area. The implemented Six-Pack, the Two-Pack, the Euro-Plus-Pack and the Fiscal Compact are set in order to strengthen fiscal discipline in the Economic and Monetary Union (EMU). It is obvious that all other policy areas will be subordinated to fulfil this objective.

Already the integrated approach of combining the Europe 2020 Strategy targets with the Stability and Growth Pact rules in the European Semester opened the door for cross-thematic references in the recommendations for the member states. Now, with tightened budget discipline, the likelihood is even higher that the European Commission and the Council voice their objections on unsuitable budgetary policies of a country with reference to particular employment and social policies. This means, if the strengthened Stability and Growth Pact rules are not fulfilled, that the Commission and the Council will demand structural reforms of the welfare state concerned.

The crisis proves the asymmetric constitutional design of European integration to be frozen: the *market creating mechanisms* for enabling free trade of goods, people, capital and services are dominant and the *market shaping and market correcting mechanisms* are lagging far behind. For years there has not been a step ahead towards strengthening the social dimension of the EU in legislation:

- the equal prominence of social rights and economic freedoms in the shape of a social clause in all EU legislation is still missing;
- the Europe 2020 Strategy focuses on employment rates and poverty reduction instead of setting common social standards;
- the one-size-fits-all approach of the Open Method of Coordination (OMC) is not taking into account different welfare state pathways and singularities;
- intra-European competition for investments, jobs and production sites is encouraged, while there are no common rules for minimum wages, social spending and harmonised corporation taxes, which would be needed in the form of a 'European Social Stability Pact';
- the non-binding 'Compact for Growth and Jobs', concluded by the heads of state at their June 2012 summit argues for structural reforms and a deepening of the single market, as well as implementing project bonds and making better use of the European Investment Bank (EIB), instead of starting an actually effective European

New Deal programme of employment and social investment;

- the December 2012 summit concluded that a time-bound roadmap for the completion of a 'genuine' EMU should be developed until the June 2013 summit, also stating the importance of a social dimension of the EMU; but this aspect was left aside in favour of preparatory work on new instruments to foster competitiveness and economic surveillance.

Since the EMU was founded, national welfare states experienced difficulties in following their own paths in some economic and social policy areas. We have seen competition between different wage-, tax- and social spending models in the last 14 years, based primarily on economic, not on social policy, considerations. Now, within the new framework of economic governance and the streamlining process in the European Semester, we'll move from free competition on the question of which welfare state model adapts best to the economic integration scheme, to a sort of codified 'right path' on a supranational level, which all member states will be forced to follow.

An obvious example is the austerity course in the crisis: the adjustment measures for Greece, Portugal and Ireland, but also the recommendations for Spain and Italy, to cut social spending, to lower wages and pensions and to increase flexibility in the labour market, dismantle the respective welfare states. From a northern perspective this is nothing new, but in those countries, trade unions and other veto players defended major cuts for a long time – and these singularities are over now.

Another important single policy example is that of the pensions sector: of course, social policy remains in the hands of the member states, but the EU now disposes of a governance framework in which claims to modify old-age policies in the welfare states can be raised. A look into the Commissions' green and white book on pensions shows the line of argument: portability of pension entitlements is necessarily an issue of the single market. And the high financing costs of pensions are an issue for financial sustainability in the EMU. The expected recommendations in the field of pensions will therefore rely lopsidedly on financial sustainability and not on the adequacy of pension entitlements.

Constantly, we are moving towards an even more *liberal* European Social Model. What we are losing on the national level in terms of competence to shape our welfare states by the new European economic governance structure is not given back to us on a supranational level.

It is primarily the Merkel administration in Germany which is to blame for the dominant crisis strategy and consequently for the problems we are facing and which will aggravate further still. Structural reforms are necessary in the states in crisis, but it would be more helpful if those reforms concentrate much more on increasing the tax bases and tax collection and on modernising and simplifying administrative machineries, instead of excessively cutting wages and social spending.

The basic problem with the austerity course is that Greece, Portugal, Ireland, Spain and Italy are caught in a trap of recession and debt. Through the fiscal multiplier, lower consumption and decreasing economic activity caused by the spending cuts and growing unemployment lead to lower tax revenues and an even higher public debt.



Without progress towards a European Social Model based on *solidarity*, the crisis will not be solved and welfare states will be dismantled even further. Therefore the austerity course has to be stopped. Also, the social and growth dimension of EMU governance reforms needs to be pushed forward, for example by setting up a European Social Stability Pact and a European New Deal Programme.

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# The Shock Therapy Applied To A Social Europe

*By Anne-Marie Grozelier*

There was a time when the European project gave rise to amazement and even admiration in the rest of the world. Seen from China, Japan, Madagascar or the United States, Europe at the end of the 20<sup>th</sup> century appeared to be the only region in the world that placed the need for social justice at the centre of its project, while having available in each of its component parts a body of social regulations that were the result of legislation or negotiations between the social players, employers and trade unions.

It is therefore easy to understand that at the Europe Work Employment Biennials organised by Lasaire, representatives from these countries were interested in what was called the European Social Model. It was built upon several important values shared at the outset by the six founding countries then, to a greater or lesser extent, by the new arrivals: a social justice defined collectively by all the players in the political and social life, and a market economy framed by social regulations. The two, linked together, correspond to a certain quality of life. In other words, the question of 'how to live together' was more important than 'how to get rich as fast as possible'. I was still aware of this in 2004, at the Boston Social Forum, where I was invited with Guglielmo Epifani, then Secretary-General of the Italian CGIL, to present the European Social Model to a very attentive audience. This European model was built on the synthesis of common formative characteristics inherent in the national models:

- systems of social protection (illness, unemployment, retirement, and maternity) funded collectively, based on the double principle of solidarity and social cohesion, decided and negotiated by the social players themselves;
- services of general interest ensuring equal access for all to public services, health care, transport, education, and energy, while guaranteeing the economic efficiency associated with a certain quality of life;
- systems of representation for employees and collective bargaining founded on the recognition of trade unions and their involvement in the economy, i.e. founded on a form of social democracy;
- and in more general terms, a certain conception of society and a certain organisation of work tending to allow women, and also men, to reconcile their professional and private lives.

Beyond these characteristics, the capillary action effect has been observed among the national models induced by participation in the European Model, with certain particularities of the national models spreading to neighbouring countries. For example, this led to works councils being set up in the United Kingdom; the minimum wage being introduced in countries where it did not previously exist; or even the German system of co-determination and the French system of the extension procedure for collective agreements arousing interest in neighbouring countries.

Finally, in addition to the highlighting of the national models' structural characteristics, we have observed the progressive establishment, on the level of the European area, a body of social rules that are defined directly at this level. During a certain period of time, Social

Europe appeared to be moving forward. Thus we saw the setting up, albeit somewhat laboriously, of European works councils, and the Maastricht social protocol establishing a production system for social rules for the entire EU, at the inter-professional level and then at the sectoral level.

Today, on the other hand, we have the impression that we are retracing our steps. We are now reduced to ticking off a list of all that has been relinquished in a social Europe, a decline that affects the very foundations of the model: The Commission now only talks about reducing the minimum wage and salaries, cutting public services, reducing social protection, making the job market more flexible, and bringing into question systems of collective bargaining. In brief, we are drifting away from the major principles set forth in 1957 in the Treaty of Rome: 'To ensure the economic and social progress of the countries ... the constant improvement of people's living and work conditions ...' Not only has the development of a body of rules applicable to the European area been stopped, but the EU is now involved in unravelling the national models, in particular the structural element that is the participation of trade unions in economic decisions. Governments are taking over those domains which were the exclusive competence of the social players, starting with the fixing of salaries. Even fundamental rights such as the right to strike have been affected. Thus, the Greek Government did not hesitate to resort to emergency powers to break a strike.[1]

In order to react to this situation, the 10<sup>th</sup> Lasaire biennial issued two proposals in 2012. The first one was to set up a European conference aimed at encouraging salary negotiations coordinated among the Member States. The objective would be to define a framework for salary progression, adjusted in relation to the economic situation and the specific productivity of each country. The second proposal was aimed at bringing to an end the sidelining of the trade unions by proposing the strengthening of their presence and their autonomy in negotiating in every place where economic decisions are taken, here too, within the framework of a coordinated European effort.

It is noteworthy that Europe has never been able to set up real cooperation among the Member States. The crisis that Europe is experiencing now only serves to exacerbate this inadequacy to the point where it encloses the countries in a confrontation of reasoning among themselves. Europe should bring peace by establishing cooperation among the States: instead, it is organising an economic war among them by using a reasoning that leads to competing social systems.

The crisis serves as a pretext to bring into question the social model in its broadest sense. Is this not the most vivid example of the 'shock strategy' described by Naomi Klein?[2] Reforms and in-depth deregulation are instituted, taking advantage of the traumatism provoked by the crisis. Who seriously thinks that a decrease in salaries and guarantees, and the liberalisation of the job market could possibly have any effect whatsoever on the indebtedness of the countries? Who thinks that more flexibility will create growth, or that by reducing unemployment benefit, the jobs needed will be created? No serious study has ever demonstrated that job flexibility creates jobs. In Greece and Spain, the job markets were made extremely flexible, nevertheless the unemployment rate remains very high. Yet, there is no getting away from the liberal ideology. We are steeped in that ideology. It is therefore not surprising that after Greece, Spain and Italy, it is now France which is being called upon to reform. The European Commission is demanding structural reforms known

to us all: reforms affecting retirement schemes, a decrease in employment costs, a reduction in unemployment benefit considered too generous, and an increased flexibility of the job market, etc. France is among the last Member States to give in.

Europe proposed an example of social progress. By relinquishing it, Europe aligns itself with the rest of the world in reducing the social dimension to a simple consequence of economic choices.

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# What Can The Social Dimension Mean In Times Of Austerity?

*By Wolfgang Kowalsky*

Is there any topic less sexy than the 'social dimension'? Even defining what it is can be tricky, there are many definitions out there so it tends to get mixed up with other terms. It is often used as the equivalent of 'Social Europe' or the 'European Social Model'. The debate also pops up under the heading of a 'European Social Union' which would complement the 'European Economic Union' and a 'European Political Union'. It is not a cornerstone of anything. It's always under suspicion and on the defensive. Moreover, it has to justify its added value.

For instance, the internal market is inherently economic and political: an agreement was reached on the political framework of this economic market area. In contrast, the social dimension of the internal market, having been added later, is neither inherent nor intrinsic. To complicate matters even further, it has never been possible to achieve a sustainable consensus on the social dimension as part of the internal market. If something is exterior and can be added later, logically it can also be removed. That was the case with the social policy agenda – it simply disappeared some years ago.

The discussion is not new. Just 25 years ago a special issue of 'Social Europe' was published: 'The social dimension of the internal market' (1988) and a Commission working paper 'Social dimension of the internal market' with a chapter on 'a new strategy for growth', presenting itself as 'ambitious' (SEC (88) 1148 final; 14 Sept. 1988).

A look back can be quite useful: the first social programme of the Commission was published in 1974. The breakthrough, however, came in 1988 when Jacques Delors addressed the annual TUC Congress in Bournemouth with a speech 'Let's construct social Europe', in which he offered a deal: he promised to deliver an ambitious social policy programme, in exchange he asked for support for his internal market agenda. Unfortunately there was no written record of the deal, so Delors's successors could get out of it and, in the end, the Court of Justice could allow biased cases like Laval, Viking etc. In the time of Jacques Delors, it was quite clear that an ambitious social policy agenda as well as social dialogue were part of the social dimension. In Lisbon in 2000, the Left was proud of having added employment to the social agenda: the famous Lisbon strategy. The Lisbon strategy was not, however, binding in the same way as the budgetary and fiscal indicators were.

The neoliberal agenda conspired to bury the social dimension. But in the face of rising euro scepticism, the unrest due to the austerity policy, the rescue packages and the protests against the unfair distribution of the financial burden, the European Council of December 2012 showed itself to be more in touch with social reality than the European Commission. It asked the latter to come up with a roadmap for the social dimension. Once again the social dimension is being added to something, but to what – the austerity policy, the economic governance package, the Europe 2020 agenda, and as what – window dressing, decoration?

About a decade ago, a working group on the social dimension failed quite spectacularly in the European Convention (2002/03) because the British representative succeeded in diluting all the concrete progressive proposals and in opposing them afterwards. Therefore no consensual result could be added to the European Constitution. The failed referenda in France and the Netherlands were all that was needed to bury social ambitions at EU treaty level. Back-peddalling became the new trend.

Social Europe regularly climbs back up the agenda before European elections and as we approach the next European elections, it is clear that the conjuncture is about to occur again. Many different readings of Social Europe compete with each other. The least ambitious reading was propagated by Herman Van Rompuy when he declared that the European Treaties themselves are social, because some of the objectives, e.g. a high level of employment and the social market economy are social.

Others define it more ambitiously, declaring that Social Europe means full employment, efficient public services, social protection, fair distribution of wages and wealth, democracy at work on all levels, including co-determination, high quality industrial relations with information-consultation-board-level participation and autonomous collective bargaining, social dialogue, a high level of health and safety protection, high environmental norms, and fundamental social rights. If we accept this definition, Europe is far from reaching its goal, and in the last few years the goal posts have moved even further away. The gap, already very wide in the past, is now becoming dramatically so, and the discrepancy between the terminology and European 'realpolitik' is quite alarming.

The term 'European Social Model' is quite close to 'Social Europe', but has a different starting point, a comparison with other world models such as the American or Japanese Social Models. Does it make sense to choose this reference for comparison? The European Union was not founded to compete against the USA or other world regions, but to unite Europe, politically, economically, geographically, and socially. Nowadays the EU is in danger of setting the South and North of Europe up against each other, or – in geopolitical terms – the core and the periphery. Some countries have youth unemployment close to 60%, and others are recruiting workers outside their member state in order to solve their labour market problems. In this game, the EU has opted for continued austerity and against any fundamental policy change. As a consequence, the EU will go further down the road of growing divergence and polarization in areas such as social protection, employment, poverty, wages, and social exclusion.

So where are we now, a quarter of a century later? Faced with the financial, economic and social crisis, the 'social dimension' has taken on a new meaning. This crisis has brought to the fore features of economic governance that are undemocratic, and my colleagues label the troika exercises a 'dictatorship'[1]. National parliaments face real difficulties as their national prerogatives are being jeopardised. At the same time, national and European social partners and well-established industrial relation systems are being undermined. The most logical response would be to push for more democracy and more involvement by the social partners. Part of this new democratic project must be the deepening and the broadening of industrial democracy, of democracy at work. The democratisation of the economy must be high on the agenda once more. No more *shareholder* but instead more *stakeholder* participation – the opposite of what the recent Internal Market Action Plan of the European Commission proposed. One of the fundamental aims of this strengthening of

democracy must be to close a major gap, as there is a quite disjointed *acquis* on information and consultation, but no European standard on workers' board level representation. Instead of creating a long overdue European basic standard, there is a national patchwork: the European Company Statute is strongly linked to the pre-existing national provisions ('before-after-principle').

At Davos in 2013 Angela Merkel recommended boosting the EU by 'a compact for competitiveness along the lines of the fiscal compact'. The think-tank of the European Commission, BEPA, is propagating a 'partnership for competitiveness' along the same lines. Competitiveness among states seems to have become the new dogma. Cooperation has become a taboo. Competitiveness among companies is acceptable, but to apply the concept to the member states does not make sense. Merkel's plea means making non-wage labour costs and unit labour costs fall within the competence of the EU. The Commission's think-tank reminds us that 'the question of competitiveness was also at the centre of discussions at the last European Council' – the one which adopted the demand for a social roadmap.

BEPA highlights the fact that 'competitiveness is the key to exiting the crisis' – but wasn't competitiveness what got us into this mess? BEPA points to 'heightened competition' from 'low-wage competitors such as China, India, Brazil and Russia' – only in order to say that we don't compete on wages but on productivity and that we need labour market reforms. Competitiveness is the compass of the Commission. One wonders if the social roadmap is not the sugar coating being used to make progressive forces swallow the bitter pill of the new 'competitiveness agenda'? In the same way, was the Lisbon strategy with its ambiguities used to sweeten the 'better regulation agenda'? BEPA is convinced that the Commission 'has also aimed at tackling the social implications of the crisis' and 'has acted to support job opportunities for young people'. The results are scarcely impressive: youth unemployment is hitting new highs: 5.7 million young people in the EU (23.5%) are without a job (March 2013). The achievement of the 'spectacular improvement of the trade balances' is misleading as it often hides the fall in imports.

What are the prospects for change? A look at the PES draft programme reveals that there is not much common ground with trade unions on topics like information-consultation-participation, restructuring or collective bargaining. The word democracy (at work) can't be found.

Why is there no alternative European policy agenda on the table? Many unresolved issues are in existence, but aren't being tackled: fundamental social rights are being jeopardised by Laval/Viking, the issues of the posting of workers and working time are unresolved. At the European level, there is still no basic standard for workers' board-level representation. (Although a French initiative to push for an extension of this is on its way.) After the failure of corporate governance, it could well occur to people to go into the direction of strengthening the stakeholder approach. At the European level no stakeholder initiative is in sight. Neither the Commission, nor the European Socialists, nor the United Left, nor the Greens are proposing to explore this uncharted territory. And some socialists may prefer to be the junior partners in a grand coalition rather than standing on their own feet with the Greens.

That the unanimity principle is a major hindrance to making progress in social policy is the

message being conveyed by the PES. However, a coalition of the willing may push for progress and may attract others to join this open group. At the Seville Congress in 2007 the ETUC decided to support a 'core social Europe' as a last resort to avoid a complete social standstill [2]. But since then the 'social standstill' has continued. An ideological debate should be avoided as it only serves to prolong this standstill and plays into the hands of regression. Such a pioneer group should be open to as many as possible. The financial transaction tax has once more shown that progress is possible by a coalition of the willing. Many observers consider social policy as a national matter, and this perspective seems to be coherent with the subsidiarity principle: local responses to local questions, regional responses to regional questions, national ones to national problems and finally European responses to European questions. It is not desirable to have European responses to all questions. It is clear that a level playing field is still necessary.

The worst outcome of the new debate on the social dimension would be the confirmation that the current policy is social policy. The best outcome would be the launch of a new debate on Social Europe, on a new social policy agenda for the next European Commission and the next European Parliament. They have to transform these demands into reality and push for progress. The probable outcome lies somewhere between these two options. It depends on the initiatives and reactions from trade unions and other actors, political parties, NGOs etc. to build up a progressive coalition of the willing. There is only one scenario under which Social Europe can make some progress – an end to austerity and a democratisation of economic and social governance. Some recent developments point in that direction.

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# A 'Poldermodel' For The EU?

By Frans van Waarden

National social policy programs across Europe have their roots in three different traditions of origin. There is the (partially British) liberalist regime, where programs are the outcome of supply and demand on markets; there is the (French) *étatist* tradition, where programs have been produced and are organized by the state; and there is the (Germanic) corporatist tradition, where they have been produced bottom-up by organizations of civil society, in several versions eventually supported - e.g. legally framed - by the state.

The corporatist tradition is found especially in Austria, Germany, Belgium, Switzerland, and the Netherlands, and to some extent in Sweden. These countries form the geographical 'center' or core of Europe where the inheritance of the medieval European guild tradition - the source of some of the earliest social programs - has persisted most strongly. Social insurance programs there were agreed, developed, and sometimes implemented out of, and in, close cooperation between associations of employers and employees, the so-called social partners. In some cases (Belgium and Sweden) benefits were paid out by trade unions. Health care was financed by '*Krankenkassen*' and other similar health insurance cooperatives and was privately provided by associations such as '*Arbeiterwohlfahrt*' and '*Caritas*' in Germany, or protestant '*diaconessenhuizen*' in the Netherlands. Affordable public housing was provided by socialist, catholic or protestant housing associations, while vocational training was and still is provided by the German and Austrian *Handwerk* organizations, having their roots directly in the guild-tradition. Such solid foundations of social policy programs in civil society have produced some of the most developed welfare 'states' around (here the term 'state' stands more for 'nation' than for 'public authority'). And Germany is even in the liberal US and Britain admired for its well-developed association-based system of vocational training.

Notwithstanding the historical success of the corporatist model, European social policy tends to follow more the liberal and the *étatist* traditions. It leaves as much room as possible to the market. Whatever can be commodified should be. And if Europe interferes, it does so in the *étatist* tradition by public regulations, directives, and case law.

The rich European civil society-based tradition is ignored and many of its institutions at the national level have even been destroyed. Association-based health insurance, hospitals and housing corporations have been forced to commercialize and compete on care and housing markets with commercial enterprises; close cooperation between associations and national states in the provision of services has been forbidden, as undue forms of state support, considered unfair on open service markets where also enterprises from other member states should have access; and forms of close cooperation between national adversaries across the competitive - as well as the class-divide to supply such social services, or to finance or regulate them, have been considered illegal 'restraints of trade'.

This destruction of self-organization by civil society has everything to do with the dominance of the neoliberal 'supreme commandment' and apparently highest value in the European Union, that of 'competition *über alles*'. It holds for individuals as well as organizations and is first of all made possible by the 'four freedoms': the free movement of goods, services, capital, and - last but not least - labor, across the EU's territory.

Furthermore, it is reinforced by the ban on collusive practices. Cartels and other forms of cooperation between competitors are anathema. In principle this could have even affected trade unions. After all, they could be considered by some to be cartels of competing workers against 'customers' on the labor market. These principles and rules, firmly established in the Treaty on the European Union, the Treaty on the Functioning of the EU, and the Charter of Fundamental Rights of the EU, are meant to help reach the so-called 'Lisbon goal': That the EU should become the most competitive region in the world.

It remains to be seen whether that goal can be realized by placing competition so high in the European value hierarchy. And even if so - which is not likely as I will argue - then the price is high. Because in the process a rich and specific European heritage of social self-organization by civil society through cooperation rather than competition threatens to get destroyed.

To be sure, the values of freedom and equality are being served by placing competition so high in the value hierarchy. Freedom of establishment implies equal chances of individuals and corporations in markets. And a bright future seems to lie ahead if we follow such Social Darwinist ideas: The best, the brightest, the fittest will survive. In the market, as much as in sports, the court room, or academia. Free movement and competition of goods, services, capital, and labor may lead to higher quality and better service. And fiercer competition on prices, wages, and working conditions will reduce production costs.

But can European countries really win a global competitive struggle based on low production costs? Against countries like China, which seem to have an infinite labor supply? In order to prevent such an all-out race to the bottom the EU has attempted to complement negative integration - abolishment of barriers to free trade - with some positive integration: Common regulatory standards for respectable wages and working conditions, environmental friendliness, etc. But as Fritz Scharpf has emphasized, negative integration is easier done than positive integration in the EU.

Furthermore, what are the most competitive countries according to the World Competitiveness Index, annually produced by the World Economic Forum (WEF) and ranking 144 countries? In its 2012-2013 report among the top were Switzerland (1), Finland (3), Sweden (4), the Netherlands (5), and Germany (6), ahead of the US (7), the UK (8), Hong Kong (9), Japan (10), Canada (14), Australia (29) and China (29). The North-Western European countries are not particularly the low-wage and poor working conditions countries and neither countries that are nurturing a very liberal economic ideology. But they are typically the countries with a long-standing corporatist tradition. They have in common that they complement competition with various forms of cooperation between competitors and other adversaries.

Take the Netherlands for example. For decades it has been among the top ten in this WEF list. This tiny country has, notwithstanding very limited soil for agriculture, managed to become the world's greatest greengrocer. According to UN international trade statistics the Netherlands is responsible for 12.4% of global trade in fresh, frozen, and simply conserved vegetables. It even exports tomatoes to California! And exactly this highly productive and innovative sector exemplifies the Dutch model of organized cooperation between three types of adversaries in markets, as it is traditionally organized in various producer-cooperatives and associations. There competitors and social partners cooperate

to compete, globally.

First, competitors cooperated 'horizontally', in trade unions, trade associations, and even cartels. Up until 1998, when the EU banned it, the country was considered a 'cartel paradise'. Cartels were in principle allowed, unless proven to be harmful. In order to determine that, they all had to be registered in a cartel register.

And even that champion of neoliberalism, the OECD, had to admit in its 1993 report on 'the unusual Dutch case' that 'collusive agreements' are not always as destructive as economists like to predict. Though 'many sectors of the economy are enmeshed in a web of restrictive agreements, regulations and barriers to entry' as it wrote, it had to acknowledge that 'the economy has apparently suffered less from this situation than other countries with weak competition policy' and 'prices are not obviously higher than in most other countries', while 'the social consensus may have had a beneficial impact on overall economic performance'.

Second, there was 'vertical' cooperation between private transaction partners, i.e. (organizations of) buyers and of sellers cooperated. This concerned not only suppliers and customers of goods and services in longer product value chains, but also labor. Trade unions and employers associations have a long history of relatively peaceful 'social partnership', i.e. in addition to cooperation across the competitive struggle there was also cooperation across the historical class struggle.

The third form of cooperation was between organizations of private market parties and public authorities. The latter provided both passive and active support for private market regulation: Passive in the form of tolerating such self-organization and self-regulation; and active in the form of financial support for associations or 'extension' of their private regulations to the status of public law. Such happened e.g. with the book price cartel and many sectoral wage agreements. Also, the food sector was organized in statutory compulsory trade associations, much like the German, Austrian, and Swiss chambers. They were all considered to be in the public interest: The interest in production of sufficient Dutch language books, of joint innovation in agriculture and food, and in social peace between employers and employees.

The three-stage cooperation - first between competitors on one side of the labor market, then between these associations on both sides of that market, and then between these and the state - produced the mainstay of social policy programs: Regulated wages including a minimum wage, rules on health and safety at work and on working hours and paid holidays, pension plans, and social insurance schemes against the risks of unemployment, sickness, disability and old-age.

This cooperation between economic adversaries has a long history. In the more distant past in guilds. More recently in - partly statutory - trade associations and trade unions. In addition to regulations they have also produced sectoral collective goods, such as vocational training, joint basic research, or collective generic advertising for the sector. A symbolic example was the association of six bicycle lenders on the small North Sea island of Ameland. Together these six financed the placement of simple manual bicycle pumps - tied to poles - across the island, thus making it more attractive for people to rent and ride a bike.

In my inaugural lecture 20 years ago I used dykes as metaphor for such market regulations, thus introducing in passing the term 'polder model'.<sup>[1]</sup> Just as dykes around a 'polder' create reliable dry spaces in which life is possible and investments of farmers sensible, so can market regulations create an orderly social space in which it is safe to invest and where there is 'space for competition'. And just as Dutch dykes have been the result of deliberation, cooperation, and concertation between competing landowners and farmers ever since the 11<sup>th</sup> century, so were private market standards the result of cooperation and concertation between competitors in markets.

The Netherlands has not been alone with such market standards. Quite a few other European countries have similar institutions that regulate markets and create sector-specific collective goods. I referred already to the German, Austrian, and Swiss *Handwerk* associations, which organize the vocational training systems in these countries, linked to the famous 'made in Germany' brand. Membership is compulsory for all SME firms in the sector/region and these collective goods are provided by both compulsory dues payment and provision of traineeships by the member firms.

In a way such statutory trade associations can be compared to municipalities. Whereas the latter have a territorial domain and create order in physical space, the former have a sectoral domain and create social order there. Both levy compulsory taxes and provide collective goods for their domain. And in both their 'citizens' have voting rights.

The EU, by overemphasizing competition in the market, is overlooking the positive sides of its opposite: Cooperation in the market. Markets need institutions, not only to maintain competition, but also to regulate and structure markets, to inform potential transaction partners, to set product quality standards thus reducing information problems for customers and creating trust in the market, and to collectively engage in research, innovation, information dissemination, and in organizing market competition as with cooperative auction halls. Entrepreneurs do not only need to experience fear - as provided by competition - but should also see sensible opportunities - as provided by regulatory institutions, that can stabilize expectations.

Curiously enough, the EU does not particularly encourage competition between member states. What is good for business and labor is apparently not so for countries. The ideal of the integrated European market is a level playing field, leveling or equalizing regulatory and institutional conditions across European markets. Many EU regulations, directives, and case law aim to reduce the 'variety of capitalisms' found in Europe. This variety, based both on regulations and regulatory styles of implementation, is frowned upon. But why not let the most efficient institutional framework prove itself by 'surfacing' in competition between such 'varieties of capitalism'?

In short, if the EU ever wants to realize its goal of becoming the 'most competitive region' in the world, it might be wise to recognize the potential contribution of sectoral self-regulation, self-organization, and self-production of collective goods like vocational training, collective research, or mutual quality control. And in order to do so to mitigate the gospel of unrestrictive competition and make more room for cooperation between adversaries. Rather than 'competition *über alles*', the slogan might better be 'cooperation countenanced'.

Precisely this could be the meaning of a 'poldermodel for the EU': To balance competition against cooperation between adversaries in the marketplace, as the Dutch have done successfully for over six centuries. The resultant forms of self-regulation could form the 'dykes' that make transactions - involving trade, production, work, income, and investment - in the polder, protected by those 'regulation-dykes', a more sensible enterprise. At the very least, the EU could be more tolerant to such varieties of capitalism that depart from the neoliberal ideal. By thus nurturing a diversity of capitalisms rather than striving for convergence towards the neoliberal ideal, the EU would also be more true to its official motto '*In Varietate Concordia*', meaning 'Unity in Diversity'.

Such tolerance, recognition, or even stimulation of self-organization by civil society could also produce eventually a more 'Social Europe'. And not only in its provision of social protection and social services - as safe dykes around the market - but also by thus encouraging the participation of bottom-up formed organizations of civil society in the creation, regulation, and implementation of social programs. After all, social and societal organizations do form that 'Social Europe' themselves.

#### References

[1] See for the text of that inaugural lecture the recent English translation with an added evaluation of the changes over the last 20 years: Frans van Waarden (2013) '(Will and) Did the Netherlands breach its Dykes?', in Annette Zimmer (ed.) *Civil Societies Compared: Germany and the Netherlands*, Baden-Baden: Nomos Verlag, pp.219-246.

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# A Social Europe For Euroland

*By Joël Decaillon*

Social dialogue dates back to the birth of the European Coal and Steel Community (ECSC) in 1951. It has gradually been incorporated into the treaties in a number of stages, most notably the Social Protocol of the Maastricht Treaty. Social dialogue has been beset by two major problems. The first is the diversity of national trade union systems (trade union confederations in some countries are not authorised to negotiate on behalf of their members, for example). The second problem relates to the attitude of employer associations, which are reluctant to negotiate at European level. Employers initially agreed to take part in social dialogue in order to hamper, rather than further, Community legislation.

The employers' arguments can be summarised as follows:

a) The harmonisation of working conditions and industrial relations must be subject to the demands and constraints of the market.

b) The principle of subsidiarity must be fully applied, meaning that the Commission must not intervene in social issues if they can be dealt with at national level.

c) Social dialogue must not be a means of circumventing traditional legislative processes. In particular, UNICE and now BUSINESSEUROPE have long been adamant that social dialogue should not serve as the basis either for new Community legislation or for the negotiation of collective agreements. Generally speaking, their objective is to anchor industrial relations 'at the bottom' (where employer interests are well-represented) and 'at the top' in a social dialogue that commits them as little as possible. This strategy can be seen as reflecting the very low level of coordination among employer organisations, which in turn is a means of opposing the establishment of centralised relations with European trade unions, which find it hard to get an employer representative to take accountability. From the employers' point of view, the unanimous vote system means that all they need to do is lobby national governments effectively to block all undesirable Community decisions.

## **Europe-wide trade-union mobilisation is most often assessed in the light of EU social policies**

The weakness of positive social integration is accompanied by negative forms of integration, particularly those aimed at using regulations to establish transnational forms of labour market governance, e.g. by promoting competitive cross-border posting (Laval, Viking, Ruffert and Luxembourg rulings) on the grounds of supposed labour law 'inflexibility', or by attacking the pension and social security system. It can be argued that, in this respect, the EU is striking at the heart of Europe's productive systems, or at least one of their vital components, namely industrial relations, a term encompassing workers' status within companies, employer-worker relations and forms of flexibility and employment. In other words, what is at stake here is both wage relations and the conditions for competitiveness. We therefore need to contemplate the possibility of a Europeanisation of industrial relations through the standards and labour disputes to which

they give rise.

As for European framework agreements and action frameworks of more limited scope, we can reasonably assume that the impact of these standards will differ depending in particular on:

- a) national systems
- b) national social legislation
- c) the sectors involved

Convergence effects are undoubtedly felt most in less protected sectors and the 'poorest' countries. EU legislation on parental leave, for instance, led to a massive catch-up effect in Ireland and Portugal, two countries where such measures were virtually non-existent. Indeed, the justification for framework agreements and action frameworks is based on the principle of the non-regression clause. Yet the current crisis, with the role of the Troika, has undermined this concept in virtually all southern and central European countries, where the hierarchy of social standards and labour codes have been challenged. What value does such a reference to non-regression have today?

Is it still a point of reference? If so, how can we enforce it?

On issues as fundamental as redistribution policies and income, there is no coordination mechanism at a European or Eurozone level. European social policies are still very far from displaying the features of a welfare state. At present, Europe is merely advocating a general policy agenda that is much more neoliberal than social-democratic in nature, while imposing budget criteria laid down in the Treaty.

Furthermore, the difficulties with mobilisation faced by the ETUC powerfully highlight the conditions needed to enable the expression of solidarity between EU workers. A tentative hypothesis can be derived in this context, namely that it is difficult to separate the expression of solidarity between workers from the feeling of sharing a 'European identity', even if the EU is primarily considered a community of interests. However, numerous studies agree that European identity remains problematic, to say the least, for the bulk of European citizens. We can rightly argue that social conflict is a powerful driving force in the forging of identity, but it is uncertain whether the European construction process will have an impact similar to that of the creation and consolidation of nation states in the late 19th century. This is probably a handicap that European trade unions will have to face on a long-term basis.

The ETUC has neither full supranational negotiating powers nor the ability to directly mobilise workers. In the absence of a Europe-wide right to strike, organising a simultaneous work stoppage in multiple EU member states is a huge challenge due to the complexity and diversity of national legislation. From this perspective, the day of action and strikes on 14 November 2012 was a very significant step forward.

The state of trade unionism at national level is a major factor in explaining the situation in which European trade unionism finds itself. Other reasons – internal to the organisation –

also need to be considered. Indeed, the ETUC can be seen as a vast mosaic, complex and varied (a quality reinforced by geographical and ideological expansion), whose modus operandi is constrained (and sometimes frustrated) by the side-effects of historical divisions, namely the persistence or survival of disagreements between different social democratic and Christian cultural traditions. Paradoxically, the ETUC's strength lies in its organic unity. Demanding the creation of a Social Union within the Eurozone would undoubtedly result in a more efficient political framework for negotiation and the expression of protest, and would doubtless be a driving force for the advancement of social rights throughout Europe.

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# Respect And Promote Wages And Collective Bargaining

By Ronald Janssen

*'I regard the growth of collective bargaining as essential. I approve minimum wages and hours regulation. I was altogether on your side the other day, when you deprecated a policy of general wage reductions as useless (...).'*

These words were written 75 years ago. In today's Europe, they are even more valid now than they were then. Just like the United States in 1938 was digesting the decrease in unemployment, the Eurozone economies are now expected to slowly emerge from their 'double dip'. Just like the United States in the 1930s, the 2012/2013 recession of the Eurozone was triggered by an untimely and exaggerated policy of fiscal contraction.

Back in 1938, President Franklin D. Roosevelt took the message John Maynard Keynes had written to him in this letter of February 1938 to heart. A few months later, he signed a Fair Labour Standards Act based on the idea that goods that were not produced under 'standards of decency' should not be allowed to 'pollute the channels of interstate trade'. This Act outlawed child labour, guaranteed a minimum wage, limited the working week to 40 hours and introduced overtime pay. Some years later, at the end of the Second World War, a follow-up act was proposed aiming to strengthen the practice of collective bargaining itself, but President Roosevelt passed away before this second act could be approved.

## **From the Great Depression in the US to the Great Recession in the Europe of today**

Where do we in Europe stand on this? For the past half year, the different European Council formations have been discussing how to build a so-called 'genuine' Economic and Monetary Union, a discussion that was supposed to include the social dimension and social dialogue as well.

One – optimistic – reading of this is to think that European leaders have realised that their double strategy of fiscal austerity and wage deregulation they are pursuing will be disastrous, and that it is their genuine intention to change course. If so, this is a not-to-be missed opportunity to draw up a list of demands on Social Europe.

Another – rather Machiavellian - interpretation is that European leaders have not really changed their mind, but have become nervous because of the political backlash against 'la pensée unique' in some member states. In this case, European leaders actually remain convinced of the need to continue with internal wage decreases by getting rid of all institutions that prevent wages from being cut. However, in an attempt to contain widespread resistance against such policies, an invitation is extended to trade unions to join the discussion table and actually assist in the implementation of these policies.

What are the facts? One consideration is that the social dimension in the draft conclusions of this week's European Council is minimal and limited to proposing 'appropriate indicators' and 'better coordination of employment and social policies'. This does not amount to very much.

Another fact is that the Council conclusions remain on the track of building even more new instruments of European economic governance; the idea being to force individual member states to undertake those types of reforms that weaken wage formation systems and allow employers to cut wages easily.

Meanwhile, the race to the bottom on wages is ongoing. After wages have been squeezed in Greece, Spain and Portugal, it is now France's and Italy's turn to put downward pressure on wages. One – cynical- illustration here is that financial markets, becoming aware of the fact that the Eurozone dominos keep falling, have invented a new acronym. Markets are now referring to France, Italy, Slovenia and Holland as the FISH countries. And it will surely not end there: Sooner or later, with the export prospects of the remaining group of countries (Germany, Austria and Finland) under continuing pressure from the collapse in import demand in the rest of the Eurozone and with their relative unit wage costs increasing because of the wage cuts elsewhere, the view that the latter countries (the GAFs?) have lost competitiveness and need to follow the example set by Spain or Greece, will gain traction. If so, GAF, FISH and GSP-countries will then compete for the questionable title of who is able to cut wages the most.

### **A Genuine Social Dimension: Respect and promote collective bargaining on wages**

If the social dimension of European Monetary Union is to be genuine, then one of its key priorities should be to ensure that currency devaluations are not being replaced by wage devaluations and that the race to the bottom on wages is prevented from taking place.

As Keynes indicated in the quote above, the practice of collective bargaining is key to this. Robust collective bargaining systems with wide coverage and representative trade unions and employer organisations allow economies to arrive at balanced outcomes. This is particularly the case when collective bargaining is coordinated so that all bargaining parties can take the situation of the macro economy at national as well as Eurozone level into account. Moreover, one particular concern, often expressed by trade unions in CEE member states, is that a minimum wage floor without strong collective bargaining practice is not sufficient, since 60% of a low average wage is still a low wage.

A first and urgent action is to stop the ongoing attacks on collective bargaining systems, attacks that are systematically coming from the new system of European Economic Governance ('six-pack', competitiveness contracts, ex ante coordination, Troika programs).

This can be done by giving the social dimension side of monetary union the power to set clear limits on this system of European economic governance and its tendency to reduce wages and collective bargaining systems. The almost unlimited power the masters of finance (EU finance ministers council, DG ECFIN) and money (ECB and IMF) have managed to obtain over national economic and social policy-making needs to be constrained. One concrete example is the wage-safeguard clause in the regulation on excessive macroeconomic imbalances, stating that the application of the regulation shall not infringe on the freedom to bargain and the right to take action, also that national systems of wage formation are to be fully respected. Similar wage-safeguard clauses should be developed and inserted into all the other regulations, contracts and programs that make up this system of economic governance.

A second line of action is to complement these wage and collective bargaining safeguards with a policy approach that supports and promotes the practice of collective bargaining. This could take the form of introducing collective-bargaining-related clauses in public procurement, or of explicitly imposing on employers when using posted workers to pay the collectively bargained wage (and not the lower minimum wage). In line with the existing European Social Dialogue, giving social partners the primacy over European social and labour market regulation, one could also propose to establish a platform of coordination at European level, where social partners meet to discuss and take action in an autonomous way.

Finally, we insist on the fact that European Treaty does not need to be changed for the Commission and the Council to undertake the policy directions described above. Indeed, the Treaty contains a number of principles that allow and even oblige European policy-makers to respect and promote collective bargaining. There are the objectives to improve and harmonize living and working conditions (TFEU article 151). There is the obligation of the Union to promote social justice (EU article 3). There is the obligation of the Union to facilitate dialogue between social partners, while respecting their autonomy as well as the diversity of industrial relations systems. Finally, we have the horizontal social clause forcing the Union to take, amongst others, the values of democracy and equality into account when defining and implementing its policies (article 9 TFEU). Collective bargaining has clear links with all of these objectives and values.

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# Evolution Of Social Pacts And Bargaining Decentralisation

*By Jacques Freyssinet*

The social pacts were developed in the European Union at the beginning of the 1990s, on the one hand to deal with the economic slow-down and the increase in unemployment between 1993 and 1997, and on the other hand to meet the conditions of entry into the euro zone in certain Member States. In several states, these pacts were signed at the national level with unequal ambitions and for different durations. The same kinds of agreements were multiplied at the level of branches, territories or companies (sometimes called 'pacts for employment and competitiveness'). In every instance, they consisted of an exchange between the employers and the trade unions. The latter accepted the concessions, mainly concerning salary costs and adjustments to working hours, in exchange for commitments with regard to employment, sometimes the limitation of insecure employment or more productive investment.

Governments encouraged the signing of these agreements, notably through the adoption of active employment-policy measures, the fight against poverty and social exclusion, and the development of certain public services. The adoption of these pacts led to major discussions within the trade union movement. Certain trade unions refused to support the reduction of rights that had been acquired through previous struggles and negotiations. However, the majority of organisations considered that, during a period of unfavourable circumstances, it was necessary that the trade unions remained players in defining economic and social choices at both macroeconomic and microeconomic levels, and that they would thus be able to limit the reductions involved and obtain some compensation. Faced with the employers' onslaught regarding bargaining decentralisation, this strategy also permitted the construction of a link between the different negotiating levels.

The new economic slow-down that occurred in 2001 (not as pronounced as the earlier one and less long-lasting) was marked by an initial backsliding of the national social pacts in favour of company negotiations, sometimes branch negotiations, mostly poorly coordinated. The crisis which emerged in 2008 brutally reinforced this trend. Tripartite compromises were still to be found in 2009 for policies aimed at relaunching the economy and reducing the social costs of the recession. But, as from 2010, the priority given in each country and at European level to restoring competitiveness and 'major balances' has led, at State level, to favouring the reduction of deficits and public debt and, at company level, to the reduction of salary costs, flexibility of employment and restoring profit margins.

Today, the social pacts have practically disappeared at the national level. In the majority of countries, branch negotiations have been weakened by various techniques which both increase the margins for autonomous negotiations by companies and enable the latter to depart from the provisions of branch agreements in certain domains. In countries less affected by the crisis, the trade unions have accepted this trend while endeavouring to maintain a certain control over the definition of the domains and decentralisation methods. In those countries experiencing the greatest difficulties, either subject to the injunctions of the troika (e.g. Greece and Portugal) or to satisfy the 'recommendations' of the European

Commission (e.g. Spain and Italy), legislative reforms have imposed radical measures on the decentralisation of collective bargaining.

The content of company agreements is strongly determined by threats of closure and/or relocation of production units and/or mass redundancy. Pressure is particularly intense in those multinational companies aiming to make their production units more competitive, whether they are located within or outside the European Union.

The trade unions have been requested to make concessions in various domains, notably:

- company salaries and social advantages for all employees and, sometimes, in an accentuated manner for newly hired employees;
- duration and flexibility of working hours;
- internal mobility measures or external retraining.

For the main part, the compensation offered in return has consisted of guarantees to maintain jobs, and not resorting to economic redundancies during a specified period. They have sometimes been accompanied by commitments to make investments or pledges to maintain or set up certain production lines (e.g. in the automobile industry, for certain models). Finally, clauses have sometimes been introduced that provide for a partial making-up for the sacrifices agreed should the company or establishment return to a better economic situation.

In a context of the exacerbation of the necessity for companies to be competitive, the systematic decentralisation of collective bargaining is leading to an endless race towards local sacrifices. This can only be accelerated by the phase of quasi-stagnation or recession underway in most of the countries of the European Union. This movement should be reversed by adopting an economic relaunch policy, concerted and coordinated at European-Union level, and by the reconstruction of a system of branch negotiations to combat the logic of social dumping that is predominant today.

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# Wages And Competitiveness: The Need For Coordination

*By Odile Chagny and Michel Husson*

Wages are not the cause of the crisis, nor a tool to overcome it. But wage coordination is needed as an essential element of a Social Europe.

## Wages as a problem?

According to the mainstream analysis, excessive wage growth is the cause of imbalances within the Euro area. Yet there was a fall in the wage share in most countries. In other words, wages grew less than labour productivity and it is therefore not possible to speak of a wage drift. However, unit labour costs have diverged between the 'North' and 'South' of Europe. These two observations can be made consistent by decomposing the nominal unit labour costs (in Euros) as the product of the GDP deflator by the real unit labour costs, the latter being a proxy for the wage share.

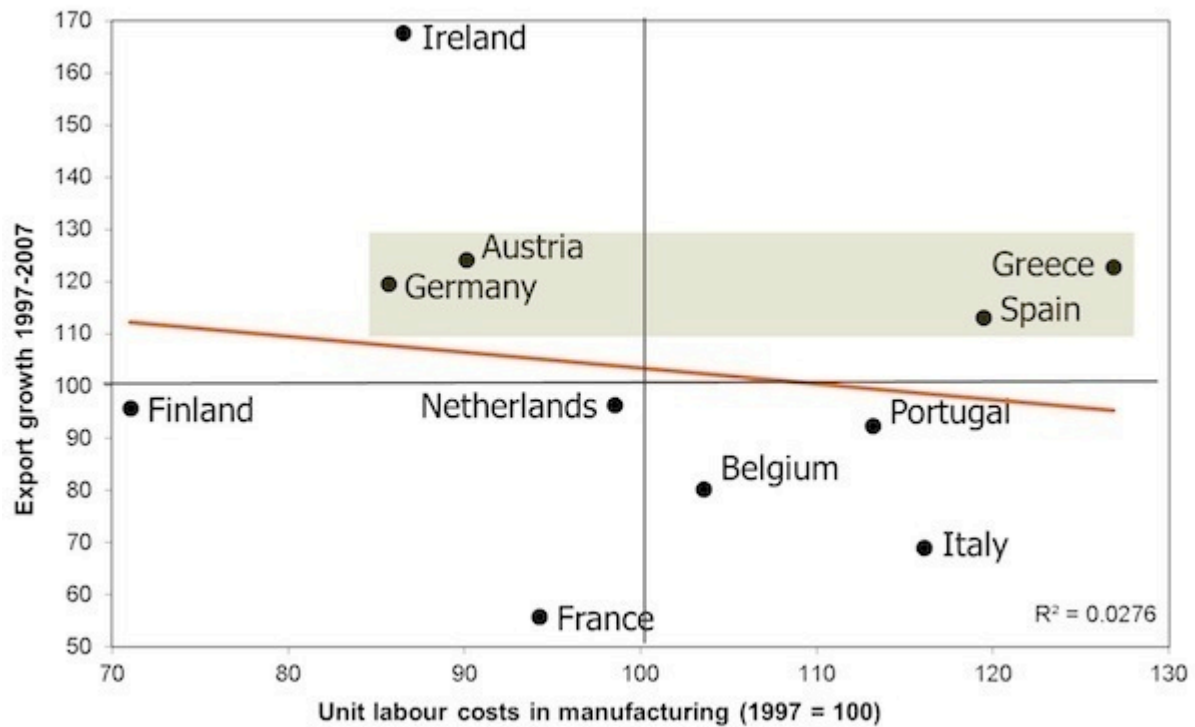
1) The competitiveness lag between 'North' and 'South' is not the result of wage drifts but is mainly the consequence of differences in structural inflation. Its main determinants can be synthesized as follows:

- inflation is higher in countries where growth is faster due to a catching-up process;
- inflation is much higher when the increase in wages in the sheltered sectors is close to that of wages in the exposed sector (dissemination of productivity);
- inflation is higher in countries where there is a high degree of inequality that generates more pronounced distributional conflicts. The construction of the 'Euro system' has forgotten these structural determinations of inflation. It was based on the wrong assumption that a single currency, a 2% inflation norm and fiscal discipline would be sufficient to ensure the convergence of inflation rates across countries.

2) The development of relative unit labour costs cannot explain the relative export performances. As noted by the European Commission in the 2010 Competitiveness Report: 'If there is a relation between unitary labour costs and export performance, it is weak and of a secondary order of magnitude (...) and hence the former cannot be the cause of the latter'.

For example, Austria and Germany on the one hand, and Greece and Spain on the other hand, exhibited similar export performances during the ten years preceding the crisis, despite wide divergences in unit labour costs trends in manufacturing (see graph).

### Exports and unit labour costs in manufacturing



1997=100. Source: Ameco database

3) Unit labor cost growth was very different in exposed and in sheltered sectors.

4) The trajectory of Germany differs from that of other countries, with a steady decline in real unit labour costs (up to the crisis). This trend deepened during the years preceding the crisis, leading to a high decline in the wage share.

5) The competitive constraint has been bypassed by two 'leak variables'. A large trade deficit could be sustained since there was no threat, by definition, for the value of the national currency. The convergence in nominal interest rates led to a sharp decline in real interest rates in the countries with higher inflation rates, favouring over-indebtedness and real estate bubbles.

### Wages as a solution?

Since the beginning of the crisis, there has hardly been any relationship between the slowdown in wages and the evolution of the wage share. The configurations are multiple, depending on national economic and institutional features, and also on the industrial specialization patterns.

The future dynamics of wages in Europe will be determined by two objectives:

- restoring the profit share in the countries where it fell;
- improving competitiveness as the only means to reduce external imbalances.

But this objective faces two contradictions:

- The 'internal devaluations' do not lead to a structural improvement in trade balances. The improved trade balances of the South countries are mainly explained by a decline in

imports, with the partial exception of Spain.

- The recovery of the profit share does not lead to a recovery of the investment rate because demand remains depressed and the decline in wages will contribute to depress it more.

The fiscal austerity-recession cycle reinforces these two contradictions. In the case of France, a 'heuristic' scenario shows that restoring the profit share to its pre-crisis level requires a near zero growth of real wages. This scenario is built on a relatively 'optimistic' hypothesis for the growth of productivity (1.4% per year) and assumes a constant dividend share in added value. Other scenarios are of course possible but under the condition of changing the income distribution between wage earners and 'rentiers'.

## Conclusions

- 1) The crisis has ultimately revealed a flaw in the design of EMU (its 'original sin') with its focus on nominal rather than real convergence, implicitly assuming that the latter would be achieved in a somehow spontaneous manner through the own virtues of implementing EMU and fiscal discipline.
- 2) Wages are not the cause of the crisis in the Eurozone. This crisis is primarily due to the fact that structural differences between national economies especially in terms of industrial specialization and inflation have been neglected. In retrospect, it appears that it is rather the declining wage share that must be considered as one of the main factors of this crisis.
- 3) Wage moderation is becoming the central axis of European policies and the European institutions in charge are taking wage policies to an always greater level. This orientation is not a coherent exit from the crisis and might instead lead to policies that increase the recessionary risks, paradoxically forgetting that Europe is an integrated economy that requires the coordination of economic policies.
- 4) Beyond the debt crisis, Europe is facing a crisis of wage coordination. This is why the debate on an optimal wage rule should now be a priority. A European wage rule should aim to combine three objectives: a fair distribution of productivity gains to the wage-earners, the reduction of structural disparities of wages across sectors, and maintaining the relative price competitiveness across countries.

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# The 2012 White Paper On Pensions – A Building Block For EU Social Policy?

*By Florian Blank*

In 2012, the European Commission published the White Paper 'An Agenda for Adequate, Safe and Sustainable Pensions' (COM(2012) 55 final). The paper discusses challenges to pension policies in the context of continuing demographic change across Europe ('Unless women and men, as they live longer, also stay longer in employment and save more for their retirement, the adequacy of pensions cannot be guaranteed as the required increase in expenditure would be unsustainable', p. 2). It presents policy proposals and asserts in a rather self-conscious way that it is 'now time to act and to implement in a decisive manner the actions put forward in this White Paper' (p. 15).

What do these proposed actions entail? They include linking retirement age to increases in life expectancy, restricting access to early retirement schemes, supporting longer working lives (e.g. by means of developing employment opportunities for older workers), equalizing the pensionable age between men and women, and the development of complementary private retirement savings.

Rather than going into these proposals in depth, I would like to make some general observations regarding this White Paper. These include the framing of social policy issues as a matter of public finance, the avoidance of distributive issues, and the neglect of different interpretations of the social contract. In short, it seems that the question of adequate benefits of public pensions takes a back seat.

First, even though the paper to some extent deals with the sustainability of pension systems in order to maintain an adequate level of benefits, it frequently links public pension expenditure to the development of public finance and economic competitiveness. Even though there is undoubtedly a link between public revenues and public expenditures, the perspective the White Paper takes towards social policy is disappointing. Instead of defining which benefits are necessary, adequate or fair and then finding ways to finance them, the White Paper seeks to adjust the public expenditure side. Rather than asking how to raise revenues in order to reach specific social goals, it makes expenditures dependent on revenues. More generally, rather than defending the public role in shaping society, it often frames social policy matters in terms of being a burden to public finances, as well as an obstacle to economic success. Hence, social policy seems to be treated not so much as a matter of its own right, but subordinated to other policy fields.

From an EU point of view this is understandable as it fits rather well into the limited competencies of the EU regarding social protection. 'Adequate, Safe and Sustainable Pensions' in Europe however, as the White Paper claims, cannot be reached by subordinating social policy to other policy fields!

Second, and in line with the first argument that the White Paper represents an approach to social policy that is not driven by social policy concerns alone, there is one central aspect of social policy missing in the whole paper: matters of distribution. The European Commission does not seem to bother about inequality between old people or between

future pensioners, nor does it seem to take an interest in the 'classical' question of the distribution of profits between work and capital.

This latter point is of importance, especially when it comes to the proposed development of complementary private retirement savings. While public pension schemes are often financed through taxes or through contributions from employers and employees (as stipulated by public law), private schemes are mostly individualized schemes or occupational schemes. Regarding occupational schemes the bargaining power of the social partners often determines who bears the load of contributions. Hence, the proposal to further develop private pensions may have greater distributive effects than merely being a shift from public to private pension expenditure.

The third and last point to be mentioned is the treatment (or rather lack thereof) of the social or generational contract. Reading the White Paper it seems incomprehensible to the European Commission that today's and tomorrow's contributors or tax-payers could be willing to pay more for today's and tomorrow's pensioners, given they can trust that they will be treated the same way and under the condition that there is a fair sharing of the costs. Just to give one example from German pension policies: The official retirement age will rise during the next years from 65 to 67. This move was justified by the government by referring to increasing life expectancy. It was met by fierce opposition from trade unions. What has been somewhat neglected in the public discourse is one detail of this measure: Increasing the retirement age will reduce foreseen increases in pension insurance contribution rates by 0.5 percentage points of gross wages, according to the governing coalition's 2006 draft bill. These 0.5 percentage points are shared between employers and employees. It is merely a guess, but in the author's opinion only few employees would object to these foreseen increases in contributions of 0.25 percent points of their gross wages to enable the older generation to exit from work two years earlier and to gain the promise to be treated the same way – especially if this 'burden' is shared by employers and employees.

How to summarize these arguments? The White Paper on Pension Policy is a very unusual example of social policy. It is neither an attempt to realize some ideals of a fair and just society by means of public involvement of social matters, nor does it take concepts such as distributive justice seriously. It is a rather mechanistic exercise that tries to solve perceived problems of public expenditure. Adequate, safe and sustainable pensions have to be discussed from a social policy point of view, which includes possibilities of reformulating the social contract between generations, between employers and employees and between the rich and the poor.

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# Questions Of Age Discrimination In Decisions Of The European Court Of Justice

*By Nadine Zeibig*

Europe has long been considered an international community based on solidarity and peace; more recently the financial and economic crisis as well as measures/decisions taken by EU institutions have led to reduced confidence in Europe, and in particular in a social Europe. It can be read in newspapers and specialist publications that the EU Commission and ECJ rulings are a licence for social dumping (Fritz Scharf 2008) or that 'social Europe is not taking place' (Höpner 2008). ECJ rulings have also been the subject of substantial criticism in the member states; examples include 'Usurpation instead of delegation – How the ECJ radicalises internal market integration and why political control is required' (Höpner 2012), 'Is the ECJ weakening trade unions?' (Vorbau 2010) and 'Scandalous judgements that jeopardise peace in Europe' (Sommer 2008). In particular, the ECJ rulings in 2007 and 2008 in the cases Viking, Laval, Rüffert and Commission versus Luxembourg clearly demonstrate that especially in the area of collective labour law the ECJ gives priority to fundamental economic freedoms over fundamental social rights.

ECJ rulings on questions of age discrimination are also seen critically in Germany. Numerous age-related statutory and collectively bargained provisions exist in Germany that are linked to the establishment, design and termination of employment contracts. These include, for example, age-related salaries, age-related periods of notice, special protection against dismissal for older workers and graduated holiday entitlement according to age. Several of these age-related rules, which for years were seen as socially acceptable and proportionate, have been classified by the ECJ as inadmissible age discrimination since the European antidiscrimination directives came into force, because the Directive 2000/78/EC and Art. 21 EU Charter of Fundamental Rights prohibit age discrimination.

ECJ rulings are inconsistent regarding questions of age discrimination, so that the negotiation and creation of age-related provisions lack legal certainty in terms of assessing the lawfulness of these rules (for details see Zeibig, WSI-Mitteilungen 5/2013). They are also frequently less rigorous than for questions of discrimination on grounds other than age. Unlike Art. 6 of Directive 2000/78/EC, which merely demands that objectives must be legitimate to justify age-related unequal treatment, the ECJ generally only permits social policy objectives, i.e. objectives from the realms of employment policy, labour market and vocational training (e.g. to promote job creation or intergenerational equity) to be classed as a legitimate aim within the meaning of Art. 6 of Directive (C-447/09; C-159/10; C-388/07). In questions concerning the admissibility of automatic termination of employment relationships on reaching the statutory retirement ages, the ECJ bases some decisions about the issue of proportionality on whether the pension obtained was for an appropriate amount (C-411/05). In other decisions the amount of pension to be paid was irrelevant despite a disproportionately low pension (C-45/09), while in yet further rulings it was sufficient for proportionality that a pension covered basic needs (C-141/11). The partial lack of rigour by the ECJ on the justification of unequal treatment based on age is shown by the fact that on a number of occasions it ruled that the necessity and proportionality of 'compulsory retirement regulations' were already given if they were 'not unreasonable' with respect to achieving the objectives pursued (C-45/09).

The ECJ Mangold ruling relating to Germany (C-144/04) adopted in 2005 was also strongly criticised. Here the ECJ ruled that Section 14 III of the Act on Part-Time Work and Fixed-Term Contracts (TzBfG) (old version), which provided for fixed-term employment contracts of up to five years without objective justification for older workers, is contrary to European law even though the deadline to transpose Directive 2000/78/EC, which regulates the ban on discrimination, had not yet expired for Germany at that time. The ECJ elevated the principle of the ban on age discrimination in this ruling to a general principle of EU law, which then enabled it to declare that the German law was contravening European law. Many believe that, in the process of interpreting the law, the ECJ unfairly usurped legislative powers and was not entitled to do so; ultimately the Federal Constitutional Court in Germany ruled that the ECJ had not overstepped its competencies (BVerfG 2 BvR 2661/06). The ECJ made a similar ruling in the Küçükdeveci case related to Germany, ruling that Section 622 of the German Civil Code (BGB), which states that employment with a company before the age of 25 shall not be taken into consideration when calculating periods of notice, is incompatible with EU law. Whilst the obligations arising from the Directive governing the ban on age discrimination applied to member states, the primary legal principle of age discrimination also applied between private individuals, and therefore also between employer and employee, according to the ECJ (C-555/07).

With reference to the question of possible age discrimination, the ECJ had to make a decision, also regarding Germany, on the issue of the admissibility of automatic termination of employment on workers reaching certain ages. For reasons of intergenerational equity, the ECJ deems national agreements which provide for the automatic ending of employment on reaching the statutory retirement age to fundamentally comply with European law (C-159/10; C-45/09). It also viewed regulations which provide for dismissal by the employer irrespective of the wish of the employee when the latter reaches the statutory retirement age to be permissible (C-388/07; C-141/11). The ECJ also deemed fixing the maximum age for appointing civil servants in the fire service to just 30 years to be compatible with European law; the requirement of full physical fitness for intermediate technical occupations in the fire service necessitated a restriction of this kind (C-229/08). By contrast, the Federal Office of Public Health (BAG) viewed the standard maximum age limit of 32 years and 364 days for the appointment of pilots trained in other airlines to constitute a breach of the ban on age discrimination on the grounds of inadmissible disadvantaging of older people (BAG 7 ABR 98/09).

The ECJ also had to rule on numerous other cases of possible age discrimination. For example, the ECJ classified the salary regulations applied in Germany in the collective agreement for salaried federal employees (BAT) up to the end of 2005 to be inadmissible age discrimination against younger workers, because the amount of salaries was primarily based on age and not sufficiently on professional experience (C-297/10). In a Danish referral procedure, regulations that exclude workers close to retirement age from redundancy payments irrespective of their wish to continue working were classified by the ECJ as inadmissible discrimination against older workers (C-499/08).

These reports indicate the scope of ECJ rulings. Fundamental critics of ECJ jurisdiction take the view that the only way to escape the influence of ECJ jurisdiction is not to follow the ECJ rulings (Scharpf 2008). According to the opinion represented here, the impact of ECJ jurisdiction is ambivalent. In many areas, especially concerning individual labour law, it

strengthens workers' (protection) rights, thereby making a substantial contribution to a social Europe; however in other areas, especially in the area of collective labour law, it sometimes produces dubious rulings that are not in the interests of workers and the parties to collective agreements. Not following the ECJ or giving up and leaving the EU cannot be the solution, despite some problematic rulings. Rather, the aim must be to campaign for a social Europe. In future it will also be essential for the legitimisation of the ECJ that it does not engage in the inadmissible further development of law, does not prioritise fundamental economic freedoms over fundamental social rights, shows due regard for national specificities, uses objective grounds as a basis for restricting workers' rights and adequately considers existing discretionary powers of the collective bargaining parties when establishing collective labour agreements. Otherwise a stop must be put to it.

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# Social Democracy: Trap, Utopia Or New Horizon For Europe?

*By Pierre Héritier*

The social dimension of Europe is not restricted to social protection: what will be the place of labour and of workers in an economy dominated by market forces? What new foundation of the relations between capital and labour can we consider? Social democracy is currently one of the favourite topics of seminars, colloquiums and political speeches. Is this concept likely to give an argument to those who create prosperity with their know-how, their creative energy, their engagement or just their work, but who suffer from the pressure of the labour market which is generally unfavourable for workers, or even from competition between territories, countries and continents? Or is this a smokescreen instead, or a device to reassure those who often need to make concessions in order to avert a shipwreck? Both interpretations are possible at first sight. Why not seize the opportunity to give some sense and content to this generic term, which in the minds of European citizens evokes multiple types of representation, action and strategic configuration. As far as I am concerned, I think that its implementation requires answers at different levels and not only at company level.

A representation of salaried workers in strategic decision-making places of major customers, to say it simply, in boards of directors of big companies, only makes sense if we know the general context, the limits and the scope of that measure. The efficiency of a reform in countries which do not know co-management would be multiplied by an enlargement of the area of intervention of the 'labour factor', as is the case in Germany. First and foremost, the role of trade unions should be recognized and reinforced in their basic activity. The ability to negotiate well on critical issues is certainly the basis of a 'social democracy'. Extending the power of the representative bodies of workers – whether it be workers' councils or committees – would also be part of this new balance of power. We know the German example in which co-management is not restricted to the existence of salaried board members.[1] We do not know so well the powers of Dutch boards of directors which have some kind of 'veto right beforehand', which of course comes with a responsibility for employees' representatives to comply with the rule of secrecy. At regional level (regions, districts, *Länder*), we should reflect on the place and the role that social partners should have, and sometimes already have. It is absolutely necessary that salaried workers are represented in places where production processes and tomorrow's economy are being decided, so that they can express their opinion and put forward their proposals.

As a matter of fact, companies themselves depend on market conditions. What use would any bargaining or decision-making power in a company be if those who are supposed to use them are left to fight defensive struggles to manage one social plan after another or provide support in the cases of redundancy plans or site closures? It goes without saying that the union's action is pragmatic, and that the role of the workers' representatives consists very much of finding the best compromise in any given situation or framework that is imposed on them. But aren't they supposed to do something about that 'framework' as well? Historically, during each phase of any change in competition, there has always been a struggle between those who want to regulate the terms of the competition and those who want to 'deregulate'. How can we cope with this? How can we reinvent, at

least at regional level, like in the Eurozone, what has been done at national level in the Rhineland model? How can we implement cooperative policies that create employment and solidarity in the whole of the Eurozone ?

All this implies strategic, even ideological questions. This new framework we should invent is part of a 'new New Deal', of a social compromise between trade unions and entrepreneurial company leaders. When the latter innovate, when they are open and locally based, they may be described as 'company leaders who have a carnal relationship with their company'.<sup>[2]</sup> Finally, to make a social democracy come true, 'changing labour' is absolutely necessary: the worker should act for himself and the economy. This implies he cannot be the appendage of a machine, nor the element of a procedure, or suffer any other form of oppression. The same goes for trade unionism, which should rethink its system of relations with salaried workers.

In fact, the emancipation of the worker, whose know-how has been confiscated, is the foundation of a true social democracy and of any political, social and union citizenship,<sup>[3]</sup> but also, I am convinced, a formidable tool of creativity and progress. The joy of work – replacing the suffering at work – would allow an incredible progress in all fields. We need a new social and economic deal moving towards a European social and economic model that is innovating with a human face. To make democracy a tool for today and a perspective for tomorrow.

It's the best way, but it will take time to achieve.

## References

[1] Cf. : The bargaining power of German trade unions and the important role of workers' councils and company councils.

[2] The expression is from Alain Mérioux, one of the major French company leaders in the chemical industry.

[3] Read 'La cité du travail' by Bruno Trentin, former secretary general of CGIL.

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# Adapting European Governance To Meet The Social Imperative

*By Christophe Degryse*

The Euro crisis and the remedies the European institutions and member states have been attempting to administer for nearly four years have been subject to repeated scrutiny, in terms of both the diagnosis and the policies implemented. However, has sufficient consideration been given to the institutional questions this crisis raises, particularly with regard to economic and social policy? In other words: does the deterioration of the economic and social situation, seen to varying degrees from one country to the next, not have something to do with the institutional design of European governance per se?

To provide a very schematic view, this design is embodied in socio-economic terms by a European Central Bank that has assigned itself the sole mission of achieving a target inflation rate of just below 2% (a target it failed, incidentally, to meet in the spring of 2013); a European Commission that polices public finances and watches out for macroeconomic imbalances; and member states to whom it falls to ensure economic growth and tackle unemployment. This division of responsibilities is regularly and explicitly affirmed by both the ECB and the Commission: it is up to the member states to revive growth and combat unemployment, while the ECB guarantees price stability and the Commission macroeconomic stability.

This raises the initial question of whether this division of responsibilities is true to the spirit and the letter of the European treaties. The answer is that the ECB and the Commission both interpret their role in extremely narrow terms. Indeed, according to the Treaty, without prejudice to the objective of maintaining price stability, the ECB is required, *inter alia*, to play a part in achieving full employment and social progress, combating social exclusion and promoting social justice and protection, economic, social and territorial cohesion, and solidarity among member states, which is no small task. However, as Paul De Grauwe has pointed out, these objectives have been considered of secondary importance by the ECB, which maintains, on the basis of a theory of debatable validity, that their fulfilment is automatically assured by price stability.

As for the European Commission, today it acts as watchdog not only over national public finances, but also in respect of all macroeconomic imbalances (property market bubbles, deepening trade deficits, rising unit labour costs, etc.). Under the 'two-pack', it is required to inspect national budgets before they are adopted. This strengthening of its powers of budgetary surveillance is based on the – also largely controversial – theory that the Euro crisis is the result of a public finance crisis. With regard to the issues of growth and employment, the Commission is shifting responsibility onto governments, forgetting a little hastily that the treaties confer on it the task of helping to improve living and working conditions for European citizens and to promote social dialogue.

After all, in what position do the Eurozone member states find themselves, those member states which appear to have sole responsibility for growth and employment? First of all, in choosing to join the Euro, they have relinquished control over monetary policy, which is now in the hands of the most independent central bank in the world. Next, by blindly



approving the inflexible rules of the Stability and Growth Pact and Fiscal Compact, they have ensured that their budgetary policies are now so restricted that they serve not growth and employment, but crisis and unemployment. Moreover, by refusing to equip the EU, and the Eurozone, with a budget capable of absorbing asymmetric shocks, they have deprived themselves of the instruments of adjustment that are a usual feature of monetary unions. Finally, by neglecting to appoint a European economic government – providing close coordination of investment, fiscal, industrial, research and innovation and social policies – they have denied themselves a European strategy for growth and employment.

In the absence of all these instruments, the Eurozone governments have placed themselves in the position of having to fight, each for themselves, to attract a degree of investment and business. And, with that goal in mind, the ECB and Commission condescend to offer them advice and recommendations. The latter relate, in particular, to social welfare systems, the functioning of labour markets and wage-setting systems. At this stage, it is specific ideological choices that are being proposed: the reform of wage indexation systems and of employment protection legislation, the suppression of 'obstacles' to recruitment and the linking of the statutory retirement age with life expectancy, etc. The power of these recommendations resides in the fact that there is – without doubt – no longer any alternative, in the absence of the aforementioned instruments. These, then, are the latest measures (DG ECFIN has others in reserve) designed to bring growth and jobs.

In summary, unelected institutions – the ECB and the Commission – are shrugging off their responsibilities in terms of growth and employment, passing them on to national governments, which are accountable to the electorate on this issue, in spite of the fact that they have been stripped, individually, of control over monetary policy and of budgetary powers and, collectively, of a European budget worthy of the name, as well as of a European economic, industrial and innovation strategy. The failure to compensate for the removal of national powers by increasing Europe's capacity for action means that they are left no choice but to resort to social and fiscal competition in order to attract investment, business and jobs.

This sort of imbalance in the division of responsibilities condemns the Eurozone member states to the permanent structural erosion of social rights. Little by little, instead of strengthening the European project, the Euro will drain it of its substance, until any vestige of public support has been lost.

If we accept this analysis, it becomes clear that, beyond the ideological debate, it is the institutional architecture that needs to be altered, to reflect a more efficient division of responsibilities between the institutions and member states, based on the EU's founding values of integration, shared resources and convergence. This readjustment would, in particular, require the ECB and the Commission to share and assume alongside the member states collective political responsibility for economic development, convergence, for tackling unemployment and social degradation. Degradation should be combated through a monetary policy designed to boost growth and employment, policies of recovery and investment, industrial strategies, fiscal policy, etc. In all these respects, it would mean establishing a level playing field benefiting from social provisions (minimum wages, social security and the observance and championing of collective bargaining, labour law and basic social rights).

An institutional readjustment of this kind would require social objectives to become fully part of European governance in the same binding fashion as the objectives of budgetary consolidation. That, in turn, means close monitoring of developments in the social situation in the member states (e.g. unemployment, household income, poverty, the working poor), as well as the introduction of indicators and thresholds that serve as social standards (minimum income, minimum wages, access to social services, etc.), beyond which warning mechanisms would be activated. For instance, German abattoirs should not be able to employ Bulgarian workers as slave labour. Furthermore, European adjustment mechanisms to address excessive social imbalances should be set up, with a budget that could be funded from a percentage of corporation tax. This level of integration would, as Ronald Janssen has pointed out, also require the introduction of a review mechanism for reforms adopted by the Eurozone member states that have the purpose or effect of intensifying the various forms of social or fiscal competition.

The political question is whether the European project is an internal area shaped by Euro-globalisation that adapts to suit the market or a common area of economic development and convergence characterised by financial, budgetary, fiscal and social integration? It is the answer to this political question that must determine the institutional architecture of the Euro.

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# Is Job Creation Useful In Fighting Poverty And Social Exclusion?

*By Eric Seils*

European policy-makers believe that job creation is not only a goal in itself, but should also be regarded as a strategy to lift people out of poverty and to strengthen social cohesion. Increasing employment was already an important objective of the so-called Lisbon Process. When the Lisbon Strategy failed in 2010, it was replaced by the 'Europe 2020 Strategy' which aims at turning the EU into a 'smart, sustainable and inclusive economy' (European Commission 2010).

According to the Commission, inclusiveness implies a 'strong emphasis on job creation and poverty' reduction. The Europe 2020 strategy shall raise the employment level of the 20 – 64 year-olds to 75 percent and shall reduce the number of people living in, or at risk of, poverty or social exclusion by 20 million people. The latter target is measured by the so-called AROPE-indicator. It is defined as the sum of people living in at least one of the following conditions: severe material deprivation, very low work-intensity households or below the poverty line. In passing, note some interesting features of this indicator: Firstly, it is defined in absolute numbers. Thus, demographic change will likely help the EU to achieve its target. Secondly, if governments restrict unemployment benefit, beneficiaries may be forced to take up low-paid employment. This almost certainly reduces the number of people living in households with low work-intensity. At the same time, this may increase the number of people below the poverty line or in severe material deprivation leaving the overall AROPE-indicator unchanged (European Commission 2012, p. 48).

Is job creation really a strategy to overcome poverty and to promote social exclusion? In its most recent report on 'Employment and Social Developments in Europe', the European Commission claims that there is a strong link between poverty and social exclusion, on the one hand, and the labour market situation on the other (European Commission 2012, p. 149). It presents evidence that countries with high employment rates display lower rates of poverty or exclusion (ARPE). Likewise it shows that changes in the employment rate are negatively correlated with changes in AROPE-rates and changes in the share of people living in households with low work-intensity.

What can be said about this view? Given that wages are the main source of most people's income it should not come as a surprise that the lack of income from employment is associated with poverty. The negative association between changes in employment and changes in the share of low work-intensity seems even more trivial. But does this really imply that we can alleviate all social problems by raising levels of employment? I think there are good reasons to doubt such a view:

- 1) The negative cross-sectional association between AROPE-rates and employment rates may be a spurious correlation. The AROPE-indicator is a summary index that includes three different items which may be determined by other variables than employment levels. For example, it can easily be shown that the cross-country differences in share of people living in severe material deprivation cannot be explained with reference to employment levels, but by differences in economic development. At the same time, employment rates are on

average higher than in poorer countries. More interestingly, there is no significant bivariate association between employment levels and the prevalence of households with low work-intensity.

2) Raising employment does not necessarily result in falling rates of poverty or social exclusion. Since 2004 Germany has experienced rising levels of employment and increasing numbers of (working) poor. At the same time, the share of people living in material deprivation or jobless households has remained roughly stable. What Europe therefore needs is not simply more employment but jobs that earn a living wage.

3) Expanding employment is not really a strategy at all. The failure of the so-called Lisbon agenda has shown that European governments are unable to increase the number of jobs at will. Today, the financial crisis drives up unemployment in the Eurozone, making it virtually impossible for many governments to reach their self-defined employment targets. If governments exercise little or no control over the labour market, they cannot use it as a means to combat poverty.

What is the upshot from all this? Increasing employment may be a good thing, however it is no viable strategy for reducing poverty or social exclusion in Europe.

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# ESM: European Social Model Or European Stability Mechanism – Is There A Crash?

*By Bela Galgoczi*

The acronym 'ESM' stood for a long time for a set of common European social values, goals, illusions even, to express a certain common identity for the EU especially when compared to other regions of the world, notably the US. For a few years now, ESM has been the leading acronym in the media for the Eurozone's main crisis management tool, the European Stability Mechanism. Just a coincidence, one may say, but there is a deeper layer behind this shift of focus. Mario Draghi even declared the European Social Model as dead and indeed it has an uncertain future given the current state of the Eurozone and the entire EU.

Beyond the coincidence with the acronyms, there is a fundamental clash between Europe's social ambitions and the way adjustment is under way. The conditionality of any bailout or support from the Stability Mechanism is geared clearly in one direction: austerity, cost cutting and undermining of social standards, this all means 'rebalancing' downward. Greece has lost 25% of its GDP during this process up till now.

The idea of the European Social Model has always taken the back seat in the process of European integration. A raft of political science literature (Streeck, W 2000; Scharpf, F 2002; Martin, A and Ross, G 2006) argued that the single market project has always been the hard core of integration backed by hard law and its flagship project the EMU. Although the EMU is based on an incoherent architecture as we bitterly learned during the crisis, the social dimension meanwhile has only been based on declarations, wish lists and the Open Method of Coordination. It was just based on ad hoc ideas, e.g. some sort of a tax harmonisation, or corridors of budget redistribution ratios, although the latter should not be seen as a totally unrealistic idea. While the EMU has clearly represented a new stage of integration and much of the underlying regulatory framework was based on fiscal rules (not particularly satisfactory rules as we again learned during the recent crisis), it is hard to imagine seriously that one can have a common fiscal platform among member states that have public expenditure ratios in the range between 34% and 57% of GDP. And indeed, some elements of social spending are carefully scrutinised during the rebalancing act: pension systems and social spending are under huge pressure, but again the direction is downward.

Besides debt consolidation and fiscal austerity, the other main dimension of crisis management focuses on the adjustment in the divergence of competitive positions among EMU members. The therapy here is also biased in one direction: downwards. On the one hand, adjustment policies are asymmetrical with the whole burden of correction put on deficit countries, while surplus countries are not seriously involved. On the other hand, the correction in the competitiveness gap (gap in unit labour cost developments) is forced out through the price channel (especially through a cut in labour costs, i.e. wages) while non-price aspects of competitiveness (economic and export structure, productivity, quality) are ignored. This again results in a downward bias.

All this leads to asymmetric and downward adjustment, where mostly peripheral, lower

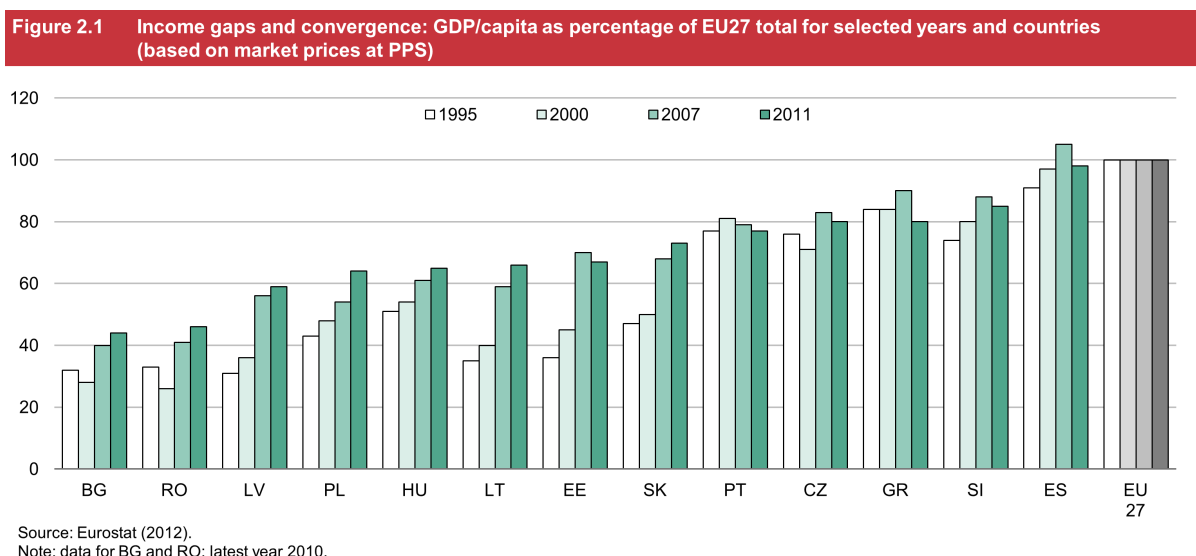
income countries are affected. The result of this crisis management strategy is a persistently growing gap between surplus and deficit countries that manifests itself in a diverging Europe (a detailed analysis is given in ETUC/ETUI 2013). Where has the big European dream about convergence gone?

### From convergence to divergence – what is the EU heading for?

Beside the historical founding principle of the EU as a peace-keeping project, it was the prospect of convergence that gave a true substance to the European idea for millions of people. This also seemed to work for several decades. Now that Europe’s flagship project, the single currency, is in trouble, responding to the external shock posed by the financial crisis and adjustment therapy, the member states are forced into a diverging downward spiral. Thus this essential and fundamental mission seems to be evaporating.

The promise of income convergence – between poorer and richer member states and among the poorer and richer regions within them – has been an underpinning feature of European integration from the outset. In this respect, a glance back over fifty years of EU history up to the crisis provides confirmation of an unprecedented feat. As stated in a recent World Bank (2012) report: ‘The European convergence in consumption levels in the last four decades is unmatched. Except for East Asia, the rest of the world has seen little or no convergence.’ Indeed, already by the early 1990s the incomes of more than one hundred million people in the poor south—Greece, southern Italy, Portugal, and Spain—had grown and moved closer to those of the more prosperous areas of Europe. Similarly, between the late 1990s and the mid-2000s, the income levels of one hundred million people in Central Eastern Europe were dynamically converging towards levels seen in the richer part of the continent. Figure 1 offers a historical glance at the economic divide in Europe, showing that Central Eastern European countries still have substantially lower per capita GDP levels (at PPS) than the EU27 average. The data also indicate milestones in the last fifteen years, showing the varying convergence dynamic of individual countries in the different periods.

Figure 1: Income gaps and convergence: GDP/capita as percentage of EU27 total for selected years and countries (based on market prices at PPS)



Most of the convergence took place between 2000 and 2007, after which it lost

momentum or even went into reverse. It is apparent also from the graph that Greece and Portugal stand out as having displayed no convergence whatsoever over the whole fifteen-year period. The year 2008, with the onset of crisis, marked a halt in these processes of convergence achieved via the catching up of the less prosperous countries and regions, placing a question mark over the continuing sustainability of some of the progress achieved in the earlier phases of European integration.

Although 2008 was a common point of fracture for both East and South, the experience of these two regions was significantly different. While convergence ground to a definite standstill in Southern Europe, in the Central Eastern European (CEE) countries the much stronger impetus towards convergence came to a more abrupt halt which, in some cases, nonetheless proved no more than temporary. Indeed, in most CEE countries – and particularly those with the lowest per capita GDP levels – a rapid process of catching up had been observable in the years before the crisis. In Southern Europe, however, the picture had been more mixed, even during the boom period, with Spain having achieved significant convergence, while Greece and Portugal had tended to stagnate. Latvia and Lithuania, the two countries which suffered the most dramatic falls in output in 2009 (17.7% and 14.8% respectively), nonetheless showed still impressive overall convergence for the 1995-2011 period as a whole, with per capita GDP levels relative to the EU27 rising from 31% to 59% for Latvia and from 35% to 66% for Lithuania.

The picture for Southern Europe is much bleaker: between 1995 and 2011 the region showed no convergence – in the case of Greece and Portugal – or, in Spain, only limited convergence to EU27 levels. Thus, while Spain still achieved some convergence over these 16 years, from 91% to 98%, Portugal saw none over the entire period (77% in 1995 and the same in 2011), while Greece actually experienced a loss of convergence (from 80% in 1995 to 77% in 2011). All three countries suffered significant setbacks in the wake of the crisis, most particularly Greece with a 14%-point drop in its relative income level between 2008 and 2011.

### **What matters is economic structure, not costs**

The different patterns in the catching-up process in the East and the South are the result of a number of underlying structural differences among European countries that have affected their respective paths in economic integration. We will take a look at four important drivers of economic integration that played a key role in convergence: exports; the balance-of-payments situation and its structure; foreign direct investment (FDI); and the role of credit flows.

Currently, the most pronounced division in Europe is between 'surplus' and 'deficit' countries, as determined by their balance-of-payments position within the Euro Area, with the core 'surplus countries' clustered around Germany and the 'deficit' ones around the Mediterranean. A similar distinction applies beyond the Euro Area, with a number of CEE countries belonging to the 'surplus' core (e.g. the Czech Republic and Poland) and the more peripheral CEE crisis-ridden countries (e.g. the Baltic states) falling into the 'deficit' group. This division between surplus and deficit countries thus cuts across the historical divisions between the East and the West of the continent.

The Czech Republic, Hungary and Slovakia had broadly balanced trade even before the

crisis, whereas Latvia, Bulgaria, Greece, Romania and Portugal were, during this period, used to having persistent and double-digit trade deficits.

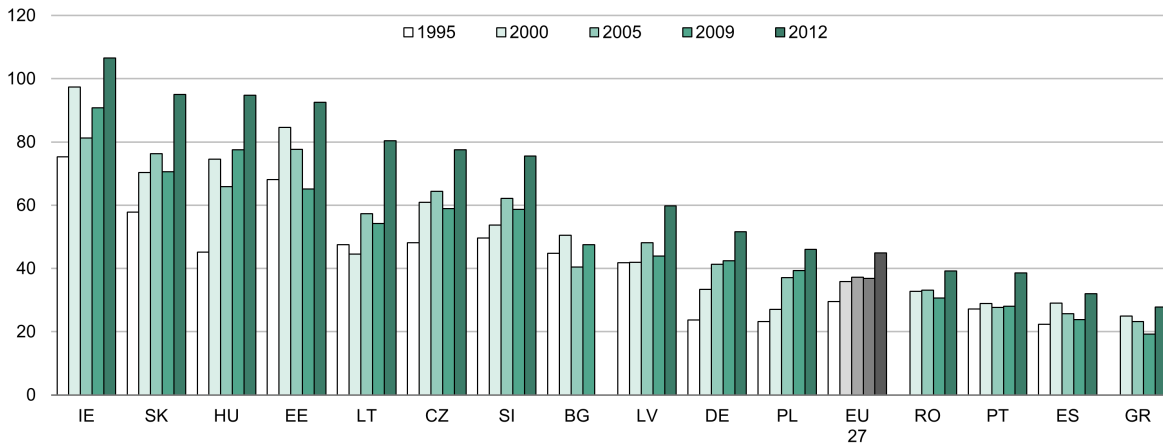
The key distinction to be considered here is the one we see between countries that experienced credit bubbles in terms of huge credit expansion that was followed by credit crunch and recession, and those with a more balanced development. The credit expansion underpinned the current-account deficits in the South and in the deficit countries in the East. With the credit crunch and the accumulated high debt, short-term growth and convergence effects achieved through credit expansion evaporated all of a sudden and turned into their reverse.

When looking at key features of 'deficit' and 'surplus' countries on the periphery, we see important structural differences in their economies. While 'surplus' countries in the East had large-scale foreign direct investment into their productive sectors and have a high export share of their GDP, this is not the case for the deficit countries in the South. For illustration, Figure 2 shows export shares for this group of countries.



Figure 2: Exports of goods and services (% GDP)

Figure 2.3 Exports of goods and services (% GDP)



Source: Eurostat (2013).

Moreover, some figures also indicate that even if wage and unit labour cost developments showed a high grade of divergence in the decade up to the crisis when the competitive positions of periphery countries (both in the East and the South) deteriorated substantially in comparison to Germany, there is no fundamental cost competitiveness problem if we look at the levels of productivity and wage costs in their tradable (manufacturing) sector. Figure 3 shows that based on the manufacturing sector, peripheral countries would not have a cost competitiveness problem with Germany. The problem some have is more of structural nature: the share of manufacturing and exports in general is very low in their economies.

Figure 3: Wage-adjusted productivity in manufacturing in selected countries, 2009

Figure 2.10 Wage-adjusted productivity in manufacturing in selected countries, 2009

Country	Apparent labour productivity*	Average personnel costs	Wage-adjusted productivity (%)
	(EUR 1000 per employed)		
<b>EU27</b>	<b>46</b>	<b>34.5</b>	<b>132.1</b>
Czech Republic	22	14.0	154.6
Hungary	23	11.7	199.6
Greece	42	28.0	150.6
Germany	57	47.2	120.7
Portugal	23	15.8	146.7
Slovakia	17	12.3	134.7
Spain	48	35.1	137.2

Source: Eurostat (2012) [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Manufacturing\\_statistics\\_-\\_NACE\\_Rev.\\_2](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Manufacturing_statistics_-_NACE_Rev._2)  
 \*apparent labour productivity is defined as value added at factor costs divided by the number of persons employed.

The case of the two peripheries in Europe demonstrates that the competitiveness problem of some of the Mediterranean countries is much more due to deeply rooted structural problems than just price and costs levels. Since the therapy is focused almost exclusively on cost and wage cuts, not addressing their structural problems, not only is their previous

achievements in convergence wiped out, but their future perspectives are also put at stake.

Although tackling these structural problems through cost adjustment (wage and spending cuts) can deliver temporary results in cost competitiveness at the price of a dramatic increase in poverty and unemployment, in the end these inevitable 'side effects' also jeopardize the success of the entire adjustment. Cost adjustment is simply not an adequate way of addressing the longer-term structural problems (such as the share of manufacturing in the whole economy, export shares, qualitative composition of exports, place in the international division of labour, etc.)

The problem, to put it bluntly, was not that consumers in the surplus countries had been buying less olive oil and port wine due to rising unit labour costs in Greece or Portugal. In other words, the cure chosen to date is one that tackles the symptoms but not the causes of the problem.

Even if part of the achieved convergence before the crisis can be deemed as not sustainable, this also points to a policy failure. European institutions in a series of reports and communications were proud to give account of growing employment and income convergence in many of the peripheral countries up to 2007. This progress was also seen as partial achievement of the Lisbon targets. Even if much of this was not based on real performance, it is also a strong criticism of current EU policies. European leaders cannot just shrug their shoulders and say, sorry, what we believed and welcomed as an achievement turned out to be partly false. We cannot say it was just an illusion and wipe it out. It is a matter of fact that much of the unsustainable expansion was due to a huge capital-allocation problem resulting also from irresponsible finances and lending practices (especially through banks in surplus countries). Now ordinary working people are paying the price and those who blew the bubble are safeguarded without any future consequences.

## **Conclusions**

The crisis has highlighted the diversity of economic models and of their sustainability during hard times and external shocks in the European 'peripheries'. Convergence of income levels between poorer regions in the South and the East towards the level of rich countries in the centre has been one of the big European objectives and seemed to function for several decades. This also strongly contributed to the legitimacy and the public support of the European Union. Convergence, although mostly driven by economic processes, had also been a fundamental factor to maintain a European Social Model amid diversity at member-state level.

While divergence in the economic catching-up processes, particularly after 2008, showed an East-South division, the multiple fault lines characterizing the diversity of political and economic structures can be shown to cut across historical and geographic country groups. The credit crunch of 2008 highlighted the division between the countries with current account surpluses, the European 'core' around Germany including also the Central Eastern European exporters, and the 'deficit' countries, including Mediterranean countries and a number of countries in Central Eastern Europe. Given the lack of effective adjustment mechanisms in the Euro Area, the surplus-deficit divide quickly turned into the difficult creditor-debtor relationship. The 'debtor' countries then experienced a prolonged agony of

negotiated and imposed adjustments in the context of crisis-driven Euro-area institution-building. Given the unequal power relations between debtors and creditors, the concerns of the latter inevitably came to dominate the nature of the adjustment efforts made.

What we clearly see now is that if convergence is driven by economic processes only, the result will not be enduring and balanced. More political and institutional integration is needed, the single market alone will not do the job. The paradox and most worrying phenomenon is that political integration in the form of the economic governance that evolves through the current crisis management practice of the EU is doing precisely the opposite: it drives diversity further up to the point where it may tear the Eurozone and the EU apart.

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# A Social Dimension For A Changing Europe: Drifting From The Primary Dividing-Up Of Revenue, Inequalities And Crisis

*By Joël Maurice*

The financial crisis that burst onto the scene on 15 September 2008 (the bankruptcy of Lehman Brothers) was preceded by increased inequalities, confirmed by several official sources. Thus[1], the ILO,[2] in its report 'World of Work, Report 2008: Income Inequalities in an Age of Financial Globalization' covering 73 countries, observed that between 1990 and 2005, the share of salaries in the added value had decreased in 51 countries, and notably by 9 points on average in the advanced economies; and the OECD in its report 'Growth and Inequalities, Distribution of Revenues and Poverty in OECD Countries (Paris 2008)', stated that, during 1998-2008, the inequalities in revenue increased in 17 of the 20 countries analysed, and concluded that 'the only sustainable way of reducing the inequalities is to bring to an end the underlying trend of a widening gap regarding salaries and capital revenues.'

The inequalities affected both components of added value. Regarding salaries, in the majority of countries, the gap widened in favour of higher salaries (notably managers' salaries and the salaries of hi-tech specialists) to the detriment of insecure jobs (limited term contracts, temporary jobs, forced part-time work, 'mini-jobs', etc.). With regard to profits, the lion's share went to shareholders, to the detriment of self-financing of investments.

Is there a link of causality between the increase in inequalities and the financial crisis? In his analysis, 'La crise économique de 1929: anatomie d'une catastrophe financière' (The Great Crash of 1929), J.K. Galbraith[3] already identified five causes of the Great Depression, the first of which he claimed was 'the faulty distribution of revenues'. The subprime crisis in the United States in 2007-2008 was symptomatic of the disequilibrium created from start to finish by credit granted to households that were insolvent (due to their modest income), then surreptitiously transferred through the channel of securitization to 'investors' who were not particularly astute and who believed that 'money grows on trees'. Lasaire had denounced this before the crisis exploded and called for the distribution of revenues conducive to fostering balanced growth, allowing consumption and the sustainable growth of income at the same rate.[4] The causality between an unbalanced distribution of revenues and the crisis is also at the core of the work written by J.E. Stiglitz (2012) 'The Price of Inequality'.

But what is happening within the European Union, and more particularly within the euro zone? A striking phenomenon is the erratic evolution of salary costs per production unit between the Member States, highlighted for example[5] by V. Glassner:[6] between 2000 and 2008, this unit cost remained virtually stable in Germany, whereas it increased by 18% in France, 22% in Italy, 25% in Spain, 32% in Ireland, and 55% in Greece. But from 2009, this cost started to increase (moderately) in Germany, and to slow down in France and Italy, and even decreased noticeably (Ireland, Greece, Portugal and Spain). In comparison with 2000, Germany had acquired a competitiveness-price advantage in relation to the

Member States previously mentioned, which, although in the process of becoming attenuated, remains substantial, which is not the least of paradoxes for a country that also enjoys a solid competitiveness that is also renowned and envied, excluding costs.

It is clear that the euro zone is experiencing considerable disequilibrium, which is far from being resolved in relation to public finances, and which is reflected in the abnormally high unemployment rate in Member States (except for Austria and Germany). A tardy awareness of the macroeconomic disequilibrium has emerged, and today it is recognised that we cannot consider as sustainable the disequilibrium in the current accounts between Member States, some of whom have, year after year, surpluses and others who have high deficits (in 2013, according to OECD forecasts: the Netherlands: +9.9% of GDP; Germany: +6.7% of GDP; and France: -2.2% of GDP).

To re-establish the competitiveness-price within the euro zone, the Commission is recommending a strategy for countries in difficulties consisting of 'internal devaluation',<sup>[7]</sup> which means capping nominal salaries, or even reducing them somewhat, as has been observed today in Greece and Spain, for example. But would it not be simpler, as was suggested by Lasaire, to proceed with an 'internal re-evaluation' of the countries with a surplus? In fact, voices have been raised calling for 'a somewhat faster inflation in countries with a surplus' (Bruegel think-tank), or even – in a rather less convoluted manner – a certain increase in salaries in Germany (W. Schäuble in a declaration to Focus, 5 May 2012). And effectively, the salaries negotiated by the social partners in Germany (within the framework of the 'Autonomy tariff') have recovered a greater dynamism since 2012 than that of other Member States. At this rate, we would nevertheless need years before we could return to a more sustainable internal equilibrium in the euro zone.

It is now urgent that we deal with the unbearable level of unemployment which is overwhelming the majority of Member States. The Franco-German initiative for a European 'New Deal' aimed at combating youth unemployment is most welcome, but it does not resolve the fundamental problem of how to get the euro zone out of the crisis situation, because, and it has become an obvious fact, this zone currently does not fulfil the conditions of an 'optimal monetary zone'.<sup>[8]</sup> The single currency is notoriously 'incomplete'. Notably, it would need a veritable community budget.<sup>[9]</sup> It would need provisions that would allow it to control the effects of 'geographical polarisation' of production (a consequence of effects of scale), i.e. a veritable community policy for territorial planning. In particular, it would need, in the absence of any possibility of modifying the exchange rate internally, a mechanism that would allow for the harmonious evolution of salaries, so as to avoid social dumping and ensure balanced growth as well as an upward convergence of living standards in accordance with the objectives of the Treaty (EUT Article 3.3). The tripartite social summit would appear to be the ideal place that would need to be reactivated with this purpose in mind.

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[6] V. Glassner, 'Séminaire Lasaire : the debt crisis, the crisis of the European social model and the role of social partners' (4 November 2011): ratio of compensation per employee to real GDP per person employed', ETUI.

[7] A new term for what has been practised in France since 1983 known as 'competitive deflation'.

[8] In the meaning highlighted by R. Mundell (1961) 'A Theory of Optimal Currency Area', *American Economic Review*.

[9] In brief: a community budget of this nature is necessary for two reasons: (a) to be able to confront the asymmetrical shocks separately affecting one Member State or another; (b) to support the economic situation of the zone in situations of general crisis when, as is the case at the present time, interest rates are approaching 0, and the monetary policy sees its effectiveness limited by the effect of the 'liquidity trap'.

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# Social Issues Are Disappearing From The European Project

*By Michel Fried*

The objective of ensuring 'proper social protection' is enshrined in the European Treaty, but it is not a direct objective, only a derived objective that is based on the idea that it will be achieved solely as a consequence of implementing a sound economic policy. The Euro crisis has shown that this theoretical construction has led to a dead end, which is most striking as it has occurred within an ideological context characterised by a destructive liberal approach that presents social issues as a cost or a means towards obtaining optimum behaviour by private agents. Accordingly, as the President of the European Central Bank has noted, the social model has 'already gone' and we should give up a model based on security of employment and generalised redistribution of wealth.[1]

While social issues have thus exclusively become an economic variable, the European approach, moreover, turns it into a special economic variable as it is linked to the public sphere. The whole European approach is based on the assumption that, in contrast with the private sector, the imbalances of components of the public sector – be it the state, local authorities or the social security system – are by their very nature destabilising for the private sector (companies, households and financial system). While the development of the crisis has refuted this dogma, the economic policy recommendations of the European Council and the Commission remain focused on ways and means of absorbing public deficits as quickly as possible.

However, this orientation of European policies has been undermined on two important occasions: the first time in 2003 when, after their public deficit had exceeded the 3% threshold, France and Germany refused to pursue a policy of austerity within a context of virtual stability of growth. The second time was during the 2008 recession when European countries let their public deficits drag on, in order to finance the economic recovery and underpin their financial systems. On this occasion, the existence of automatic stabilisers, of which the social protection systems constitute an essential component, was considered an asset as it obviated the need for the countries of the EU to draw up support plans of the same scope as that of the United States.[2]

In 2011, when it was wrongly thought that the crisis had been brought under control, the Council and the Commission decided to restore budgetary equilibrium as soon as possible without adopting minimum growth as a joint objective, compatible with the maintenance of an acceptable standard of living. Only the IMF, although it participates in support plans for the countries most affected by the crisis, has issued a warning against the generalised introduction of austerity policies and the refusal to apply automatic stabilisers, at least for the countries most severely affected.[3] Moreover, the work of the IMF has shown that the economic models used by most of the institutions have underestimated by approximately half the deflationary consequences of the recommended austerity measures, which explains their poor results.

Without going into detail of the measures adopted by the Commission and the European Council, control of policies implemented by the member states has been tightened

considerably, with the strengthening of the preventive and corrective measures laid down in the Stability and Growth Pact and stricter surveillance of the risks of macroeconomic disequilibrium. However, perhaps the most significant event, although hardly commented on, of the liberal tightening-up of European policy has been the signing of the Euro Plus Pact in March 2011. This agreement defined the priority action areas which the governmental plans should include, and in particular the excessively centralised procedures for fixing and negotiating wages, reform of the labour market with the aim of enhancing incentives to work (which focuses on the labour costs and unemployment benefits), and finally the need to reform pension schemes, health care systems and social security systems so as to ensure the viability of their level of indebtedness. These areas for action, recalled each year by the European institutions, have been implemented with varying degrees of harshness by all the countries in the Euro zone and have determined the access which countries in difficulty have to European support measures.

These structural rebalancing measures[4] have been applied in the Euro zone in a context of very weak growth, or even recession. Since 2010, they have on average represented 0.9% of the GDP a year. In Greece it was 4% of GDP a year, in Spain 1.6%, in France 1% and in Germany 0.4% of GDP. These measures have created a vicious circle by putting a strain on domestic demand and therefore on unemployment, with the result of constraining the resources of social protection, which in turn has formed an obstacle to desired rebalancing.

In May 2013, the European Commission to some extent changed course in its policy by authorising, subject to the Council's agreement, the EU countries with an excessive deficit to postpone compliance with the objectives of the Stability and Growth Pact by one or two years. As a quid pro quo, it asked the countries concerned to redirect their budgetary effort in particular towards reducing their public expenditure, rather than increasing taxation, and to focus their efforts on structural expenditure. This relaxation of the rules will call into question the national social models even further.

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[1] Interview with Mario Draghi in the Wall Street Journal of 22 February 2012.

[2] The IMF has calculated that the automatic stabilisers of Europe contributed to the European recovery effort by 2.2% of GDP and only 1.6% for the United States.

[3] These reservations were highlighted publicly by the Director-General of the IMF, in particular in the Financial Times of 16 August 2011 and at the annual meeting of the IMF and the World Bank of 11 October 2012. However, the IMF has continued to support the questions raised about the levels of social protection in the countries benefiting from its aid.

[4] The concept of structural deficit used excludes the public debt burden.

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# The European System Of Industrial Relations And The Dynamics Of Transnational Company Agreements

*By Udo Rehfeldt*

European Works Councils (EWCs) and transnational company agreements are a cornerstone of the social dimension of the European Union. They constitute the most dynamic element of the European system of industrial relations which has emerged in the last decades in spite of the considerable differences between the industrial relations systems of the member states. The construction of this system started in 1984 when the European legislators vested the European Commission with the task of encouraging the development of a 'social dialogue' so as to promote contractual relations in the longer term. After a period of quasi tripartite European social dialogue that produced rather modest results, the European governments followed the agreement of 31 October 1991 signed by the ETUC, UNICE (now BusinessEurope) and CEEP and introduced a pre-emptive role for the social partners in the European legislative process. This was the very essence of the social protocol appended to the Maastricht Treaty (1992) and now included as a social chapter in the treaties. The European trade unions and employers' organisations thereby acquired public status and strong pre-emptive power in the social legislation process. If they manage to negotiate an agreement, they can force the governments to extend that agreement and thus contribute to European social regulation.

In reality, progress towards European collective bargaining has been modest. A series of reasons can be found for this feeble performance. First of all, some employers' organisations have continued to oppose any form of collective bargaining at European level. They wanted to limit the European social dialogue to negotiations on non-controversial 'soft' subjects, whilst avoiding negotiating on more antagonistic issues. In a similar manner, at the sector level, certain employers' organisations were slow to emerge as a social partner with a mandate to negotiate sectoral agreements. To overcome these limits, strong political determination was needed on the part of the Commission, inducing fear of legislative initiatives to goad the employers' organizations to negotiate 'in the shadow of the law.' This determination is increasingly lacking today. The situation is a little less modest at sector level, especially in sectors with embryonic industrial policy on a European scale. None of the inter-industry and sectoral agreements deal with wage issues, owing to the fact that pay has been excluded from the EU's legislative competencies that the social partners did not want to exceed by autonomous bargaining. Trade unions have nonetheless defined criteria in certain sectors such as metallurgy aimed at a form of coordination of pay demands and negotiations in the member states.

Unlike the inter-industry and sector levels, there is no European legal framework today for company transnational collective bargaining. A social dialogue has nonetheless managed to develop on the basis of the EWC directive of 1994. This directive has indirectly given impetus to a kind of transnational collective bargaining, as there are currently more than 1000 EWCs established on the basis of an agreement negotiated with workers' representatives.

These EWCs show a wide variety of experiences. The EWC agreements often lack appropriate procedures for a real, informed discussion and a possible modification of

management decisions. The question of the anticipatory nature of information, particularly in the case of restructuring, was raised when the Belgian subsidiary of the Renault group in Vilvoorde was closed in 1997. This question was at the heart of the process to revise the directive which in 2009 ended up strengthening the information and consultation rights of the EWCs.

In 2004, the European Commission announced its intention to provide an 'optional' European legal framework for transnational company bargaining which was entered in the Social Agenda 2005-2010 adopted in 2005. Because no consensus was reached among European social partners on the need for a legal framework – the ETUC was for and BusinessEurope against it – the Commission dropped the plan to submit a draft and opted to continue the discussion by resorting to assessments and seminars. If such a legal framework were adopted, the ETUC would want the trade union federations to get the exclusive right to sign European company agreements, even if unionized EWC members might take part in the negotiation process.

In spite of the lack of a legal framework, transnational collective bargaining at company level has developed on a voluntary basis since the end of the 1990s. On the basis of a Commission database, 226 transnational company agreements can be identified by the end of 2011 (da Costa/Rehfeldt 2011), nearly all of which were signed by multinationals which have their registered office on the European continent. Half of these (115) are 'International Framework Agreements' (IFAs), which are agreements global in scope and signed by global union federations (GUFs). These IFAs deal mainly with fundamental labour rights and corporate social responsibility. The agreements signed at European level, which by analogy are now widely called 'European Framework Agreements' (EFAs), deal with a greater variety of issues, mainly restructuring, social dialogue procedures and occupational health and safety. French companies have signed near half of the EFAs (47 out of 111). An important number of agreements deal with a transnational restructuring and provide substantial guarantees to save production sites and jobs. Nearly all of them were signed in the automobile sector, in particular by General Motors Europe and Ford, two subsidiaries of American corporations in Europe, who were playing a pioneering role here.

The EWCs have played an important role in this process. The large majority of EFAs were signed by the EWCs. Some were co-signed by national or European trade unions. A growing number of EFAs were signed only by European trade union federations. This is the result of a European trade union coordination strategy initiated by the internal procedure adopted in 2006 by the European Metalworkers' Federation (EMF), which has now merged into IndustriAll Europe. This EMF procedure is aimed at obtaining a negotiating mandate from its member organisations to engage in negotiations with a transnational corporation. The negotiating mandate must not only define the issues to be negotiated, but also the procedures to be followed and the composition of the negotiating team. A negotiated draft agreement must then be approved by a two-thirds majority (preferably unanimity) of the trade unions concerned. This procedure moreover entails an obligation to include a non-regression clause in the agreement that guarantees compliance with rules of national agreements.

It is a fact, however, that nearly all EFAs signed by the EMF were negotiated with French multinationals. German multinationals, but also multinationals from other countries, continue to sign EFAs with their EWC. This shows the difficulties for the European trade

union movement to impose a unique negotiation procedure to a variety of industrial relations systems, dominated by two models: the British single channel model and the German dual model. The functioning of EWCs of German multinationals is still largely influenced by the German model which gives works councils a negotiation power on a whole range of subjects, leaving to the trade unions an exclusive bargaining right only for wages and working time, two subjects which up to now have in practice been excluded from transnational company agreements. As long as there is no binding legal framework, the European trade union federation must therefore find new ways to integrate EWCs, namely the unionized EWC members, into the negotiation process of EFAs, if they do not want to slow down the past dynamics of transnational bargaining by rules which are not shared by a large number of the main actors.

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## Social Exchange In The Crisis – 2010 The Turning Point

*By Jean-Marie Pernot*

A genuine social dimension of Europe is not possible without the participation of those primarily benefitting from it and therefore the participation of their representatives. Collective bargaining, the social dialogue, has been established in the member states over many years and it ought to be extended to the European level. This is a complex task which first of all requires adherence to and the promotion of the principles of social exchange by the countries making up the Union. The turning point of 2010 has instead created a further distance from these democratic goals.

Since the 1980s, the systems of employer-labour relations have been affected by two major developments which have to various extents taken place in the countries of the EU: on the one hand a gradual diminution of the number of employed persons belonging to trade unions and on the other hand a trend towards decentralisation in collective bargaining with a general shift towards the company. This decentralisation has in general been conceded by the trade unions because of their weakened position in the relationship.

Whether coordinated or not, and rather less and less coordinated, collective bargaining has since 2000 gone through a fairly significant formal and substantial development, with three aspects: the first is reflected in the development of the number of workers covered by collective labour agreements which has diminished in the countries where extension procedures are non-existent or little used, leaving an increasing number of workers outside the scope of the negotiated standard; the second development, which has also varied in intensity from one country to another, concerns the inter-occupational agreements or sectorial agreements with an increasing number of saving clauses enabling companies to make adjustments in accordance with the local situation, or indeed the possibility of derogating from the sectorial agreements. The third development pertains to the question of wages, with increasing individualisation which has contributed to reducing the part of the wage that has been effectively negotiated.

However, there has been a turning point in these long-term developments, less so in 2008 when the financial crisis broke out than in 2010 when the crisis changed into a 'public debt crisis'.

In the first phase (2008-2009), a number of countries reverted to the tripartite 'social pact' formula initiated by the state, as existed in Europe at the beginning of the 1990s. Confronted with the emergency, the states have tried to control the massive threats to employment. The number of hours worked had dropped considerably in all the countries concerned and the challenge was to find formulas that would attenuate the impact on employment and living conditions. In 2010, austerity further tightened wage constraint, at times transforming it into a massive regression. In the countries put under the surveillance of international institutions, the adjustment has been drastic and has been imposed despite social protests. In Greece, in Spain and, even more radically, in Italy, the contractual construction melted down in no time as a result of labour market reforms.

In Italy like in Spain, the trade unions' strategy has not been to incite protest. They have

endeavoured to engage in arbitration, thus preserving their role as negotiators. Radicalisation, equally in Greece, Spain and Portugal, has been the response to the haphazard austerity which deprived the trade unions of all room for manoeuvre. In Greece, genuine political risks continue to pose a threat to democracy.

Elsewhere, mostly in northern Europe and in France, increased wage restraint has reflected the dual need for protecting the employment of workers and the competitiveness of companies. At formal level, it has moved towards extending saving clauses, greater freedom of adaptation for companies and, going hand in hand with this, a strong involvement of the state to change the regulatory and financial framework. In the countries of northern Europe, the trade unions adopt this strategy of exchange between wages and jobs in the industrial systems which continue to be for them the best source of income and employment for the future. The core of the production system is thus preserved but the periphery of low wages and precariousness continues to expand. In the countries of southern Europe, on the other hand, among which Ireland should also be included, the radical adjustment has eliminated any room for compromise. Those who made their voice heard in social protest have often considered the trade union movement as an agent integrated in this system which pushes a large part of the population into the margins. Elsewhere, where a certain amount of power has been retained by the trade unions, the challenge has been to prove its ability to integrate. The portion of the labour force on which the trade unions have any influence is dangerously shrinking, calling their capacity to embrace the solidarity-based defence of the workforce into question.

France, as is often the case, is somewhere in between. Collective bargaining was decentralised well before this happened elsewhere, and for a long time now coordination by the companies is no longer assured. The annual bargaining round inevitably concerns a third of workers in the private sector, with the remainder abandoned to minimalist sectorial regulation and, in terms of wages, largely dependent on the SMIC minimum wage policy.

In an assessment of the social dialogue in the crisis, form cannot be separated from content: most of the countries of western Europe have extensive procedures for negotiation or mutual consultation. What is important is not knowing whether the consultation rituals have been maintained, whether the representatives have met or have signed agreements but whether, in the final analysis, this dialogue has made it possible to reach genuine social compromise: the extent of the economic shock, the long history of the systems of social relations places a burden on the situation today. While the trade unions have in general adopted a pragmatic attitude with a view to preserving the values of collective bargaining, one cannot but recognise that apart from a number of cases, now exceptional, there is currently a trend towards more cohesive state intervention and reducing democratic procedures that underpin the above mentioned European social model.

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# Trade Union Responses To The Attack Of The EU On Wages

*By Anne Dufresne*

Wages, and thus trade unions, are being violently attacked by European authorities. Until now, wages have remained an exclusively national issue as a negotiated right at the very core of the trade unions' identity. It had been excluded from the EU's competences since the Maastricht Treaty. Yet, for approximately two years, with the implementation of the new 'European economic governance' (Pact for the Euro, Six-Pack, etc.), the economic actors of the EU have held wages to ransom. The ECB, DG ECFIN and the ECOFIN Council transformed wages into a statistic figure of 'Unit labour cost' (ULC), measured as an indicator that should be contained in order to improve competitiveness. A cap on wage increases should be respected to avoid a financial penalty. So, from a negotiated right at national level, wages have become a European market price!

According to the European Council 'the obstacles of institutional nature to a flexible adjustment of prices and salaries to market conditions (must be) suppressed'. And this is why since 2010, wage institutions have been suffering all over Europe, more or less violently so depending on the state of subordination of that particular country to the EU. These include the authoritarian interventions of the Troika (Commission, ECB, IMF) and its compulsory austerity plans in the so-called 'peripheral countries' of the South, the East and in Ireland (unilateral reduction of minimum wages, brutal cuts in public services) or through recommendations of the Commission in the countries of the North (questioning of the indexation and wage stop in Belgium, reduction of minimum wages in France, etc.). Dismantling collective bargaining systems that people fought for is equal to a frontal attack on the very existence of trade unions in each of the member states: the Commission makes no secret about this, and indicated in a recent report of DG ECFIN that it should be possible 'to promote measures that lead to a global reduction of the ability that trade unions have to set wages' (2012). As they are facing this threat, how do European trade unions fight back?

For too long, wages have remained a taboo issue for the European Trade Union Confederation (ETUC), which preferred the European Social Dialogue, excluding precisely wages. But the frontal attack perpetrated by the EU brought the subject to the foreground. In April 2008, the ETUC organised the first European demonstration with the slogan 'increasing salaries and better sharing of profits', and not a vague slogan such as 'for a Social Europe'. In May 2011, at its latest congress in Athens, the ETUC was able to express a common diagnosis by the vast majority of European trade unions (only CFTD was of a different opinion): it clearly opposed the Commission and its governance, and demanded the stop of the anti-salary bulldozer of the EU. So, if there is a real consensus of the trade unions to refuse a persistent wage austerity, one question remains: how can we proceed? What should be the trade unions' counter-strategy?

A first answer goes back to the nineties. The ETUC, following the example of the European Metalworkers Federation – which in the meantime merged into the Federation of European Industries, with the chemical and textile Federations – had developed a strategy to fight wage dumping: the coordination of collective bargaining. The idea was to promote a 'union'

wage norm, according to which real wages should at least increase in parallel with the increase of productivity. While the EU (regardless of inflation) now promotes nominal wages 'according to productivity' and pleads for a downward harmonisation all over Europe, it is important to update this union norm and to reinforce the European coordination attempts by trade unions. A more offensive approach against the current European wage policy would be to promote the reinforcement of all collective bargaining institutions in the different countries, in order to back a European growth policy driven by wage increases.

A second line of inquiry: the European minimum wage is a watchword that could impose itself, given the differences in wages paid within the EU and the lack of a minimum level in some countries. A European regulation allowing for a relative increase in all countries could be the introduction of a minimum wage calculated in relation to the national average wage: 50% in the short-term and then 60% in the longer term. Trade unions in large countries are broadly in favour: French organisations with the 'SMIC' model, English unions with the success of their recently obtained minimum and the German ones, that are looking for a universal standard before the next elections. Nevertheless, the 'no front', with the Italians and the Scandinavians in particular, is clearly against this because they fear that their bargaining systems of minimum sectoral wages, that are often very high, might suffer. Their veto has been blocking all demands in this matter since the beginning of the century. The current impossibility to find an agreement on a European minimum wage, despite the ever-increasing assaults against wages, shows that there is still a long way to go before obtaining a common bargaining dynamic at the transnational level.

So lots of questions are left over: how can we break the deadlock of national withdrawal by trade unions? How can we avoid an imbalance increase between countries, social tensions and eventually the stalemate of the trade union movement? How can we create a new balance of power in response to the economic players of the EU?

The challenges this implies are huge: on the one hand, the implementation of a strategy of 'Europeanisation' of social movements, already underway with the increasingly rapid succession of decentralised movements. A good example was the transnational strike of 14 November 2012, which was novel because it was organised simultaneously in all the southern countries, which have been affected most severely by austerity measures. On the other hand, the social partners should regain their power with respect to wages. If wages are to be dealt with at EU level, then they are the only ones who can manage this. The economic actors which pursue a policy of surveillance of wage moderation cannot. The road ahead is likely to be a long and winding one.

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