Benchmarking working Europe

Contents

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Introduction

The economic decline that began in 2007 and turned into a global recession with the collapse of Lehman Brothers, a major Wall Street investment bank, on 15 September 2008, has shaped policies and political debates on the national and European level over the past 18 months.

The prevailing concept of *laissez-faire* financial capitalism had been such as to enable profits, in particular in the financial sector, to grow at double-digit rates while overall economic growth remained in the low single-digit range. This led to a general shift in income distribution at the expense of employees and low-income groups, i.e. a shift of national income from labour to capital and/or within wage income to the wealthy. The concentration of wealth resulted in a weakening of broad-based demand. Two opposite growth models emerged – increased household borrowing (e.g. US, UK, Spain) or export-led growth (Germany, Japan, China) – both of them based on the need to compensate increasing income inequality with other sources of demand, and rising global economic imbalances were the result. Both growth models proved economically unsustainable, and the world economy entered the worst recession since the Great Depression of the 1930s.

Now, 18 months after the threat of a global collapse of the financial system and the unprecedented intervention of governments to save it, Europe, and the world, are still faced with an economic and social crisis that will shape the political and socio-economic debates over the next decade.

During 2010 the European Union will define and draw up its next mid-term strategy, EU2020. This exercise takes place at a time when the EU is facing three serious challenges that will require strong decisions and careful balancing in order not to jeopardise the future wellbeing of European Union citizens and workers. Firstly, the financial crisis has become an economic and social crisis that will require that the EU member states continue to play a strong role in supporting the workers who have already lost their jobs, or who are threatened by job loss, and in ensuring that the growth potential is maintained. Secondly, the demographic challenges have not disappeared with the crisis and will continue to demand special attention in order to prepare Europe for an ageing population. Thirdly, despite disappointment at the outcome of the Copenhagen summit on climate change and the blatantly weak role played by the European Union, the EU cannot neglect its obligation – as well as the opportunity – to play a strong role in contributing to the transformation of the current growth model into a sustainable growth model. These major challenges come at a time of scarce public finances and weak private investment. Elaborating a mid-term strategy in such a climate requires balanced approaches and an open mind towards what can be learnt from the past. There seems to be a strong case for arguing that EU2020 should be not simply a “green-washed” version of the failed Lisbon Strategy but a genuinely new approach to achieving progress for European citizens and workers.

Every year, the *Benchmarking Working Europe* report offers a contribution to the EU Spring summit. It provides a genuine benchmarking exercise applied to the world of labour and social affairs and grounded in effective labour and social rights. The aim is to establish what progress – or lack of it – has taken place in selected areas of importance to the trade unions and of significance for a social Europe. Accordingly, in this year of preparation of the strategic goals for the next ten years, we have chosen to embark upon a social stocktaking of the reaction to and impact of the financial, economic and social crisis as a means of feeding into the post-crisis and EU2020 debate. Among the questions addressed this year are the following: What were the macro-economic developments and policy responses? How has income developed in the crisis? How have labour markets responded to the financial and economic crisis? How have social partners reacted and what has been their role in preventing the recession from becoming a depression? How can workers better participate in the efforts to emerge from crisis and move in the direction of a sustainable growth model?

The indicators presented in this year’s *Benchmarking Working Europe* reveal that the progress in growth and employment over the past growth cycle has been practically wiped out in the course of the past year: the EU average employment rate is back to its 2006 level, while unemployment has increased by two percentage points in a single year. Yet the impact of the economic crisis on labour markets displays considerable variation from one country to another. Some countries have succeeded in keeping employment levels up and unemployment levels down through recourse to employment-preservation and employment-creation measures combined with an expansion of both passive and active labour market policies. What is more, some groups (such as

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men, temporary workers, youth and migrant workers) have been particularly hard hit by the crisis. While the recession has so far impacted on the labour market primarily via working-time adjustment and lay-offs, there will be also, as labour markets deteriorate further, downward pressure on wages. In fact, some countries that have led the recession – Lithuania and Estonia – have already experienced nominal wage cuts (wage cuts in simple money terms), while in the UK, in spite of small nominal increases, the value of wages when converted into euros has fallen steeply. It still remains unclear how the financial crisis will impact on inequality (one of the root causes of the crisis) and, due to the nature of data collection procedures, it will be some time before post-crisis data are available.

This year's edition of the Benchmarking report emphasises the important role played by governments, employers and trade unions in avoiding the onset of a full-fledged depression. Industrial relations systems have been put to a test, and evidence shows that, while some have failed, others have stood up to it. Collective bargaining on a national level to prevent job losses has been successful in countries where the institutional foundations were sound, the social partners took their responsibilities seriously and governments offered the right kind of support.

The EWCs do not at first sight appear – with very few exceptions – to have played a significant role in handling the crisis at the company level. There seems to be some evidence that these bodies have sometimes become overwhelmed by issues that exceeded their information and consultation competences and the tools and resources available to deal with them.

At the present time it is simply not clear whether we will emerge from the crisis with a continuation of earlier industrial relations developments – such as the decentralisation of collective bargaining or individualisation as a phenomenon challenging collective interest representation. In actual fact, a number of counter-developments have been observed, such as a strengthening of company-level bargaining that has tended to be accompanied by an increased importance of higher level bargaining on the national and sectoral levels (in systems of multi-level bargaining as in most EU countries).

The European interprofessional dialogue was also influenced, throughout 2009, by the "phantom of the crisis", with most of the issues tackled or in the process of being dealt with having been influenced, in one way or another, by the changed context introduced by the economic crisis. Apart from the six joint texts agreed upon and relating directly to the crisis, the changed context also, in a more indirect manner, overshadowed the European sectoral social dialogue and this is a trend likely to continue throughout 2010 and 2011.

As 2010 continues, we are bound to witness a wave of restructuring and hence worsening of the labour market outlook and conditions. The strategies that are put in place to handle this onset will determine not only the short-term but also the long-term outlook of the European Union. It seems essential not to lose sight of the fact that public expenses on social policies are counter-cyclical and that employment growth will automatically cause expenditure to fall.

It is also essential that the European Union Strategy for Sustainable Development should remain on track and green recovery become a core element in both the national and European recovery plans and their future growth strategies. The crisis is not an excuse to push the climate change challenges under the carpet. However, it should be pointed out that the social dimension is an integral element in sustainable growth and that the quality of jobs is a way of fostering the combination of economic, climatic and social considerations within a new growth model. A number of reflections along these lines have recently emerged, forming the basis of a renewed vision of the next EU mid-term strategy EU2020. The challenge remains to give concrete shape to these reflections in drawing up the EU2020.

There would seem, in conclusion, to be cause to question the underlying foundation of the current growth model and its emphasis on deregulation and labour cost cutting. There is evidence to support the claim that worker's rights should be rediscovered as a force for productivity and as a way of building a new model of economic progress in which fair wages and good working conditions constitute the basis of growth and employment dynamics. We need to turn away from the logic that claims that Social Europe is just a cost, and to bring in a new social deal according to which workers' rights act as a beneficial constraint, and social policy as an investment strategy. These elements are fundamental in getting the European Union out of crisis and well on track towards 2020. Rethinking policy strategies is essential because

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we will not find a way out of the crisis by applying the same logic that led to it in the first place.

We hope that this year's *Benchmarking Working Europe* will provide helpful information and some stimulating ideas to fuel debate and contribute to the shaping of a post-crisis Europe.

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1. European social revival and the great recession

Introduction

Though some signs of recovery are already apparent, the 2009 collapse in economic activity will continue to create perverse effects. While unemployment in Europe and the euro area is expected to spiral up to record highs of 11 or 12% by the end of 2010, public deficits and public debt are hitting 6 to 7% and 100% of GDP respectively, levels that are well outside the range tolerated by the Maastricht criteria.

In the face of these dismal trends in unemployment and public finances, policymakers in Europe are anxious to get back to 'business as usual'. Fiscal 'exit' strategies and cutting public expenditure should, in these policymakers' view, become the new priorities, while the return of mass unemployment will, they believe, require a stepping up of labour market supply-side policies such as 'activating' the unemployed and 'making work pay'.

This article issues a strong warning against any such return to the conventional wisdom of the past. It argues that neither should the crisis be regarded as an 'unfortunate accident', nor can analysis of its causes stop at a diagnosis of financial market failure. Instead, it is the entire Washington-Brussels-Frankfurt consensus that must be called into question. It is the systematic bias in favour of unregulated markets and business profits resulting in high and rising inequalities that is the root cause of this crisis. The second part of the article thus goes on to describe how the Washington – Brussels – Frankfurt consensus should be replaced by an alternative set of economic and social policies designed to achieve a rebalancing of the interests of labour and capital and of the market and the state.

Themes

1.1 From social recession to casino capitalism

1.2 European social revival as the way out of the great recession

1.3 Conclusions: 'Labour is not a commodity'

1.1 From social recession to casino capitalism

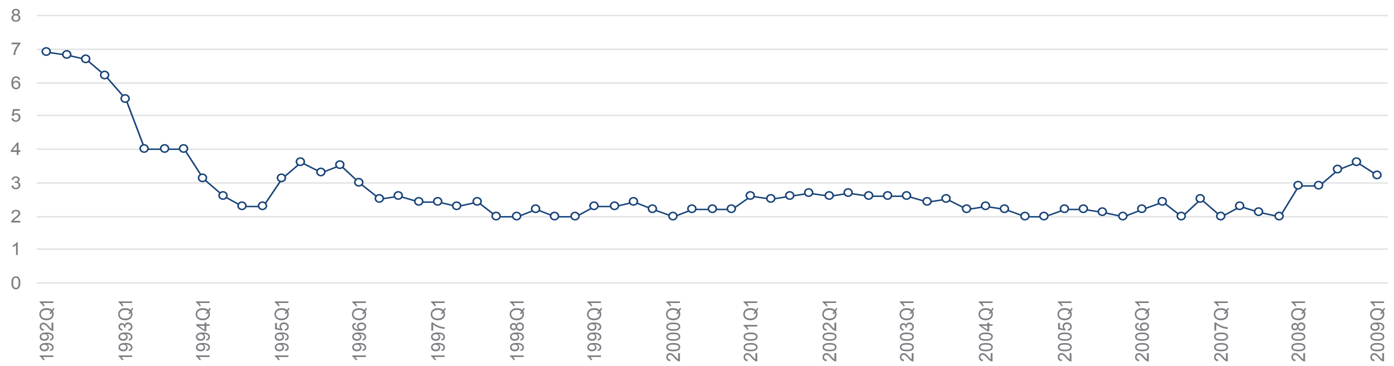
Business-friendly supply-side reform as the basis of the great recession

Over the past decade or two, workers and trade unions in Europe have been subjected to constant exhortation. They were lectured about the need to accept greater inequalities since, by rewarding the most talented, the economy would become more innovative, and the benefits of this would, in one way or another, trickle down to the rest of society. Workers were also urged to become more active, more flexible and more moderate in their claims. In order to boost business competitiveness, they were to become less dependent on social benefits, ready to accept any offer of any job at any wage and in any place, easier to fire, more restrained and flexible in their wage demands. In short, a deliberate choice had been made in favour of a supply-side policy agenda that placed the whole burden of adjustment on the shoulders of the labour force, while 'pampering' the business side of the equation.

This business-friendly supply-side agenda has indeed been delivered. Reforms of temporary job protection systems have opened the back door on regular job protection, providing business with the 'easy' firing which it so cherishes. Meanwhile, unemployment benefit systems have also been downgraded as numerous member states, inspired by the 'making work pay' slogan, have reduced benefit levels and benefit duration while also making it more difficult to access unemployment benefit systems (an overview of these developments can be found in Lefresne 2008). On top of this, wage formation systems have been reformed with the focus of collective bargaining being shifted to the company level (company-level opening clauses in sectoral agreements, for example).

The effect of all these 'reforms' has been to severely weaken the bargaining position of organised labour. Figure 1.1, describing the average development of collectively agreed wages in the euro area, illustrates the extent to which this process has taken place. Whereas collectively agreed wages were still reactive to business cycle upturns at the beginning of the nineties (for example an 8% wage increase in 1991 – 1992 under the influence of German reunification), the whole collective bargaining process subsequently lost much of its momentum. From the mid-nineties on, the annual growth rate of collectively agreed wages fell to around 2%. Even during the few years in which the business cycle reached a peak (2000, 2007), euro-area trade unions were able to obtain wage deals of no more than around 3%. Since trend inflation was running somewhat below 2%, this meant a decade of stagnating purchasing power for euro-area collective bargaining.

Figure 1.1 Collectively agreed wages in the euro area



Source: ECB.

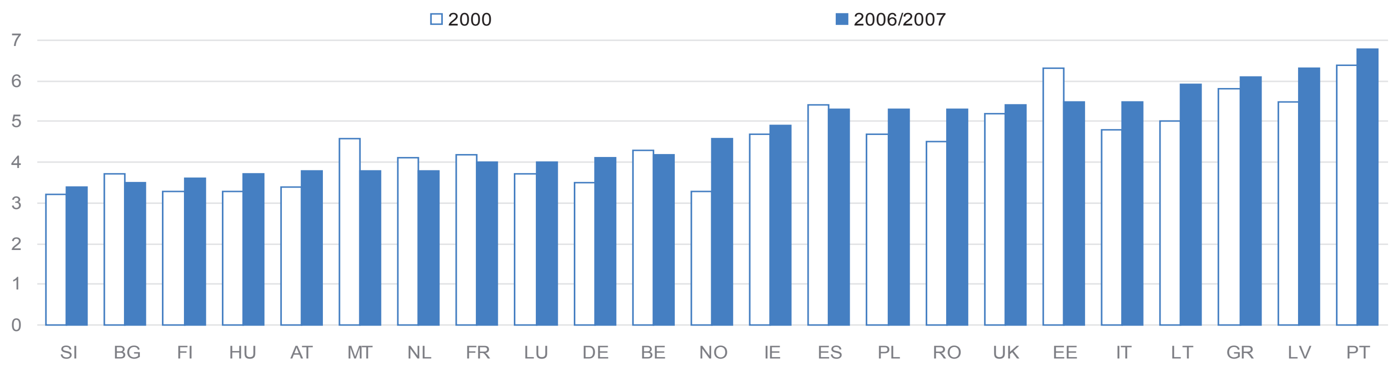
1.1 From social recession to casino capitalism

Business-friendly supply-side reform as the basis of the great recession

Whereas moderation and flexibility became the governing principles on the side of organised labour, the contrary applied on the side of business actors. The economic rents created by flexibility, precarious work practices and wage restraint were easily captured by the real insiders, so that the shareholders, along with a certain elite of CEOs, managers, supervisors, etc., profited enormously. Super dividend pay-outs, share buy-backs, bonuses and stock options boomed alongside weak wage dynamics.

The end result is that economies have become more unequal. Inequalities have certainly soared in the Anglo-Saxon world and one stunning statistic here is that inequalities in the US and the UK have now almost returned to the levels pre-dating the Great Recession of the 1930s, such that the richest one percent of the population capture some 15% of the total national income of the economy. However, many countries in continental Europe have also been confronted with high or rising inequalities (OECD 2008). For example, as can be seen from the right-hand side of Figure 1.2, in several continental European countries the top 20% of incomes are currently five to six times as high as the lowest 20% of incomes.

Figure 1.2 Inequality of income distribution (80/20 income quintile share ratio), 2000-2006/07



Data source: Eurostat but taken from ETUC and ETUI (2008) *Benchmarking Working Europe*.

1.1 From social recession to casino capitalism

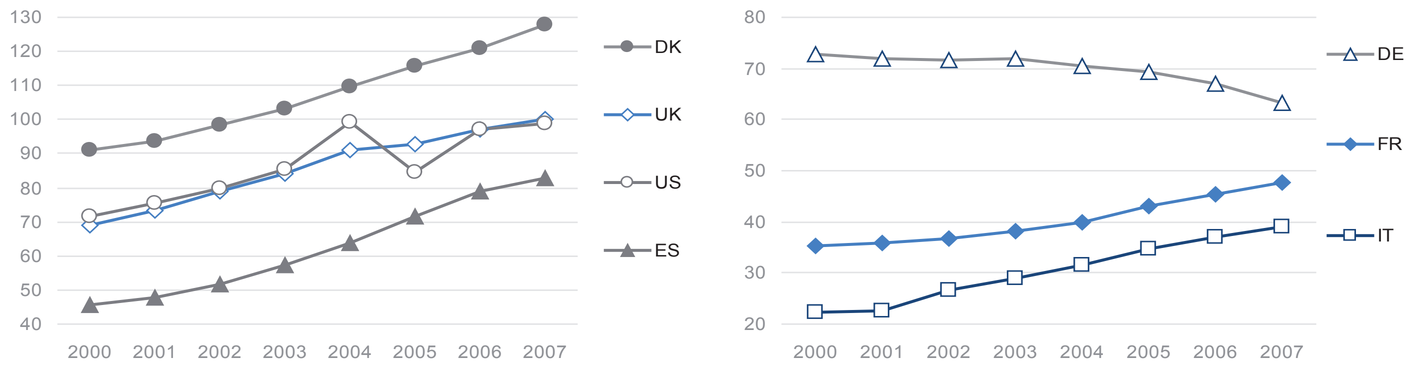
'Bubble'-driven growth reaching its limits

These inequality trends deriving from the previously described business-friendly policy agenda give rise to a major problem. When a small elite captures up to 15 or even as much as 30% of a country's total income, the balance between aggregate demand and aggregate supply is disturbed. In other words, since the super rich do not spend their entire income, much of this is being saved, while the lower incomes, on the other hand, have a high propensity to consume and are financially constrained to do so.

It is here that 'financial innovation', or more accurately, 'casino capitalism' comes in. To compensate for the loss of demand dynamics resulting from the fact that many workers lose out on their fair share of economic progress, policy has relied on financial markets to step in and fill the missing gap. In the absence of progress in real wages and with good jobs being turned into unstable contracts, demand and economic growth needed to rely increasingly on households taking on excessive debt loads and on the creation of 'asset price bubbles'.

The magnitude acquired by this low-wage/high-debt economy in several countries in recent years is truly astonishing. From 2000/2001, there was a virtual explosion in the level of household debts in a number of countries including, in particular, the US, the UK, Spain, and Denmark (see Figure 1.3). This fact also sheds a totally different light on the so-called 'economic miracle' that befell several of these economies. It was claimed until very recently that the economic successes of countries like the UK, the US or Ireland (and Denmark for that matter) were attributable to their highly flexible labour markets. It is now apparent that many of these countries were simply living on borrowed money and unsustainable asset booms.

Figure 1.3 Household debt load as % of GDP



Data source: OECD (2008).

1.1 From social recession to casino capitalism

'Bubble'-driven growth reaching its limits

The policy of financial market deregulation needs to be seen from this perspective. Lending standards, practices and formulae were relaxed and predatory lending was allowed not only because it was believed this would lead to greater 'market efficiency' but also because household spending could in this way be kept up. Banks were allowed to expand credit way beyond their means and the capital at their disposal by hiding masses of credits in offshore vehicles and allowing new and complicated but untested internal valuation models to artificially lower the risk evaluation of assets while ignoring the possibility of 'systematic' risk.

As such, the financial crisis – with banks on the verge of bankruptcy, with thousands of billions of toxic assets hidden in banks' balance sheets, with its exotic names and complicated products – is actually a sort of 'red herring'. Bankers and fund managers did not develop risky practices, such as sub prime lending, credit default swaps and offshore structured investment vehicles, solely because of their own individual greed. They were actually allowed, indeed encouraged, to do so because, otherwise, the economic system – with its deep and strong policy bias against labour and in favour of inequalities – was unmanageable. This makes today's recession not just a crisis of financial markets but also a crisis of the economic model of inequality.

At the same time, it is important to establish a proper understanding of the fact that the limits have been reached. In those countries that used to rely on speculative bubbles to drive demand dynamics, debt loads and asset prices have now become excessively high and the speculative boom has turned into a speculative bust. Private sector agents now want to drive their debt burdens down and asset prices too are caught in a downward spiral.

1.1 From social recession to casino capitalism

'Free riders' of casino capitalism

Not all countries have resorted to excessive borrowing to speculate in asset booms. Germany, with its extreme tradition of monetary stability, and Japan, still digesting the consequences of the pricking of the asset bubble at the beginning of the nineties, are two of the most notable exceptions. These countries have instead sought to repeat their traditional recipe of an export-led recovery. In trying to improve their competitive positions, both Germany and Japan have gone further than others in promoting the interests of business at the expense of those of labour. Germany maximised the model of wage moderation and competitive disinflation, while in Japan the labour side of the production equation has been systematically undermined by the spread of precarious, atypical work.

Both countries have poor results to show. They may indeed be export champions but this success has come at the expense of weak domestic demand, while overall growth performance has been unconvincing. What is more, the financial crisis highlights an additional and serious flaw in this model of export-led growth. Export-led strategies make sense only if demand dynamics are flourishing in the countries to which exports are sent. Germany and Japan have been 'free riding' on the US, UK's and Spanish asset booms which were powerful enough to drive forward their own domestic demand as well as export demand. Now that these asset booms have disappeared, Germany and Japan no longer have their typical export-demand motor to drive their economies forward, with the result that both these countries, alongside many others, fell into recession. While the collapse in economic activity was even more pronounced in Germany, unemployment did not rise to the same extent as it did in other countries, this being thanks to government-sponsored schemes for reducing and sharing working hours.

1.1 From social recession to casino capitalism

A return to 'business as usual' is not an option

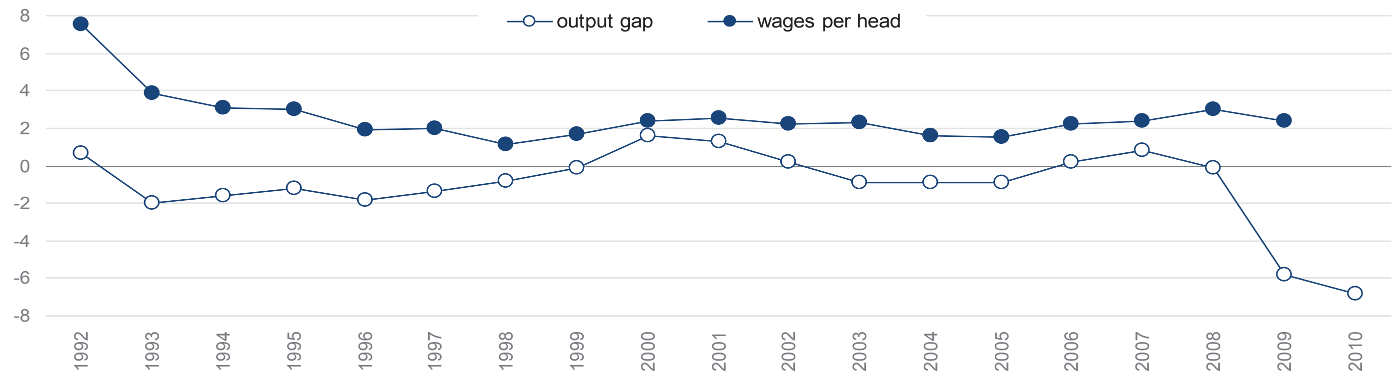
Old habits do not die easily. Many economists still preserve in their mind this model of promoting the interest of business at the expense of labour while counting on financial market innovation to take care of the deficit in aggregate demand.

However, as argued above, this model of excessive borrowing for purposes of speculation has now reached its limits. Approaches based on 'exit' strategies to drive public deficits down, labour market deregulation to boost labour supply, wage moderation to hike business profits and dividends, can no longer count on aggressive demand management disguised as financial market innovation to stabilise the economy. Any attempt to continue to pursue these traditional policies, while the private sector continues to drive down its debt positions, is bound to produce economic and social disaster.

Figure 1.4 provides one illustration in the area of wage moderation. The graph traces the past behaviour of wages in relation to economic downturns. It appears that there is a certain relationship between the output gap (i.e. the gap between actual and potential economic activity) and wage dynamics. Each time economic activity slumps and slack in the economy develops (early 1990s, around 2001), wage dynamics also suffer: a 1% negative output gap can be linked with a deceleration of wage growth of around 1%. At times of previous crisis, this brought the growth of per capita wages down to a minimal rate of 1.5 to 2%.

Application of this 'rule of thumb' to the coming years triggers a strong warning signal. Indeed, the intensity of this financial crisis is much more pronounced than in the two previous cases. The economy is now estimated to have slumped some 6 to 8% below its potential, making for a huge output gap. If this enormous slack in economic activity indeed develops, it will inevitably have an effect on wages. And since wage dynamics are already starting from a weak rate of growth, the risk of their collapse is very high. If that were allowed to happen, the crisis would then move into another phase whereby cuts in wages would trigger deflationary wage price spirals, real interest rates would rise and we would find ourselves in a situation of 'debt deflation' and the talk would be no longer of a 'Great Recession' but of a 'New Great Depression' to be compared with what happened in the 1930s.

Figure 1.4 Wage dynamics and output gaps in euro area



Source: OECD (2008).

1.2 European social revival as the way out of the great recession

Stronger workers' rights in the internal market

Workers' rights are not part of the problem; they are part of the solution. Stronger workers' rights are not only urgent to stop the perverse distribution and the rise in inequalities and precarious labour market practices that has been gaining impetus over many years. Stronger workers' rights also make good 'economic' sense for, by rebalancing the interests of business and labour, economic upturns can be made self-sustaining with the economy driven by the creation of good and stable jobs paying decent wages instead of having to rely on speculative bubbles and risky lending practices.

Here are some of the most important points of such a policy programme:

First of all, the recent decisions of the European Court of Justice need to be addressed. In court cases such as 'Laval', the ECJ has in practice subordinated the fundamental right to strike to the fundamental freedom to trade in the internal market. Trade unions wanting to undertake collective action in cases involving cross-border services now have to think twice and consider whether their action meets the various criteria related to the internal market philosophy of free trade (proportionality, justified objective and having exhausted all other and less distorting options). In this regard, the European political dimension needs to bring the European Court of Justice back into line and into the basic spirit of European integration by drawing up a Social Progress Protocol in which fundamental social rights are given precedence over the economic freedoms of the single market. Such fundamental social rights include the collective right to organise, to undertake collective action and to strike. The resulting Social Progress Protocol should be attached to the European Treaty.

Closely related to this case is the revision of the Posting of Workers' directive which the ECJ has (ab)used to turn European minimum standards into national maximum standards. Countries are free to set minimum standards also for workers posted from abroad but higher wages resulting from collective bargaining cannot be enforced upon the employer. In this way, the ECJ is promoting 'unequal pay for equal work'. If the policy aim is to safeguard the legitimacy of workers' mobility in the internal market and prevent employers from using cross-border posted workers to undercut other workers, then a revision of the Posted Workers' directive is essential.

The third issue of relevance here is the widespread use of precarious labour and unstable employment contracts. In this respect, it should be recognized that the principles of the European social *acquis* are too weak and, in any case, are not really respected. European social directives, as well as European social agreements, do stipulate that non-regular contracts should remain the exception and not become the rule. The social *acquis* also requires member states to call a halt to the practice of endless chains of fixed-term contracts in which the same worker is performing the same work over many years through a succession of short-term contracts. In practice, however, the national-level implementation of these European principles leaves much to be desired. To give a single example, several member states allow chains of fixed-term contracts for as long as three or even six years, thereby allowing business to transform what are basically stable and productive jobs into insecure contracts. Accordingly, a third proposal to strengthen workers' rights is to reappraise the role of the European social *acquis* by identifying existing gaps (for example, a directive on agency work is missing) and by a stronger and systematic follow-up of its implementation at national level.

1.2 European social revival as the way out of the great recession

Better pay: common European principles for stronger collective bargaining

To counter the risk of the crisis triggering wage undercutting which will then spill over into deflation and prolonged depression, collective bargaining and wage formation institutions require substantial strengthening. Instead of wage freezes and nominal wage cuts, policy needs to promote real (and nominal) wage increases. The aim is to turn wages, in these times of looming deflation, into an anchor of price stability.

This can be done by developing a European framework for 'fair and decent' wages against the background of the European Employment Strategy. This European framework would encourage member states, in close association with the national social partners, to conduct policies and establish collective bargaining practices so that strong downwards floors in wage dynamics are put in place. This implies setting wage floors for the lowest wages to make sure there is a bottom in the labour market under which wages cannot fall.

However, it is not enough to address low wage or poverty wage situations. If we want to avoid deflation traps, then more needs to be done and the entire structure of collectively agreed wages needs to be sheltered from the downward pressure coming from this crisis. This implies enforcing respect for and promoting 'going' wage rates and wage increases as agreed to in collective agreements. Several instruments to do so exist and can be used by member states and national social dialogue (legal extension of collective bargaining, developing 'Ghent' systems of unemployment benefits in which trade unions administer the systems and are in this way able to organise the workforce, general policies to promote trade union membership, and so forth).

1.2 European social revival as the way out of the great recession

More and better jobs: invest in an expanded European recovery plan

Stronger workers' rights and better pay can make an economic recovery self-sustaining. However, a strong recovery will not come on its own. With excessive debt loads of households, banks and business, private sector spending and investing is likely to be depressed for several years to come. To prevent this doomsday scenario and to ensure a strong recovery instead, Europe needs to create a new driving force for growth and jobs. Investment to fight climate change and achieve a green and sustainable future for Europe can provide the necessary steam, driving growth and creating millions of new jobs.

More practically, a large-scale investment plan totalling an annual 1% of GDP effort for the next three years needs to be drawn up. Investment possibilities at the European level exist in the areas of renewable energies, clean technologies, energy savings, physical and social infrastructure and networks, while materials of the future, modern cars and clean transportation systems need to be identified. To avoid an overburdening of member states' public finances and to overcome the fact that several member states are themselves cut off from access to affordable finance, this investment effort requires support at the European level itself. The European budget needs to be topped up with the European Investment Bank's power to borrow on international capital markets and the initiative as a whole needs to be backed up by European central banks buying these debt bonds.

If these investments start to kick in from the beginning of next year, we can hope to avoid much of the increase in unemployment that is expected to take place during 2010. Moreover, these investments will have a multiplier effect. They will continue to provide further support for economic activity and employment over the next years, thereby gradually bringing high unemployment rates down.

1.3 Conclusions

'Labour is not a commodity'

The policy programme geared to European social revival, as it has been described above, should not be seen as a concern only for workers and trade unions. It should be regarded, over the long term, as of relevance also to the interest of business. Business as a whole has no objective interest in the spread of precarious work practices, unstable jobs, or long working hours. By treating labour as a commodity, these work practices undermine the motivation and commitment of workers, thereby damaging productivity and innovation. Nor does business have any true interest in growth and demand being driven by speculation and asset bubbles. Speculative bubbles burst sooner or later and the consequences of this for the real economy, for both labour and capital, are disastrous.

Accordingly, Europe urgently needs to rediscover workers' rights as a force for productivity and as a way of building a new model of economic progress in which fair wages and working conditions constitute the basis of growth and employment dynamics. We need to turn away from the logic which claims that Social Europe is just a cost and bring in a new social deal according to which workers' rights act as a beneficial constraint, given that individual businesses may indeed be tempted to take the easy way out and resort to unsustainable practices such as unstable work relationships, low wages and long working hours. The best way to resist this temptation is to introduce strong and robust labour standards, developed in conjunction with strong and representative trade unions, with Europe backing up these labour standards by establishing a level playing field for competition in the internal market.

2. Macroeconomic developments and policy issues

Introduction

Macroeconomic policy developments and policy discussions in the European Union in 2009 were, obviously, dominated by the economic crisis that manifested itself starting in the late summer of 2008. The trigger is widely seen as the collapse of Lehman Brothers, a major Wall Street investment bank, on 15 September 2008. However, the crisis had deeper roots (Watt 2008), for the prevailing concept of *laissez-faire* financial capitalism had implied that profits, in particular in the financial sector, could grow at double-digit rates while overall economic growth remained in the low single-digit range. This led to a shift in income distribution at the expense of employees and low-income groups, i.e. a shift of national income from labour to capital and/or within wage income to the wealthy. The concentration of wealth resulted in a weakening of broad-based demand. Two opposite growth models emerged, both of them based on the necessity to compensate increasing income inequality with other sources of demand: either increased household borrowing (e.g. US, UK, Spain) or export-led growth (Germany, Japan, China). Rising global economic imbalances were the result. Both growth models proved economically unsustainable, and the world economy entered into the worst recession since the Great Depression of the 1930s.

This chapter focuses on the scars left on the European economy by the economic crisis. Section 1 charts the output losses across Europe and in comparison with other countries of the world. It touches on the labour market effects (for more details see Chapter 3) and then describes the impact on government budgets. In Section 2 the policy responses by European countries are examined, with some discussion of the particularly interesting question of why Europe has been harder hit than the US, the epicentre of the crisis. Finally, we peer into the future and consider some of the longer-term effects (section 3). Will Europe suffer a lasting loss of output from the crisis and what are the implications for public budgets in the longer run: are we sitting on a public-finance time-bomb?

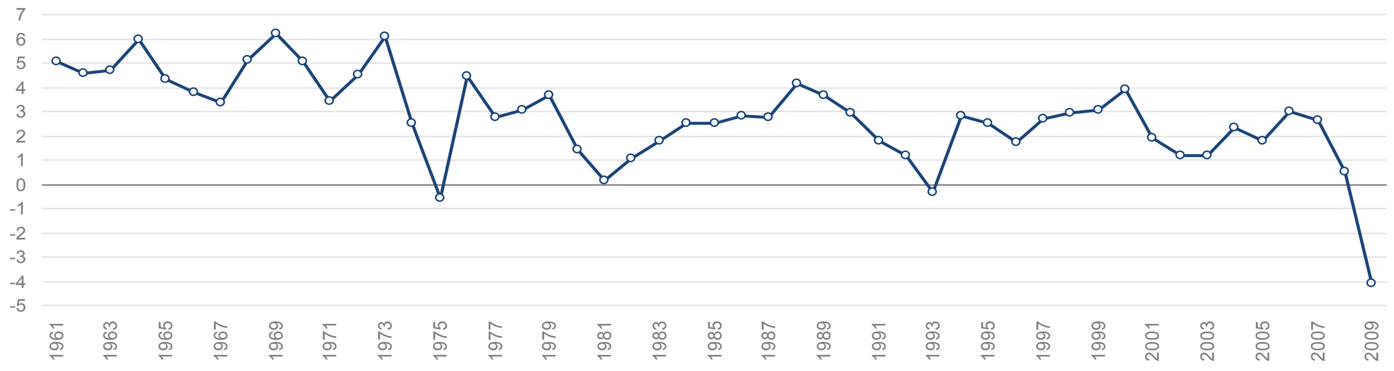
Themes

2.1 The scars of the economic crisis

Output and growth

The economic crisis that began in the last quarter of 2008 was unprecedented in the history of the EU (Figure 2.1). On only two occasions, in 1975 and 1993, had the fifteen 'old' Member States experienced negative – and in both cases very slight – year-on-year economic growth rates. The contraction by more than 4% was a 'black swan' event: it had been considered inconceivable. Even if the higher trend growth in the 1970s is taken into account, the fall in the growth rate of more than 7 percentage points is also unprecedented in post-war western Europe. The only comparison is with the (oft-mentioned) Great Depression of the 1930s and the (oft-ignored) 'transformation' crisis in Eastern Europe (and Finland) at the start of the 1990s.

Figure 2.1 Gross domestic product at 2000 market prices, % change on previous year



Data source: AMECO.

2.1 The scars of the economic crisis

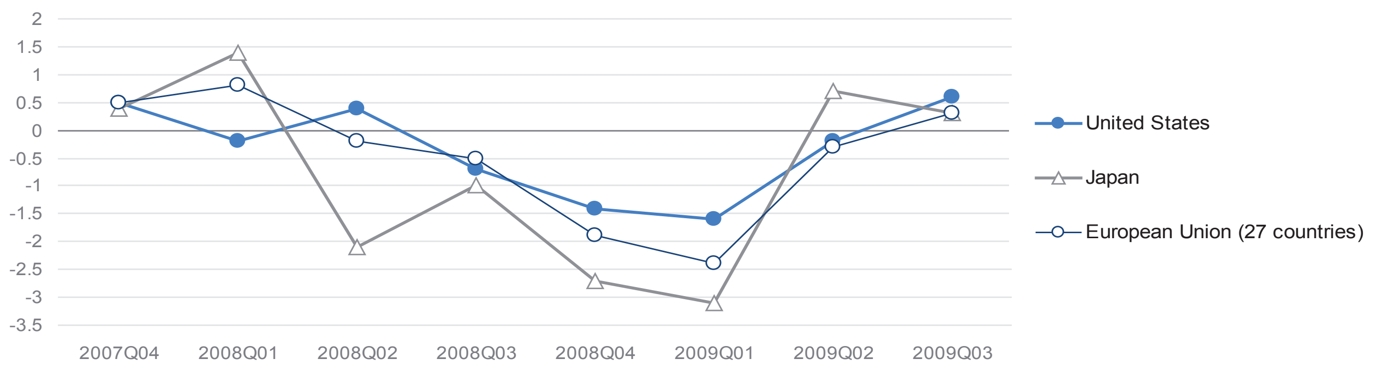
Output and growth

Figure 2.2 zooms in on the crisis period itself, using quarter-on-quarter growth rates, and permits a comparison with two major trading partners, the USA and Japan. In Europe the recession lasted for five consecutive quarters – recall the traditional definition of a recession as just two consecutive quarters in which output contracts – with the bulk of the output losses at the end of 2008 and start of 2009. Readers may well be surprised to see that the USA – the epicenter of the crisis, the originator of most of the toxic assets, and a country with huge trade and budget deficits as it entered the crisis – experienced a decline less steep than in Europe. Japan, on the contrary, fared even worse, despite being a surplus country and one with no prior speculative asset boom (cf. Horn *et al*. 2009). Though it is too early to tell for sure at the time of writing, forecasts suggest that the US may also be recovering from the crisis faster than the European economy.

Unfortunately, comparable (quarter-on-quarter) data are not available for China. But the basic picture is clear: the growth rate halved from (annualised figures) around 13% at the end of 2007 to a nadir of 6.1% (Q3 2008 compared with the same period a year earlier). But China has since accelerated out of the trough and growth rates are rapidly rising again towards prior levels. Brazil, India and other large emerging markets, hit by the crisis to differing extents, also seem to have in common a relatively swift rebound.

In searching for explanations for these trends, we look first at the output losses across Europe, focusing on the differences between countries, and also at the composition of the output losses, before moving on, in the next section, to consider the policy responses.

Figure 2.2 Real GDP growth, quarter-on-quarter, %



Data source: Eurostat.

2.1 The scars of the economic crisis

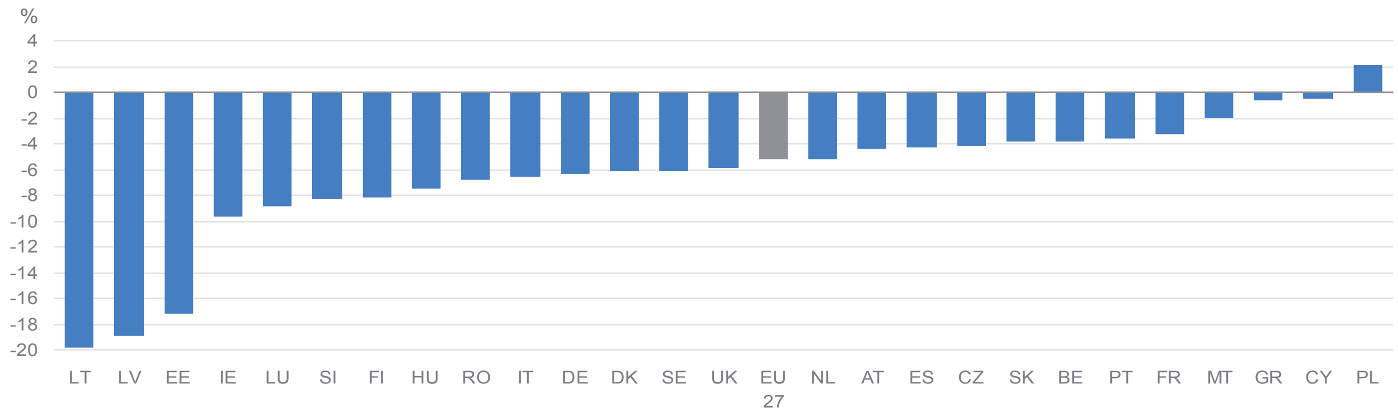
Output and growth

The cumulative loss of output (taking the level of the first quarter of 2008 as the starting point and the second quarter of 2009, when the recession ended in the EU as a whole, as the end point) varied very greatly around the EU average of slightly more than -5% (Figure 2.3). It ranged from around just half a percentage point in Greece and Cyprus to a massive collapse, almost one fifth of output, in the three Baltic States. Poland, alone among the EU27, recorded positive economic growth over the period.

No simple regional pattern emerges from this distribution. Notably, CEE countries are to be found at opposite ends of the spectrum. Southern Europe appears to have fared comparatively well in terms of lost output in this period, Italy being a notable exception. Clearly the existence of prior booms and asset prices bubbles is a factor, and the Baltic States and Ireland are cases in point here, although the output loss in the UK is only slightly above, and that in Spain somewhat below, average. There is some indication that otherwise similar countries may have been hit differently depending on their openness to trade: this may be one reason behind the marked difference in the experience of France and Germany, for instance, or the Nordic countries compared with Portugal. Dependence on capital imports was also an important factor, especially in some CEE countries. The size of the financial services sector clearly played a role in the case of Ireland and Luxembourg, although here too the middling position of the UK would seem puzzling, on the basis of such 'structural' characteristics alone. Such discrepancies may indeed be suggestive of the influence of national economic policy (section 2).

A further clue comes from the composition of the output changes at the level of the euro area (on this see European Commission 2009f). In the decisive winter half-year 2008/9, 1.8 percentage points of euro area output was lost due to the fall in net exports, and a similar amount due to the collapse in investment. By contrast, the loss of output due to private consumption was just 0.6 percentage points. This implies that countries that are highly open to trade and have a high investment share were likely to suffer disproportionately, which is part – but only part – of the explanation why Japan and the EU suffered greater output losses than the US.

Figure 2.3 Change in output, 2008Q1 to 2009Q2



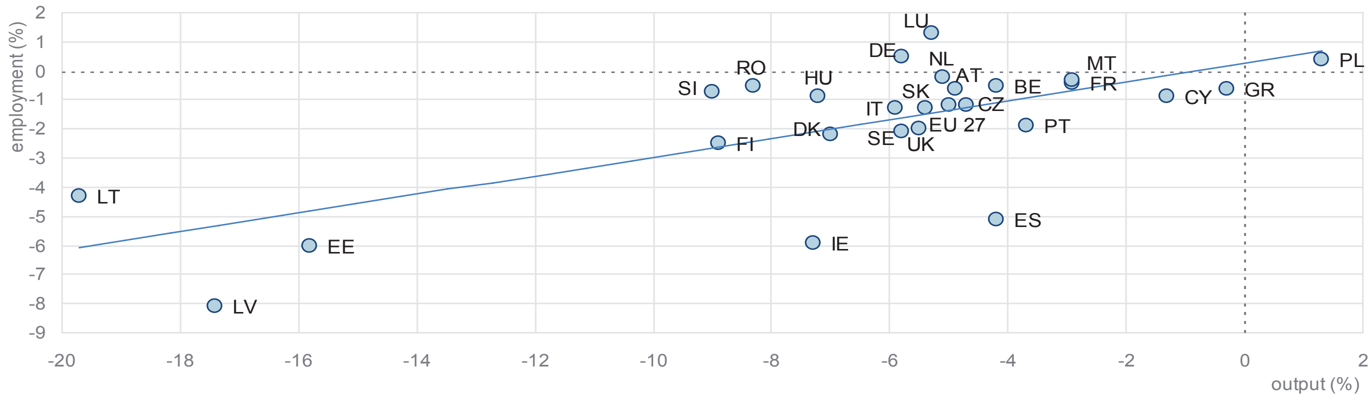
Data source: Eurostat.

2.1 The scars of the economic crisis

Employment

Contractions in economic output inevitably have serious repercussions for employment. The labour market impacts of the crisis receive a detailed analysis in the next chapter of this report. One key point should, however, be mentioned in the context of this macroeconomic analysis. The pattern of output losses across the EU countries was broadly commensurate with job losses, as can be seen from the trend line in Figure 2.4. However, while countries such as Ireland and the Baltics have shed employment roughly in proportion to the output contraction, and in Spain job losses were actually greater in percentage terms than the drop in output, companies in many continental European countries, notably Germany, have retained workers in the face of falling demand and production. In the short run this has reduced the demand shock to the economy, as workers have been better able to maintain spending. By keeping workers within existing companies, moreover, countries that have practised 'labour hoarding' will be differently placed when the upturn comes (see below).

Figure 2.4 Change in output and employment, 2008Q2-2009Q2



Data source: Eurostat (2009) *European Labour Force Survey* and *National Accounts*. Age 16-64.

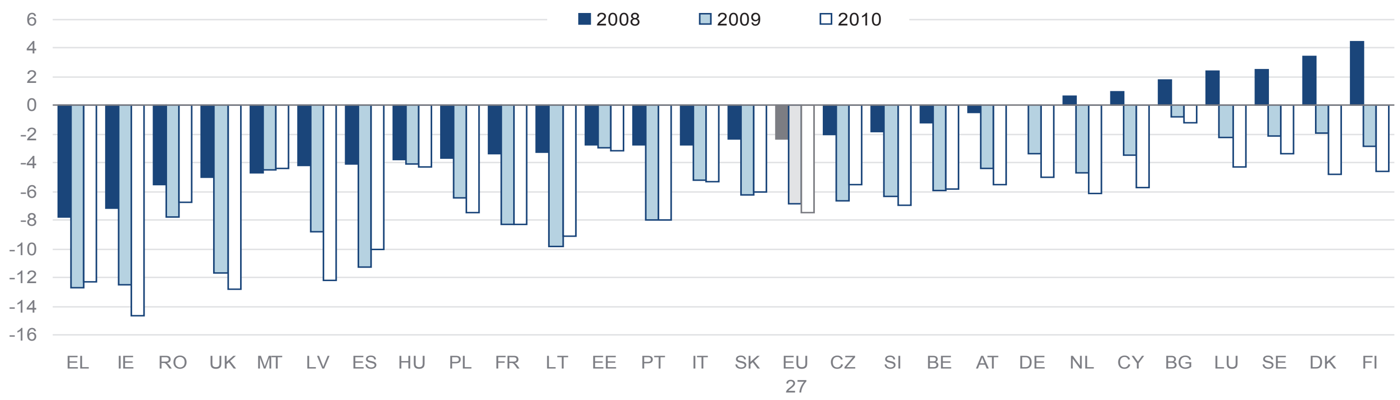
2.1 The scars of the economic crisis

Public finances

The second decisive impact of falling output is a deterioration in public finances, in other words, rising current government deficits and higher levels of government debt. This worsening of public finances is the sum of two components. The so-called 'built-in stabilisers' cause a fall in tax receipts and an automatic increase in spending in areas such as unemployment and other benefits. On top of this come discretionary policy measures in response to the crisis (for more on such discretionary policy see section 2.2 below).

Figure 2.5 shows the increase in government deficits and Figure 2.6 that of government debt. From 2.3% of GDP in 2008 the EU27 deficit shot up to more than 6% in 2009 and is expected to reach around 7.5% in 2010. As with (un)employment, the small but steady improvements in public finances achieved over an extended period have been wiped out by the crisis in the space of twelve months. Whereas eight countries posted a surplus in 2008, every single one was in deficit a year later. Ireland, Greece, Latvia and the UK are forecast to have government deficits above 12% of GDP in 2010, and, with the sole exception of Bulgaria, all EU27 countries will have a deficit above the 3% of GDP Maastricht ceiling.

Figure 2.5 Government budget deficit/surplus (% GDP)



Data source: AMECO (2009 estimate, 2010 forecast).

2.1 The scars of the economic crisis

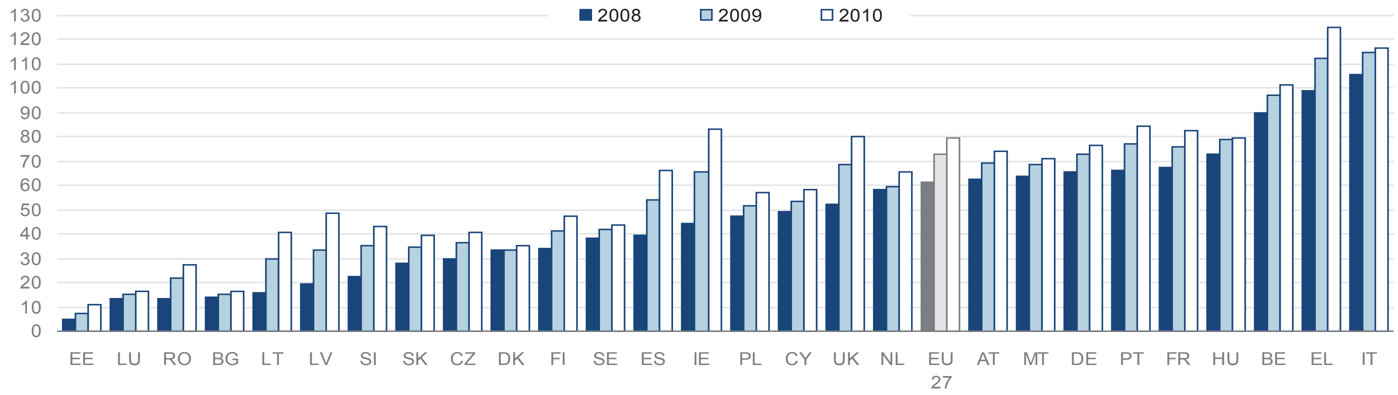
Public finances

Repeatedly high deficits lead, of course, to higher government debt. On average the public sector debt burden will increase from just over 60% of GDP – actually the Maastricht ceiling – to around 80% in 2010, a new record. Three countries will have debts in excess of one year's GDP, implying a need to raise taxes equivalent to at least the rate of interest (4-5% normally) as a share of GDP simply in order to pay the interest on the national debt.

These figures have given rise to an anguished debate about fiscal sustainability. We return to this subject below, but already here it is essential not to lose sight of the fact that the discretionary and automatic measures were vital in stabilising European economies in the crisis; they are the mirror image of the fact that the private sector, which in the boom had on average wanted to take on more debt, suddenly wanted to save more (deleveraging).

During 2009 policymakers and commentators displayed an increasing sense of satisfaction about the policy response. First of all, global meltdown had been avoided. Then, gradually, the worst fears about the extent of output and job losses were able to be overcome. And at the time of writing there are clear signs of a – weak – recovery. Assuming for the moment that this is the case – for there is still a not insignificant risk of a renewed plunge into a double-dip recession – can we join in the chorus of (self-)congratulation with respect to Europe's policy response? In the next section we will consider, in turn, monetary and fiscal policies.

Figure 2.6 Government debt, gross (% GDP)



Data source: AMECO (2009 estimate, 2010 forecast).

2.2 Benchmarking the macroeconomic policy response

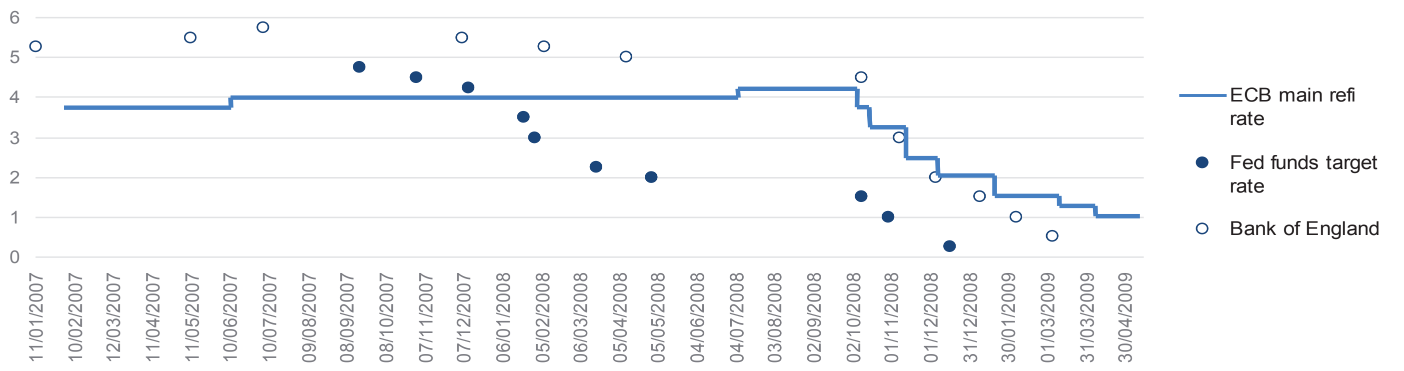
Monetary policy

Figure 2.7 shows the policy rate set by the ECB, the Bank of England and the US Federal Reserve in the crisis. The interest rate hike by the ECB in June of 2008 had been a mistake, as was evident not only with hindsight *(Benchmarking Working Europe* 2008: 21; ELNEP 2008), and showed the problems of – as President Trichet likes to put it – having only one needle (i.e. inflation) in one's monetary policy compass. The two other leading central banks had already started to reduce rates. Belatedly the ECB did cut rates, more or less in line with the central banks of the US and UK. During this period, central bankers were rightly praised for avoiding the mistakes of the Great Depression and for making 'money cheap' in an attempt to counter the contractionary forces battering the economy. However, the ECB never cut its policy rate below 1%, that is half and at least three quarters of a point higher than those in the two English-speaking countries. Though this would normally point to a tighter monetary policy stance, such an interpretation would be, in the current situation, somewhat misleading. By making unlimited amounts of money available to the banking sector, the ECB has driven market interest rates (the rates at which banks lend to each other) below the policy rate, and down to levels similar to those prevailing in the UK and US. To that extent, monetary policy can be argued to be as expansionary in the euro area as in the pound or dollar area.

On the other hand, though, the ECB has largely refrained from directly buying private or public sector securities from the public. This so-called 'quantitative easing' policy is more informally known as 'printing money', as the central bank creates the money with which to purchase these securities, and is used to stimulate the economy when policy rates are as low as they can get. Both the Federal Reserve and the BofE have 'expanded their balance sheets', i.e. printed money with which to purchase more than USD 1 trillion in assets and GBP 200 billion respectively. On this measure the ECB was less active in stimulating the economy. Moreover, the exchange rate forms an important (and often overlooked) element in the overall monetary conditions. Prior to the crisis, currency appreciation had often been associated with sluggish growth in the euro area (*Benchmarking Working Europe* 2008: 13f.). The rise of the euro against both the pound sterling and the dollar, of the order of 25-30% (due, not least, to the aforementioned reluctance to use quantitative easing policies in Europe and its extensive use in America and Britain), is putting downward pressure on both growth and inflation in Europe at a time when neither is desirable; this factor also indicates that monetary conditions are tighter in Europe than suggested by policy rates.

To sum up, evaluating the stance of monetary policy is somewhat complex, but a clear conclusion can be reached. Yes, the ECB did make unprecedented efforts (after an initial mistake) to stimulate the European economy. However, it did not do as much as other leading central banks. And once the exchange rate is taken into consideration, monetary conditions have been substantially tighter than necessary, given the loss of output and below-target inflation, and less expansionary than in other world regions.

Figure 2.7 Central bank policy rates, ECB, Fed, Bank of England (%)



Data source: ECB, US Federal Reserve, Bank of England.

2.2 Benchmarking the macroeconomic policy response

Fiscal policy

As we have seen in Section 1.3, the crisis has blown huge holes in public finances. Does this mean, conversely, that the fiscal policy response to the crisis in Europe was appropriate, that is highly expansionary? In some respects the answer to this question conforms to the pattern identified for monetary policy. Initially mistakes (here of omission rather than commission) were made. Subsequently a response was forthcoming that was indeed of historic proportions. However, in comparison both with other countries and with Europe's possibilities, more could have been done. The table in Figure 2.8 provides an overview of the extent of the discretionary measures adopted by mid-2009 for that year and 2010 (given the signs that the economy is picking up, very few such measures have been adopted since).

Space prevents a more detailed discussion (see Watt 2009a and Watt 2009b for details), but the key findings on the performance of fiscal policy in the EU can be summarised as follows:

— Political delays and initial failure to recognize the seriousness of the situation in Europe meant that stimulus measures were not launched in most countries until the spring of 2009. Stimulus came too late to cushion the economy against the negative forces at the end of 2008 and start of 2009.

— After a delay, European coordination was quite effective in avoiding the free-rider problem (as shown by the lack of correlation between country size and the size of the package as a share of GDP; Watt 2009a: 17).

— The overall size of packages was much too small – around 1% in 2009 and 0.6% in 2010 – given the magnitude of the shock (6-7 p.p. of GDP).

— Even allowing for the larger automatic stabilisers, as compared to the US, the overall size of the fiscal response was smaller than in the US and also in China.

— Analysis of the distribution of the size of packages across countries showed some positive features (e.g. a positive correlation with the size of the negative output shock) but also some negative ones (notably clear evidence of real or imagined fiscal constraints limiting the size of anti-cyclical measures) (Watt 2009a: 15ff.). Indeed pressure from international markets, and in some cases the International Monetary Fund and European Commission, is forcing a number of countries into pro-cyclical fiscal tightening, thereby exacerbating the crisis.

— In qualitative terms the packages were very mixed. On the positive side there was, in many countries, a focus on public investment (high multipliers). However, tax cuts were not sufficiently focused on low-income groups, thereby reducing the stimulus effect of any given tax cut; inadequate attention was paid to labour market policy and unemployment prevention, and to distributional concerns; and the chance to reorient production towards 'green growth' was largely missed (cf. Nikolova 2009).

Figure 2.8 Estimated size of discretionary fiscal packages*, (%GDP)

	EU*	AT	BE	DK	FI	FR	DE	HU	IT	LU	NL	NO	PT	ES	SE	UK
Overall size of fiscal package	1.79	2.4	0.9	2.2	1.5	1	3	2	0.2		1			4.6	2.4	1.5
in 2009	1.02	1	0.4	1.2	1	0.7	1	0	0.2	1.75	0.45	0.75	1.2	2.3	1.25	1.4
in 2010	0.59	1.4	0.4	1	0.5	0.3	2	0	0.4		0.51				1.15	-0.1
revenue side	52	70	40	40	80	36	54				20			20	66	90
expenditure side	48	30	60	60	20	64	46				80			80	34	10

* up to mid-2009
Data source: Watt (2009a).

2.2 Benchmarking the macroeconomic policy response

Conclusion: macro policy in Europe partly to blame for performance

The analysis of this section points to a mixed picture for both European and national economic policy in response to the crisis in the EU. The disastrous errors of the Thirties were not repeated. But then the Great Recession happened after the Great Depression, and after Keynes and others had provided the analysis to understand it and the tools to deal with it. Policymakers had the tools, they 'just' had to use them (Watt 2008). To have repeated the hugely costly errors of the past would have been not simply foolish, but also criminal, and to that extent the current atmosphere of self-congratulation is misplaced. Perhaps the best that can be said is that policymakers were pragmatic. Faced with a possible total meltdown of the economy, they swiftly forgot all the theories of policy ineffectiveness and market rationality that had dominated debate for the past twenty or more years – and the truth of which they had repeatedly avowed. In that sense they deserve praise indeed. Ultimately, the actions taken were, broadly, of the right kind and the scale of action was impressive by historical standards. It certainly avoided much worse outcomes that would otherwise have been inevitable.

Yet the fact remains that Europe's cumulative action remained far short of what was possible. As noted, Europe experienced a deeper crisis than the US and this reflected, alongside some structural reasons, weaknesses in the policy response, as was shown above. In particular, both monetary and fiscal policy were initially slow to respond to the crisis, and neither went the 'whole hog' once the need for action was belatedly recognised. The problems of lost output, lost jobs and high fiscal deficits now faced by Europeans are worse as a consequence.

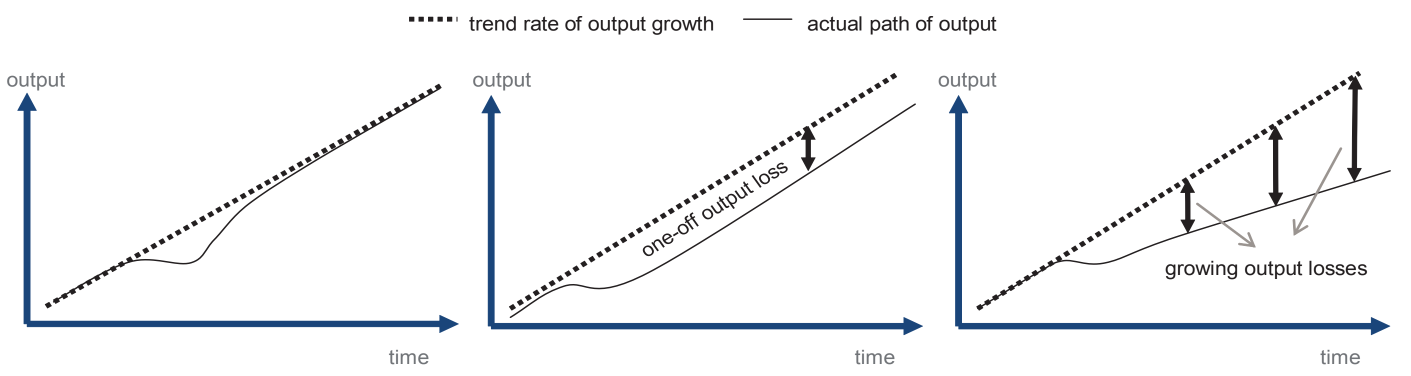
2.3 Looking ahead: how long-lasting will the impacts be?

Potential output

The main aim of this chapter has been to examine the impacts of the crisis so far. Yet a number of concerns have been raised regarding the longer-term prospects. Two can be briefly addressed here. The first is that the sharp drop in output will have longer-term consequences on our economies' ability to produce in the future, in other words on the level of potential output and the rate of potential (non-inflationary) growth. The second is that the fiscal problems already described will deteriorate further (especially if growth is slower), leading to fiscal crises and/or the need for painful cutbacks in the levels of public provision.

Figure 2.9 provides a graphic illustration of possible outcomes of a crisis on potential output and growth. The economy is initially growing at a trend rate: this is the sloped line showing a steady increase over time, and the slope is the potential growth rate. At any point in time the economy is at its potential output: it is producing as much as it can without creating imbalances. The crisis causes output to dip. If the economy is to move back on to the previous trajectory it must enjoy a period of faster-than-trend growth (catch-up period), before returning to the previous rate. This is shown in the first panel. In the long run neither potential output nor growth are affected. If this is not achieved the economy may, after a time, return to the previous potential growth rate, as in the second panel. In this case the loss of output due to the crisis is permanent, but also one-off. A much more worrying scenario is depicted in the third panel, where the crisis also depresses the rate of potential growth, which then never returns to what was previously normal. In that case the economy moves ever further away from its previous output trajectory.

2.9 Potential output and growth scenarios after the crisis



2.3 Looking ahead: how long-lasting will the impacts be?

Potential output

The debate is dominated by the last-mentioned, pessimistic case. Several arguments are adduced to support this view (cf. e.g. European Commission 2009f). It is argued that the crisis showed that growth prior to 2008 had been unsustainably fast, fed by excessively low interest rates, and will have to be slower in future; some economic sectors (automobiles, finance) have overcapacity and will have to contract in the coming years; higher regulatory costs in the financial sector and greater risk aversion by investors will both mean higher capital costs for investors, thereby depressing capital accumulation and thus potential output. Meanwhile job losses will lead to the lasting exclusion of workers from the labour market, and/or the loss of skills, reducing the quantity and quality of future labour input (so-called 'hysterisis effects').

Yet counter arguments can be made against all these claims: real economic growth was not unsustainably fast; it was asset and credit growth that suffered from a bubble; the necessary decline in some sectors can and should be balanced by the rise of others (e.g. producing 'green' technologies); higher capital costs can and should be offset by monetary policy; and finally, avoiding hysterisis effects is the task of labour market and also demand-side policy. More generally, it is odd that those who have always insisted on the neutrality of money and the idea that demand is not important in the longer run now argue that the crisis can depress longer-term prospects (Horn *et al.* 2007; Watt and Janssen 2005).

The decisive point is that there are no grounds for fatalism. There are indeed *risks* of a longer-term depressing effect on potential growth rates. There is historical evidence that the impact of financial crises tends to be longer-lasting than that of other negative output shocks (Reinhart and Rogoff 2009). But, crucially, outcomes depend decisively on what policies are deployed. In particular, macroeconomic policies must bring the rate of demand growth quickly back to its previous rate and keep it there; this cautions against premature 'exit' strategies from expansionary policies. Otherwise, there is a real danger of self-fulfilling prophecies if a lower potential growth rate is assumed *ex ante*: the resulting tighter policies will then bring about precisely this result. In parallel, supply-side policies are also needed, among other things to manage change processes on labour markets, re-equip the unemployed with needed skills, and invest in industries of the future. In this context the labour-hoarding strategies practised by several EU countries (see above) will have positive effects also in the longer run, to the extent that they maintain productive capacity, and especially workers' skills and labour market attachment.

2.3 Looking ahead: how long-lasting will the impacts be?

Public finances

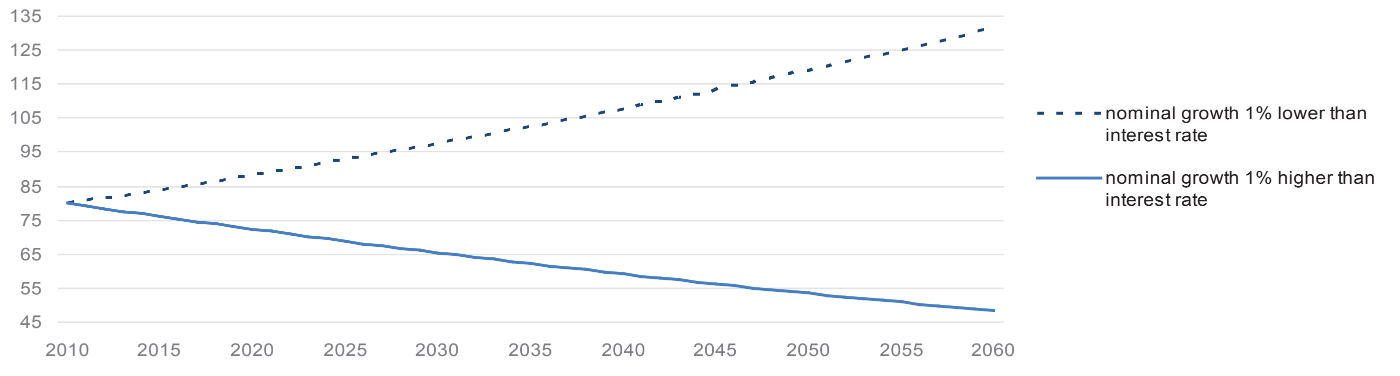
A number of dire predictions have been issued about the longer-term sustainability of EU public finances and, by extension, about the continued existence of Europe's 'generous' welfare states (von Hagen *et al.* 2009; European Commission 2009b). The concern is that high debt and deficits in the wake of the crisis interact with higher interest rates, more sluggish growth and, increasingly, the costs of ageing to produce a 'time bomb' for European public finances.

The key outcome of the Commission's analysis (European Commission 2009b: 3) is that, on unchanged policies and relying on its estimations for variables such as interest rates, growth rates, and demographic trends, achieving budget sustainability requires EU countries, on average, to raise revenues or cut expenditures to a combined value of some 6% of GDP. Roughly half of this is due to higher age-related spending, the other half being required to rectify the accumulated fiscal 'sins' of the past and the current crisis.

While a full discussion is not possible here, a number of key points are in order. The projections are over a long period (to 2060) and have to make simplifying assumptions about a whole range of specific factors, not least migration, life expectancy, etc. The projections, it must be emphasised, are based on a 'no policy change' assumption, whereas measures are already being planned and implemented in Europe, notably to raise retirement ages. Two variables are absolutely critical for these analyses: the nominal interest rate on government debt and the nominal rate of GDP growth. Very small changes in these variables, over the projected period, lead to totally different outcomes. Specifically, whether the former variable is assumed to be greater than, equal to or smaller than the latter is decisive for the debt path, as the gap determines whether debt falls or rises as a share of GDP *even without fiscal consolidation*.

This is shown by Figure 2.10. Given the same fiscal policy – a zero primary balance, which actually means in practice a deficit in the region of 3% every year – a country moves from the forecast level of 80% of GDP in 2010 to more than 130% of GDP in 2060 if the nominal interest rate is 1% higher than the nominal growth rate. On the other hand, the ratio falls to below 50% if the interest rate is 1% below the nominal growth rate.

Figure 2.10 Simulation of government debt (as % GDP)*



* Assuming zero primary government surplus/deficit every year
Data source: own calculation.

2.3 Looking ahead: how long-lasting will the impacts be?

Public finances

Crucially, not only is there a margin of error in estimating these variables, but the interest rate and nominal GDP growth are, to a considerable extent, *policy* variables. (It should be noted that we are talking about nominal not real GDP, and thus price increases raise nominal GDP). Other things being equal, if the central bank keeps interest rates lower, the interest rate paid by government will be lower and the pace of nominal GDP growth will be higher. A positive gap opens up between growth and the interest rate, which as we have seen brings debt ratios down. Similarly, fiscal solidarity between EU governments (e.g. in the form of euro-bonds) would also reduce the interest rates faced by governments with high debts, and thus change a key parameter of the debt dynamics, facilitating fiscal consolidation. A critical weakness of the Commission and other analyses of the longer-term fiscal sustainability is either to remain unaware of or to deliberately omit to discuss such policy options.

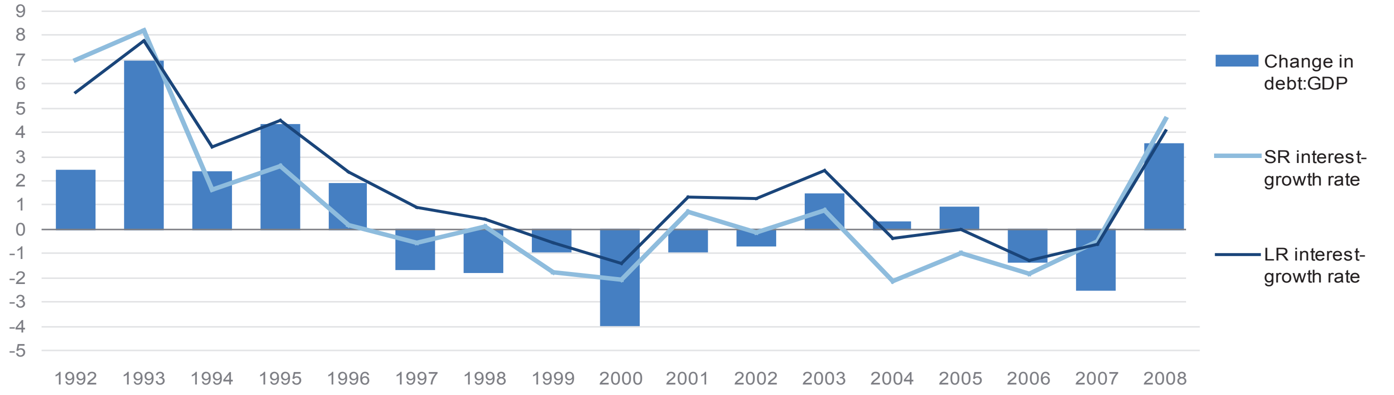
That this is no mere abstract exercise is shown by the data in Figure 2.11. It is evident that for the EU15 countries during the 1990s and 2000s changes in the size of government debt as a proportion of GDP are closely related to the gap between the nominal interest and the growth rate. Periods in which the debt burden rises as a share of GDP are those in which the interest rate is higher than the rate at which the economy is growing, measured in current prices, and vice versa. This is true using both the short-term interest rate (which is close to that determined by the central bank) and the long-term rate (which is more loosely related to the policy rate, but more decisive for government debt dynamics.)

Ultimately, a government with an independent currency and central bank need never get into an unsustainable position. As the issuer of legal tender it can always create the funds needed to pay bondholders. Of course the outcome – inflation – is in itself undesirable. But then so are cuts in public services and a higher tax burden. Yet the implied trade-offs and the partial responsibility of monetary policy for fiscal sustainability are not being discussed.

Similar considerations apply to tax revenues. Many would argue that the costs of the financial crisis, for instance, should be as far as possible borne by the sector that was largely responsible (Watt 2009). A small rate of tax on financial transactions could generate large amounts of fiscal revenue (Schulmeister *et al.* 2008). The same is potentially true of tax coordination in order to prevent tax avoidance and downward competition on taxation of corporations and top incomes and also of a carbon tax. Such discussions are also excluded from the Commission analysis.

If we are to have a debate on the sustainability of public finances it must be an open one in which the alternative courses of action are weighed in an impartial manner. While studies such as that of the Commission play a useful role in focusing minds on this important issue, they do the European public disservice by implicitly or explicitly channelling the debate in such a way as to favour certain policy options over others.

Figure 2.11 Changes in government debt/GDP ratio and in nominal interest rate/growth differential, (% points)



Data source: AMECO.

2.4 Conclusions

The economic crisis has left its scars on the European economy. Those scars will take a long time to heal, and may remain visible for decades to come. The European, and global, economy remains in a delicate state and extreme caution is required from policymakers before deciding to remove the current stimulus measures. The danger of a renewed downturn, with potentially catastrophic consequences, is still real. When so-called exit measures are implemented, attention should be paid to distributional and sustainability concerns. This suggests, in particular, the need for continued low interest rates, accompanied by initially cautious, but subsequently resolute, fiscal consolidation that places the burden on the 'broadest shoulders' and maintains public spending, especially investment in support of future economic activity faced with the challenges of climate change.

The main conclusions from the above analysis are that the European response to the crisis was a case of a 'glass half full' (or 'half empty' depending on one's preferences). Huge challenges remain to ensure a path back to steady growth and to solve the fundamental causes of the crisis (to address inequalities, imbalances between countries and inadequate regulation, especially but not only of the financial sector). Major question marks have been raised about some of the central elements of the Maastricht architecture for economic policy in the EU and the euro area – the tasks of monetary policy, the Stability and Growth Pact, etc. At the same time, the euro appears to have weathered the crisis well – so far at least – and has shielded its members from damaging currency turbulence. Nevertheless, some tensions have emerged and the inability to devalue poses problems for some countries.

Precise policy recommendations are not made here. A forthcoming ETUI book entitled *After the crisis, towards a sustainable growth model,* sets out a range of progressive policy options for the future (Watt and Botsch 2009).

3. Labour market developments in the crisis

Introduction

Over the period since the initiation of the Lisbon Strategy in 2000, Europe had seen rising rates of employment and falling rates of unemployment. However, the economic crisis has now reversed this trend: the EU average employment rate is back to its 2006 level, while unemployment has increased by two percentage points in a single year. Yet the impact of the economic crisis on labour markets displays considerable variation from one country to another. Some countries have succeeded in keeping employment levels up and unemployment levels down through recourse to employment-preservation and employment-creation measures combined with an expansion of active labour market policies. What is more, certain labour market groups or categories have been particularly hard hit by the crisis. These include men, temporary workers, youth and prime-age workers, as well as migrant workers.

This chapter will proceed as follows. The first section will discuss labour market outcomes with a focus on developments between the second quarter of 2008 and the second quarter of 2009 in order to obtain an overall picture showing which countries and which labour market groups have been particularly hard hit by the crisis. Employment rates and unemployment rates will be compared between European countries and for different groups of workers. The development of specific forms of non-standard employment will also be monitored, since both temporary and part-time employment have in recent years made a sizeable contribution to employment growth. In a second section, the role of labour market and employment policies in cushioning the effects of the crisis will be briefly discussed, with the focus on active labour market policies and work-sharing measures.

Themes

3.1 Labour market developments in the EU

3.2 The role of labour market policies in the crisis

3.3 Conclusions

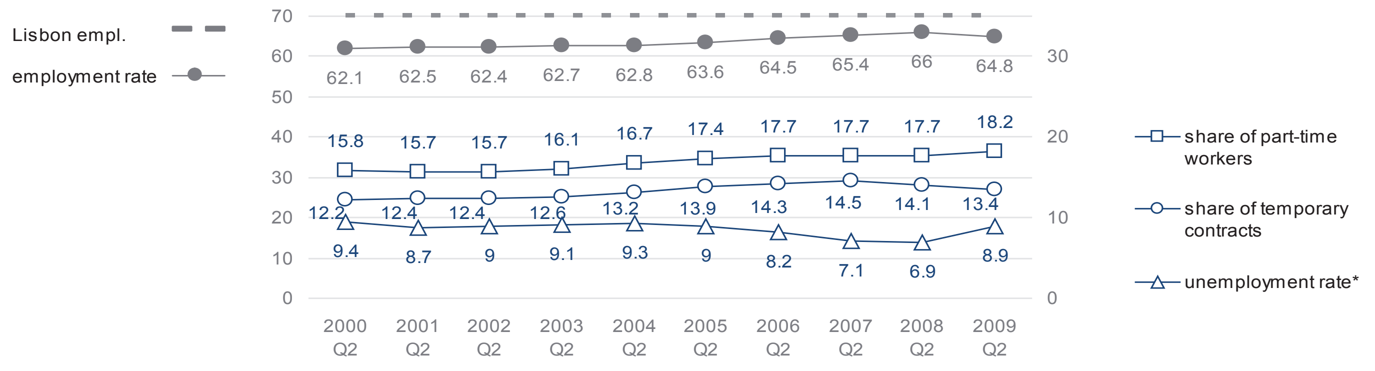
3.1 Labour market developments in the EU

Lisbon-period achievements and impact of the crisis

The Lisbon Strategy formulated highly ambitious employment goals for 2010: an overall EU employment rate of 70% and employment rates of 60% for women and 50% for older workers. Some positive developments have indeed taken place in this respect, insofar as employment growth has been especially strong among women and older workers (European Commission 2006: 38), while some countries have successfully boosted their employment rates. However, even before the crisis, overall employment rates – which had reached 66% by the second quarter of 2008 – remained far from the Lisbon 2010 target, since when the economic crisis has led to a drop in employment rates of more than one percentage point within a one-year period (Figure 3.1). In the second quarter of 2009, EU employment stood at 64.8%, while unemployment was 8.9%, representing a two percentage point increase within a single year. In fact, employment and unemployment levels are currently back to their 2006 and 2005 levels and further deterioration of this situation is most likely.

A considerable share of recent employment growth in Europe has been due to increasing shares of part-time and temporary employment (European Commission 2006: 24). Part-time employment, as a percentage of total employment, increased by about two percentage points between the beginning of the Lisbon Strategy and the second quarter of 2008. Since the onset of the crisis it has grown by another 0.5 percentage points to a current level of 18.2%. Temporary employment (all contract forms of limited duration such as fixed-term employment and temporary agency work) has also increased by about two percentage points in the eight years since the introduction of the Lisbon Strategy – its share in total employment having reached 14.1% in 2008. Workers on temporary contracts – particularly temporary agency workers but also those on fixed-term contracts – were in many countries the first to lose their jobs during the crisis. Temporary employment, which is usually not exercised out of choice but as a matter of necessity and is much more pronounced among young workers, has therefore fallen steeply since the onset of the crisis. In the second quarter of 2009 it accounted for 13.4% of all employment, a figure quite close to the 2004 level.

Figure 3.1 Developments in employment and unemployment over the last 10 years (EU27)



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*.

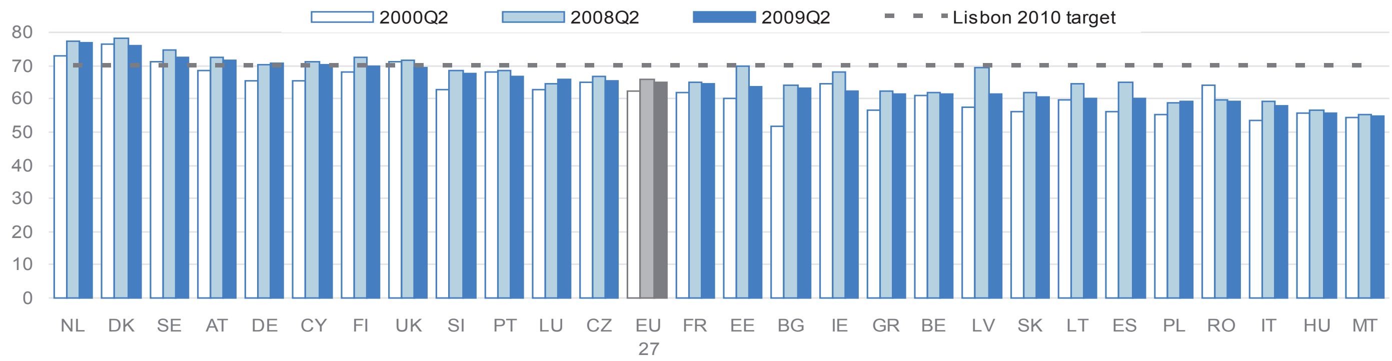
3.1 Labour market developments in the EU

Employment rates

The Lisbon 2010 employment rate target was formulated for the EU as a whole and represents a suitable indicator for benchmarking European countries. By the second quarter of 2009 only six countries – the Netherlands, Denmark, Sweden, Austria, Germany and Cyprus – had exceeded the Lisbon target (Figure 3.2). High employment rates among women (considerably in excess of the 60% target) contribute to this positive outcome, and yet, as will be seen in section 1.4, particularly in the Netherlands, but also in Germany, Sweden, Austria and Denmark, a large share of female employment is part-time. As such, the employment rate in the Netherlands, if expressed in full-time equivalents, is only 58.6% (and 44.4% for women), which compares with 69.3% (women: 62.8%) in Denmark and a EU27 average of 59.9% (women: 49.8%) (European Commission 2008f, statistical annex). The worst performers, those with employment rates below 60% in 2008 (Malta, Hungary, Italy, Romania and Poland), all have very low employment rates for women.

The large majority of EU countries have seen increasing employment rates since the introduction of the Lisbon Strategy and the increases have been very sizeable in a number of countries (particularly Estonia, Bulgaria, Latvia and Spain) which had comparatively low employment rates in 2000. What is more, a number of countries with above average employment rates in 2000 also saw further strong growth (e.g. the Netherlands, Germany, Cyprus and Slovenia).

Figure 3.2 Employment rates: Lisbon period achievements and outcomes of the crisis



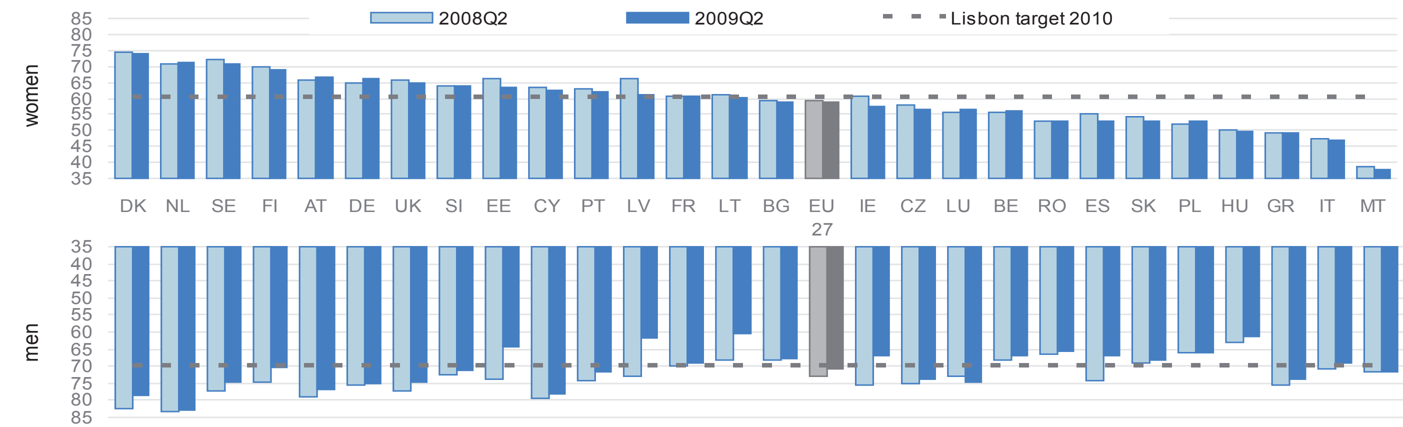
Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64. Note: FR: 2000Q1 instead of 2000Q2.

Employment rates

However, the economic crisis has had adverse effects on employment in almost all countries, the only ones that still saw slight employment growth between the second quarters of 2008 and 2009 being Germany, Luxembourg and Poland. Five countries – the three Baltic countries, Ireland and Spain – experienced especially drastic falls in employment within this one-year period.

On the EU average, the employment rates of men fell much more steeply than those of women between the second quarters of 2008 and 2009. Employment rates of men are down by about two percentage points to a level of 70.9% whereas employment among women is down by 0.3 percentage points to a current level of 58.8% (Figure 3.3). Particularly steep declines have been observed in the three Baltic states, Ireland and Spain but also in countries such as Denmark and Finland with their traditionally very high employment rates. At present only 14 countries surpass the 60% benchmark for female employment rates, while 14 countries (but not in all cases the same ones) have male employment rates higher than 70%.

Figure 3.3 Development of employment by gender in the crisis, 2008Q2 and 2009Q2



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64

3.1 Labour market developments in the EU

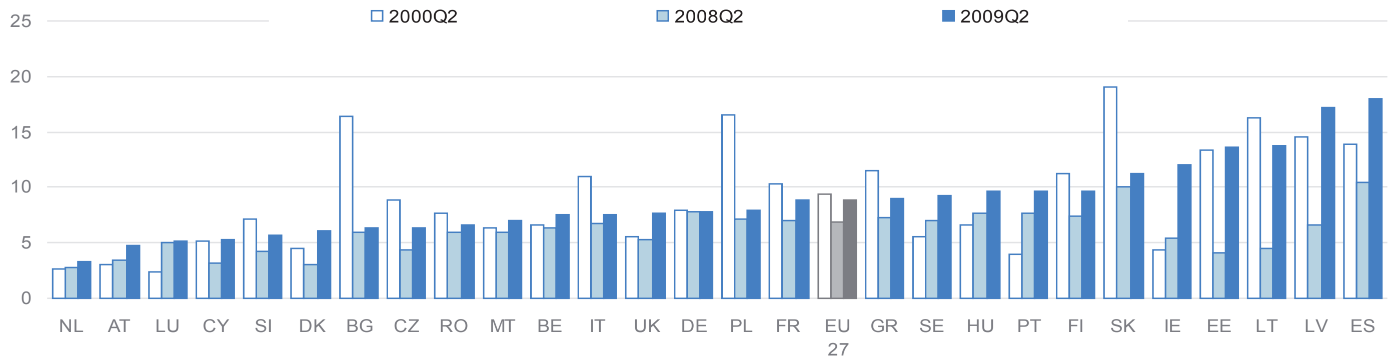
Unemployment rates

Some countries have made enormous achievements in terms of reducing unemployment since the beginning of the Lisbon Strategy (e.g. Bulgaria, Poland and Slovakia) and the 2009 EU average level of unemployment is still somewhat below the 2000 level. However, quite a number of countries (e.g. Ireland, Sweden and Spain) now have unemployment rates well above their levels at the beginning of the Lisbon Strategy (Figure 3.4).

Looking at the second-quarter European labour force survey data for 2008 and 2009, only Germany saw no increases in unemployment rates, whereas unemployment more than doubled in Ireland and Latvia and more than tripled in Estonia and Lithuania. Jumps in unemployment were also very large in both Spain and 'flexicurity champion' Denmark, having risen, in the latter, from a very low initial level.

By the second quarter of 2009 only the Netherlands and Austria had unemployment rates of below 5%, whereas one year earlier this had been the case in eight countries. In Ireland, the Baltic countries and Spain unemployment is higher than 12%, in Spain as high as 18%.

Figure 3.4 Unemployment rates: Lisbon period achievements and impacts of crisis



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64. Note: FR: 2000Q1 instead of 2000Q2.

3.1 Labour market developments in the EU

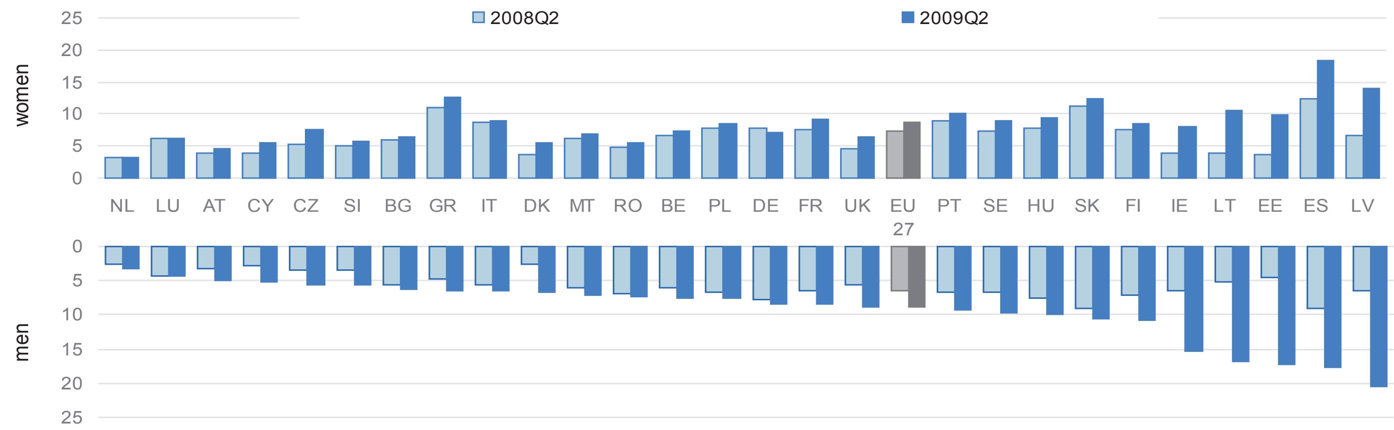
Unemployment rates

Unemployment rates increased from 7.4 to 8.8% among women and from 6.4 to 8.9% among men (Figure 3.5). In the second quarter of 2008 in only five out of 27 countries was unemployment among women lower than or equal to that among men, but this is currently the case in 16 countries.

Figure 3.6 shows that in all countries unemployment rates are considerably higher among youth than among other age groups. At 19.6% on the EU average, youth unemployment is more than double the total unemployment rate (8.9%). Among prime-age workers the unemployment rate is 8%, whereas older workers – who are more likely to enter early retirement or functional equivalents of prolonged unemployment – have an unemployment rate of only 6.3%.

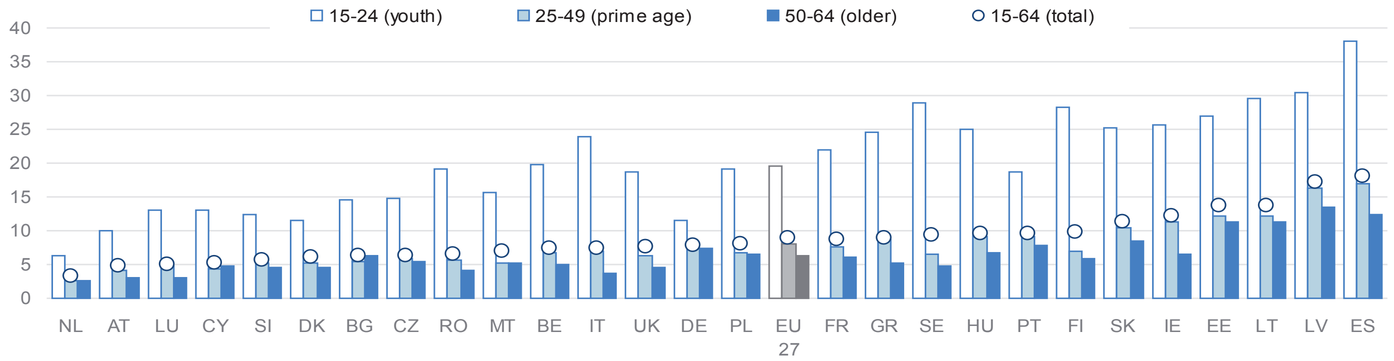
Italy and Sweden have a rate of youth unemployment that is three times the total unemployment rate and both Romania and Finland are close to a similar figure. In only six countries – the Netherlands, Denmark, Germany, Portugal, Estonia and Latvia – is youth unemployment slightly below double the total unemployment rate. The best performer here is Germany with its dual education system that cushions transitions from school to work.

Figure 3.5 Development of unemployment by gender in the crisis, 2008Q2 and 2009Q2



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64

Figure 3.6 Unemployment rates by age group and total unemployment rates, 2009Q2



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*.

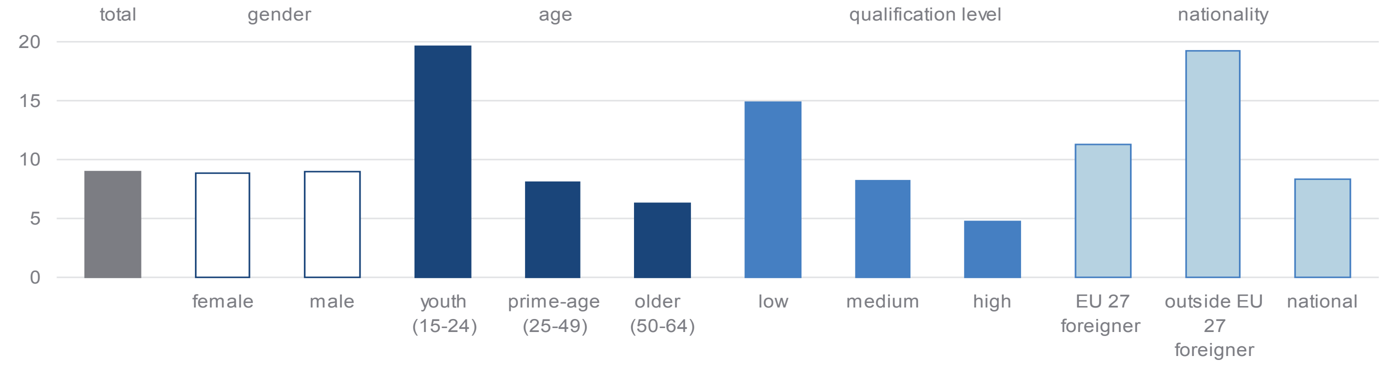
3.1 Labour market developments in the EU

Labour market subgroups and the crisis

The economic crisis has affected different groups of workers in different ways. Here, by way of example, the developments in unemployment will now be considered. Before looking at rates of change in regard to unemployment, it is important to take into account the initial levels. On the EU average, women now have marginally lower unemployment rates than men, whereas before the crisis unemployment rates of men were lower. As the last section showed, young workers are more likely than prime-age workers, and especially older workers, to be unemployed. Similarly, in all countries, persons with low levels of qualification have considerably higher unemployment rates than those with medium and particularly high qualifications, while, in the majority of countries, the incidence of unemployment is higher among migrant workers (and particularly non-EU migrants) than among nationals (Figure 3.7).

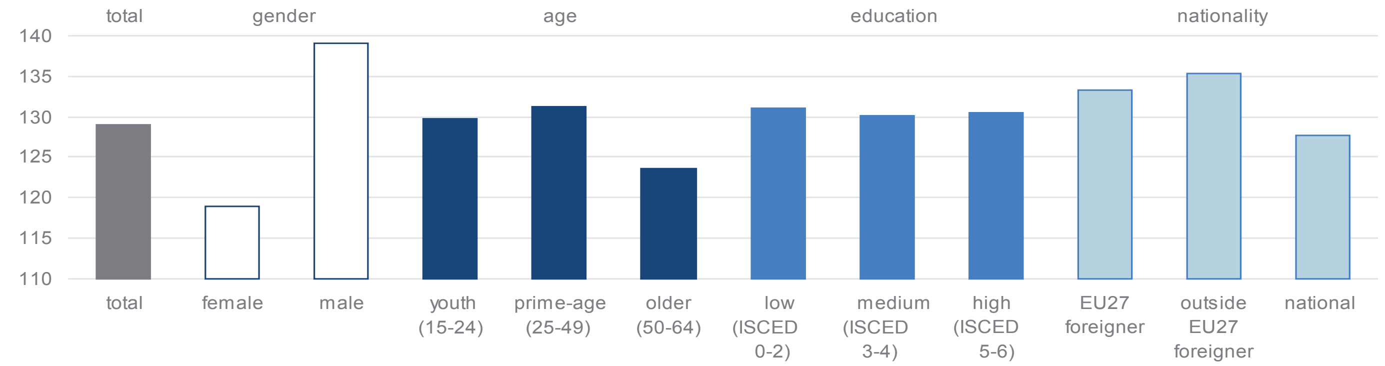
Figure 3.8 compares the rates of change of unemployment for the different labour market groups between the second quarters of 2008 and 2009. Overall unemployment increased by approximately one third. Due to the fact that certain male-dominated sectors (manufacturing, construction) were particularly hard hit, growth in unemployment was much greater

Figure 3.7 Unemployment rates by labour market subgroup, 2009Q2



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64 if not stated otherwise.

Figure 3.8 Rate of change of unemployment by labour market subgroup: 2008Q2-2009Q2 (2008Q2=100)



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64 if not stated otherwise.

Labour market subgroups and the crisis

among men, this distinction of gender being virtually the only instance of an outcome that applies, with very few exceptions, across the EU as a whole.

Youth and prime-age workers were, on average, more affected by unemployment in the immediate wake of the crisis than were older workers, a fact that may be due to the higher propensity among younger workers to be employed on fixed-term contracts but which is also attributable in part to firing rules that stipulate that those with the shortest experience in the firm are the first to be made redundant ('last in – first out'). Furthermore, older workers who become unemployed are often transferred, relatively quickly, to early retirement measures or functional equivalents and are thus no longer counted as unemployed. In only a few countries (e.g. Austria, Belgium, Czech Republic and Slovakia) did youth unemployment, relative to levels in 2008Q2, actually increase more strongly than unemployment among prime-age workers. However, the extent to which young people have been affected by the current economic crisis is likely to be under-estimated by the unemployment data, insofar as young people who lose their jobs, or who face problems in finding a first job, frequently decide instead to continue their education, which means that they will not show up in the unemployment statistics. In fact, relative to the level in 2008Q2, in almost all countries youth employment had decreased more than total employment (Eurostat, Labour Force Survey 2009, figure not shown). What is more, if we look at percentage point increases in unemployment instead of rates of change, then unemployment among youth increased more strongly (from 15.1% to 19.6%) than unemployment among prime-age workers (from 6.1% to 8%) (not shown).

In terms of qualification levels, there are hardly any differences in the extent to which workers fell victim to unemployment. The EU average differences are more pronounced in terms of nationality with nationals being least affected and non-EU27 foreigners being most affected. Again, heterogeneity among countries is strong with countries such as Denmark, Estonia, Latvia and Sweden recording considerably weaker growth in unemployment among migrant workers than among nationals, and countries such as Greece, Luxembourg and Portugal recording considerably stronger growth (Eurostat. Labour Force Survey 2009, figure not shown). In regard to migrant workers, it is important to be aware that the unemployment records may not tell the whole story, insofar as some migrant workers may not have access to unemployment benefits or may return to their home country upon losing their job during the economic crisis.

Forms of non-standard employment in the crisis

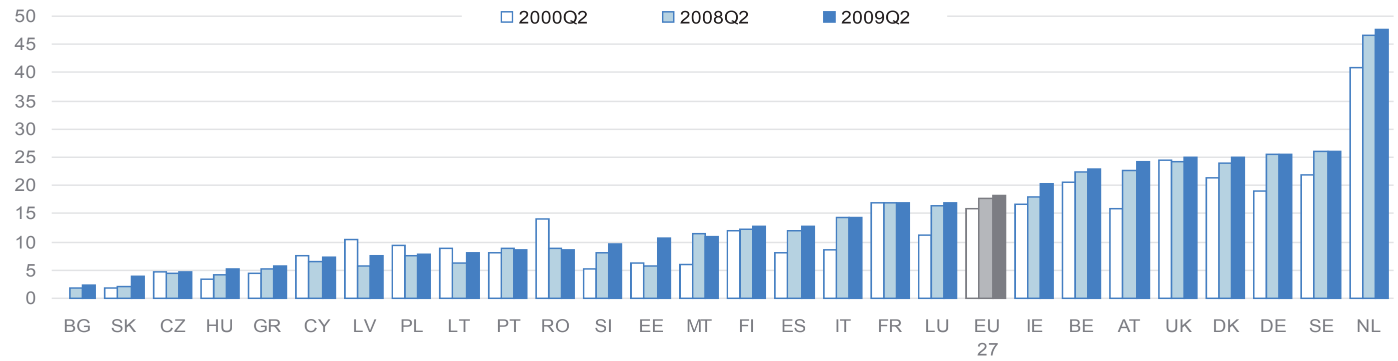
Forms of non-standard employment have been actively promoted at the EU and national levels as remedies to unemployment and a way of helping to boost employment rates. Part-time employment is for the most part exercised by women and can be in the interest of employees insofar as it contributes to their efforts to balance work and family life. On the other hand, it is often exercised as a matter of necessity in the absence of sufficient child and elderly care facilities or of other sufficiently flexible working-time arrangements at the workplace level. Part-time work has been shown to have adverse effects on wages, social security benefits and career advancement (European Foundation for the Improvement of Living and Working Conditions 2003; Leschke 2007). Temporary employment (including fixed-term and temporary agency work) is over-proportionally exercised by young workers and taken up, for the most part, as a matter of necessity rather than choice in the absence of permanent jobs. This form of work much more frequently leads to spells of unemployment and can entail adverse effects, especially on unemployment insurance benefit receipt.

The shares of both part-time employment and temporary employment in total employment have grown since the introduction of the Lisbon Strategy. Part-time employment was 18.2% in the second quarter of 2009 – up by 2.4 percentage points since 2000 (second quarter). Temporary employment is currently 13.4% – up by 1.2 percentage points with large losses during the crisis (see below).

Part-time and temporary employment are unequally spread over Europe. The incidence of part-time employment is much more pronounced in the old member states, where in five countries – the Netherlands, Sweden, Germany, Denmark and the UK – more than 25% of the working population are employed on a part-time basis (Figure 3.9). In the Netherlands this share amounts to almost 48% of the working population. At the other end of the scale, we find Bulgaria, Slovakia and the Czech Republic with part-time shares of below 5%.

Reflecting the traditional gender division of waged work and care and household tasks, gender differences in part-time employment are large. On average 31% of all women in employment in the EU work part-time, as against only 7.5% of men. In nine of the EU15 countries more than one third of women work part-time, and in six of these countries (Netherlands, Germany, Austria, Belgium, UK, Sweden) the share is larger than 40%. In only four countries (Netherlands, Denmark, Sweden, UK) do more than 10% of men work part-time, the share of male part-time workers in the Netherlands being exceptionally high at 23.6% (Eurostat, Labour Force Survey 2009, figure not shown).

Figure 3.9 Part-time employment: developments since onset of Lisbon Strategy and impacts of crisis



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64. Note: FR: 2000Q1 instead of 2000Q2.

3.1 Labour market developments in the EU

Forms of non-standard employment in the crisis

In ten EU countries (out of 22 with complete data) more than 50% of women part-timers state that they work part-time due to care, family or other personal responsibilities. The shares are highest in Luxembourg, Ireland, Malta and the UK and lowest in Romania and Poland (Eurostat Labour Force Survey 2009, figure not shown).

Temporary employment is highest by far in Poland, Spain and Portugal, where the respective percentages of total employment are 26.3%, 25.5% and 21.7% (Figure 3.10). Spain has recorded huge declines in temporary employment since the onset of the crisis. Temporary employment is below 5% in Romania, the Baltic countries, Slovakia and Malta. Only three new member states (Poland, Slovenia and Cyprus) exceed the EU average. The share of temporary employment in total employment is undoubtedly influenced by the strictness of employment protection legislation for permanent contracts and the strictness of regulations pertaining to temporary employment (Venn 2009).

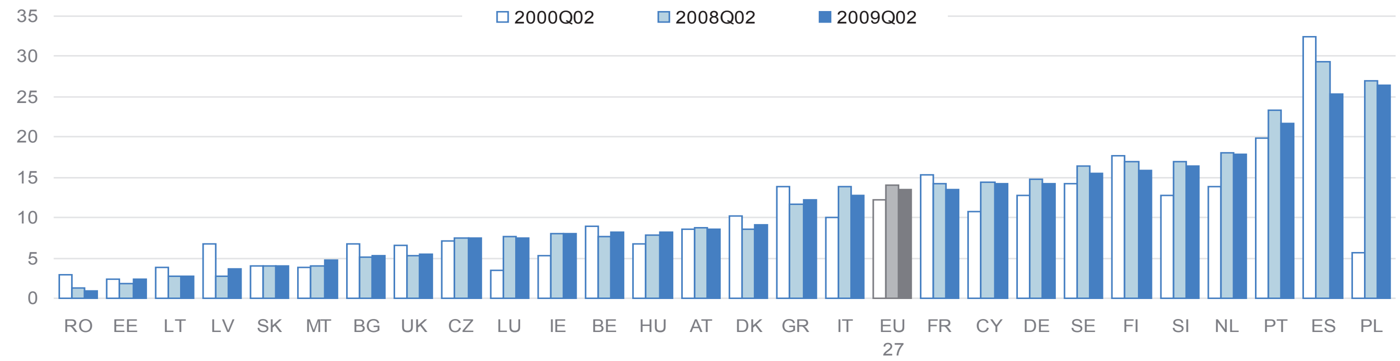
Temporary employment is somewhat more common among women than among men (14.3% vs. 12.6% in 2009Q2) and is for the most part exercised by young workers, their share in temporary employment on the EU27 average being 39.5% as compared to 11.6% for prime-age workers and 6.4% for older workers (Eurostat, Labour Force Survey 2009, figures not shown).

Asked why they were employed on a temporary contract, the majority of respondents (15-64 years) in 20 countries (out of 26 with complete data) stated that they were unable to find a permanent job. The exceptions include both Germany and Austria where the majority of respondents, in the context of the strong dual education systems characteristic of these countries, are young apprentices on contracts that are by definition temporary (Eurostat, Labour Force Survey 2009, figure not shown).

Part-time employment has further increased during the crisis from 17.7% to 18.2% in the second quarters of 2008 and 2009 respectively. Most countries replicated this trend. The largest growth in part-time work took place in the three Baltic countries, Slovakia and Hungary, all of which have well below average part-time employment rates (Figure 3.9).

The share of temporary employment, on the other hand, has decreased quite dramatically from 14.5% in 2007Q2 to 14.1% in 2008Q2 and 13.4% in 2009Q2. Country trends in this regard were somewhat more diverse. Some countries with comparatively low initial levels of temporary employment – such as Latvia, Estonia and Malta – saw relatively large increases over the last year, possibly because, during the crisis, employers prefer to conclude contracts of short duration that can easily be terminated. Other countries with, for the most part, higher initial levels of temporary employment saw relatively large declines (e.g. Spain, Portugal, Finland and Sweden) as temporary agency workers and workers on fixed-term contracts were the first to lose their jobs during the crisis (Figure 3.10).

Figure 3.10 Temporary employment: developments since onset of Lisbon strategy and impacts of crisis



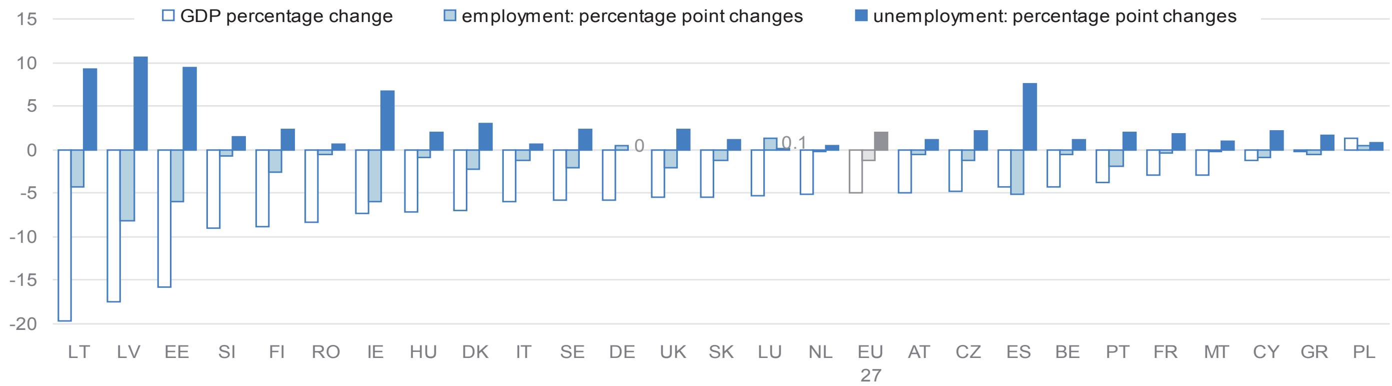
Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64. Note: FR: 2000Q1 instead of 2000Q2; BG 2001Q2 instead of 2000Q2.

3.2 The role of labour market policies in the crisis

Relationship between GDP, unemployment and employment buffered by labour market institutions

Figure 3.11 shows that, while there is a reasonably high short-run relationship between changes in output, unemployment and employment in the crisis, labour market institutions and policies are in some cases able to act as buffers. The Baltic countries and Ireland show the expected pattern of large output losses combined with large growth in unemployment and large declines in employment. Spain, however, though experiencing below average output losses, nonetheless displayed large labour market reactions. Germany represents an inverse example in that, in spite of larger than average output losses, few labour market reactions – in terms of employment and unemployment – are visible. The situation experienced by these outliers can be explained, at least in part, by the application of (or lack of) labour market policies or institutions that help to cushion the effects of the crisis on labour market outcomes.

Figure 3.11 GDP, employment and unemployment rates, 2009Q2 (change compared to 2008Q2)



Source: Eurostat (2009) *European Labour Force Survey and National Accounts*. Age: 16-64. Note: incomplete data for BG.

3.2 The role of labour market policies in the crisis

Expenditure on passive and active labour market policies

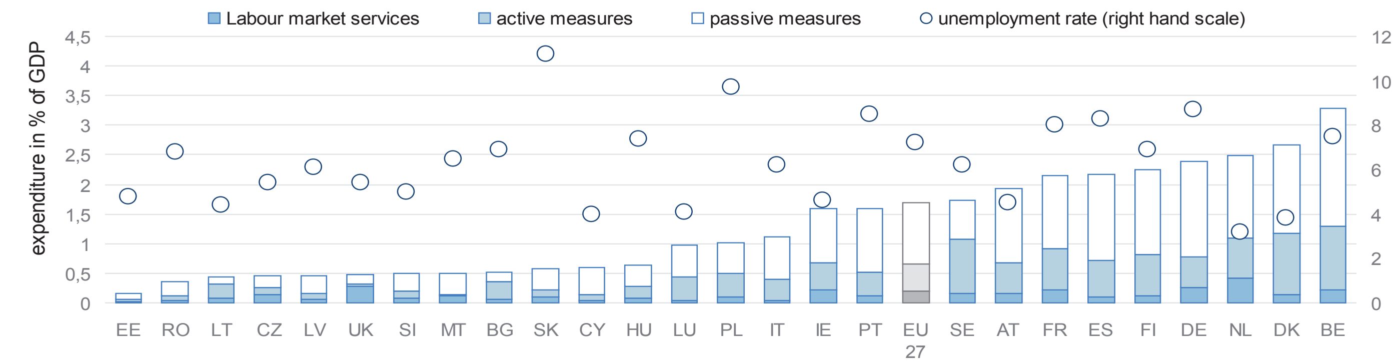
Traditionally, expenditure on unemployment benefits and active labour market policies including employment services varies greatly among EU member countries. Nor is there any apparent link between the size of expenditure and the level of unemployment (Figure 3.12). In 2007 (latest data available) total expenditure on labour market policies ranged between 0.16% of GDP in Estonia and 3.29% in Belgium. Countries with very similar unemployment rates can be found at either end of the expenditure spectrum. Of particular note is the fact that Denmark and the Netherlands, which were among the countries with the lowest unemployment rates in 2007, are in second and third place in terms of expenditure on passive and active labour market policies as a share of GDP.

There is a clear division between new and old member states, with the UK representing the sole exception of an EU15 country with exceptionally low spending on both passive and active labour market policies. There are also large country differences in the activity ratio of benefits (the share of active benefits in total expenditure), without, however, any apparent country group patterns. The activity ratio of benefits has in general increased over the previous two decades.

With the large growth in unemployment rates during the economic crisis, countries with traditionally low expenditure are likely to face severe problems in providing the unemployed with sufficiently high and long-lasting unemployment benefits and access to active labour market policy measures (see also Chapter 7). However, those countries which traditionally spend large shares of GDP on unemployment policies also face challenges in maintaining the same level of – particularly active – benefits in the face of sudden increases in unemployment. With the onset of the crisis, it has also become more evident that, in many countries, unemployment insurance coverage is not comprehensive, in that, for example, it tends to exclude certain labour market groups that are unable to fulfil the eligibility criteria, such as young and non-standard workers (compare OECD 2009). In fact, a number of countries have recently expanded coverage of unemployment benefit schemes, extended benefit duration or increased benefit levels for certain groups of beneficiaries (European Foundation for the Improvement of Living and Working Conditions 2009b).

While the fiscal stimulus packages adopted included, in most countries, labour market and social policy measures, additional funds for labour market programmes were in most cases rather limited (Watt 2009a). However, there are some exceptions and countries including Greece, Poland, Portugal, Spain and Sweden have announced notable increases in spending on active labour market policies as a response to the economic downturn (OECD 2009).

Figure 3.12 Active and passive expenditure on labour market policies and unemployment rates, 2007



Source: Eurostat (2009) *Labour Market Policy*. Note: information for Greece is missing.

3.2 The role of labour market policies in the crisis

Employment-preservation measures in the crisis

As well as (at least marginally) increasing and refocusing the use of active labour market policies and boosting direct job creation, for example in sectors particularly hard hit by the crisis, several countries have additionally placed special emphasis on maintaining employment by way of increasing working time flexibility (use of working time accounts and reducing overtime and income support for various forms of work-sharing). Work-sharing measures, in particular, have been extremely successful in terms of keeping employment levels up and unemployment levels down in a number of countries (see also Chapter 5). A prominent example in this regard is Germany where the short-time working allowance scheme has been boosted during the current economic crisis. Among other changes, access to the scheme has been made easier, the maximum duration has been progressively prolonged, the scheme has been opened up to new groups of workers and the training component has been strengthened. In fact, the number of short-time work benefit recipients increased from about 155,500 in March 2008 to 1,259,000 in March 2009 (for more information refer to Eichhorst and Marx 2009). Similarly, countries such as Austria, Belgium, France and Sweden adapted their short-time work or temporary lay-off schemes to the requirements of the current crisis, while in other countries – for example Bulgaria, Hungary, Romania and Slovenia – such schemes were newly introduced (European Foundation for the Improvement of Living and Working Conditions 2009b). Subsidised training for workers on short-time work is a new trend in many countries.

An interesting development is that, in a number of countries, not only have eligibility criteria for unemployment benefits been relaxed but also short-time work or temporary lay-off schemes have been extended to workers on fixed-term contracts, temporary agency workers and part-time workers who, in many cases, had formerly been excluded. For more information on active measures and plant-level responses to counter the crisis, the reader is referred to Glassner and Galgóczi 2009; Leschke and Watt 2010, forthcoming.

3.3 Conclusions

The economic crisis has had severe labour market impacts in EU countries; however, the extent of changes in unemployment and employment rates varies significantly from one country to another because of the differences in the size of the shocks and in the importance of labour market policies. Due to the fact that male-dominated sectors such as manufacturing and construction were particularly badly affected, the crisis has hit men much harder than women. Also, taken on the EU average, young and prime-age workers have been more affected than older workers and the same is true of migrant workers. However, except for the gender effect, countries differ greatly in terms of the groups that have so far been hardest hit.

During the economic crisis part-time employment has grown further in line with the trend of the last decade. As regards temporary employment, however, there has been a trend reversal. Fixed-term workers, and particularly temporary agency workers, were in many countries the first to lose their jobs. Interestingly, however, in a number of countries some labour market measures have been explicitly extended to cover part-time and temporary workers or have been made more accessible for these groups of workers.

The large majority of EU countries have taken measures to reinforce and broaden passive and active labour market policies but also employment-sustaining measures during the crisis. However, the focus and extent of the measures taken has been very different – with some countries placing the main focus on employment-sustaining measures (particularly through work-sharing measures) and others concentrating more on assisting the unemployed or offering them retraining. In general, due to traditionally large cross-country variation in the importance of passive and active labour market policies in terms of spending, countries differ substantially in the degree to which they are prepared to cushion the labour market outcomes of the economic crisis.

In some areas the economic crisis has prompted ‘good practice learning’ – which is one of the aims of the European Employment Strategy – an example in this respect being the short-time working allowance that has been newly introduced in several countries, particularly New Member States. In most countries the trade unions have played an active role in designing and implementing anti-crisis measures, albeit with strong variations in terms of the degree to which they are formally in a position to influence policy.

4. Income and inequality

Introduction

The recent financial crisis was caused by the global economy being massively out of equilibrium. As the word equilibrium derives from the Latin *aequi* (equal) and *libra* (balance or scales, an ancient symbol of justice), it is perhaps unsurprising, though not widely recognised, that inequality has been a root cause of the financial crisis and current recession. Inequality is linked to economic performance in several ways. In unequal countries with weak financial regulation (such as the UK) those on low incomes borrowed money in an effort to emulate the lifestyles of those on higher incomes. In countries that did not experience a credit boom (such as Italy), inequality was associated with low growth and low domestic demand, as those on low incomes tend to spend a higher proportion of their incomes than those on high incomes. As will be demonstrated, across Europe as a whole, countries with more equal societies have tended to fare better during the crisis than unequal societies.

The current recession has reduced national income and thereby the size of the pie from which workers can cut their share. Workers' incomes can be reduced through wage cuts and also through unemployment (see Chapter 3). To date most of the effect of the recession on workers has been through increases in unemployment. However, as the labour market deteriorates further, there will also be downward pressure on wages. Some countries that have led the recession (Lithuania and Estonia) have already experienced nominal wage cuts (wage cuts in simple money terms), and in the UK, in spite of small nominal increases, the value of wages when converted into euros has fallen steeply.

It is unclear how the financial crisis will impact on inequality and, due to the nature of data collection, it will be some time before post-crisis data are available. During recessions the wage share of gross domestic product (GDP) typically increases, as profits fall faster than wages and unemployment. However, as unemployment increases this change in the wage share will tend to be reversed. Insofar as those in precarious employment (often the temporary workers, part-time workers, and migrant workers) are usually the first to lose their jobs, their loss of income will be likely to generate greater inequality and more poverty. However, as the minimum wage acts as a wage floor in most EU countries, a general fall in incomes may actually lead to greater equality during the recession, though, once again, this can be expected to be no more than temporary.

In this chapter the economies of Europe are benchmarked against each other in terms of incomes and inequality, and a link between inequality and the current recession is shown. It is important to remember that, for some countries, the recession started before the financial crisis. Ireland, for instance, saw falls in income beginning in 2007. While these 'recession-leader' countries may indeed provide some indication of what can be expected to happen in other countries in the near future, it must be remembered that the specific circumstances faced by each country are unique.

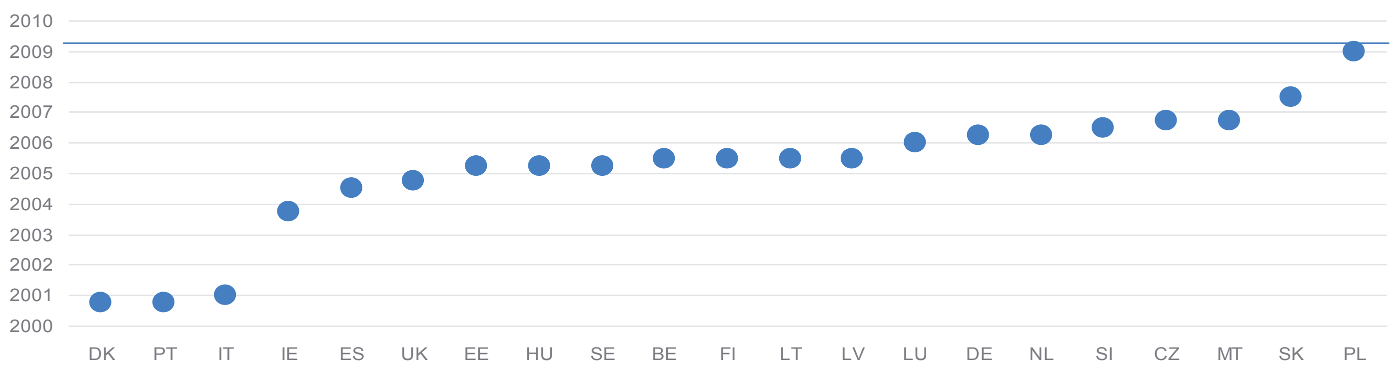
Themes

4.1 Income and the crisis

A lost decade?

Figure 2.3 of Chapter 2 has compared GDP levels across Europe. However, changes in GDP during the crisis may also be usefully observed from a different angle. Due to the current recession, real GDP has fallen back to levels first seen earlier this decade. Although, largely due to advances in science and technology, GDP can be expected to grow in real terms over time, the current recession has led to major reversals in this trend. Figure 4.1 shows when the current level of real GDP was first achieved with the date of the onset of the financial crisis (Q3 2008) serving as a benchmark. In this way it can be seen that the recession has, in some cases, wiped out almost an entire decade of progress. For example, the GDP of Denmark has regressed to levels first seen at the turn of the millennium, and the Estonian economy has fallen back three years since the financial crisis hit. This reversal to GDP levels of an earlier date can be due either to a large decrease in GDP during the crisis or to very slow growth during the past decade combined with a moderate decrease in GDP during the crisis. This alternative way of looking at the impact of the crisis helps to show the long-term economic performance of countries (such as Italy) which, although they have not seen large percentage falls in GDP, have been experiencing slow growth and progress since the beginning of the decade.

Figure 4.1 A lost decade? when was current GDP first achieved



Source: Eurostat (2009) *Quarterly National Accounts*. Notes: This Graph shows when the current level of seasonally adjusted real GDP per capita was first achieved. Current Period taken as Q2 2009, except Poland (Q1 2009) and Italy (Q3 2008) Data unavailable for AT, CY, FR, RO, GR and BG

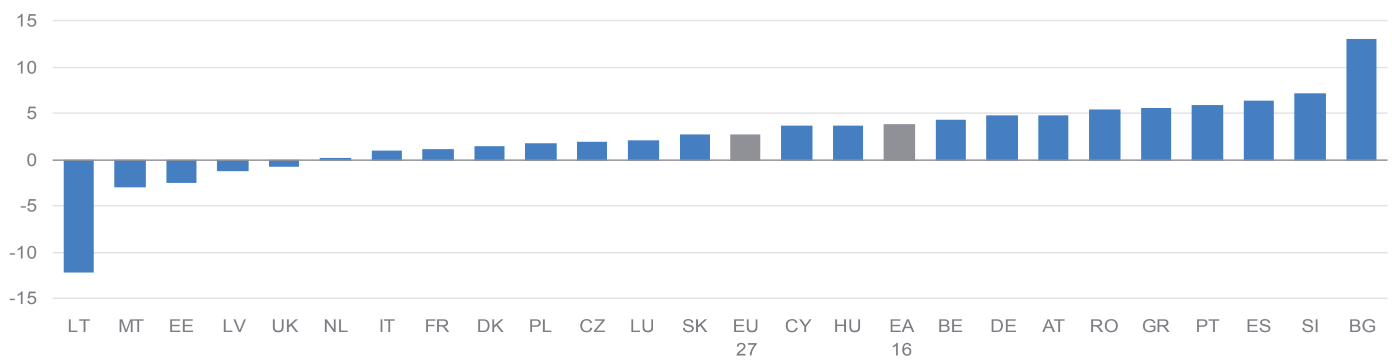
4.1 Income and the crisis

Change in wages

Despite the crisis, workers in most countries have obtained nominal (and real) wage increases, as shown in Figure 4.2 on year-on-year increases in real wages and salaries. Part of the reason that salaries have increased is the delayed impact of wage increases negotiated following the spike in inflation during the summer of 2009, which coincided with the end of a period of wage moderation that had lasted for much of this decade. Actual wage decreases have been seen in some countries, including Lithuania where they fell by 12 per cent, and it remains to be seen whether employers in other countries will seek to use the recession as grounds for imposing wage decreases. Omitted from the graph, however, are those workers for whom unemployment meant a total loss of wages. What is more, if, proportionately, more lower-paid workers (such as low-skilled workers or migrants) lose their jobs, the result can be an increase in the average wage even though no wage increase has actually been granted.

Whether wages increase or decrease depends on many factors, such as the industrial relations set-up in the various countries. However, the countries that were hit by large decreases in GDP, such as the Baltic countries and the UK, have suffered real wage decreases. Countries whose labour markets are under pressure (see Chapter 3) are those experiencing the lowest growth in wages and wage decreases. Spain, though badly hit by the recession, has shown real wage increases, a development that is perhaps unsurprising, as it has been, for the most part, badly paid temporary workers who lost their jobs in Spain, where the temporary employment rate decreased by about 5 percentage points within a single year.

Figure 4.2 Year-on-year percentage real change in wages and salaries (Q2 2008 to Q2 2009)



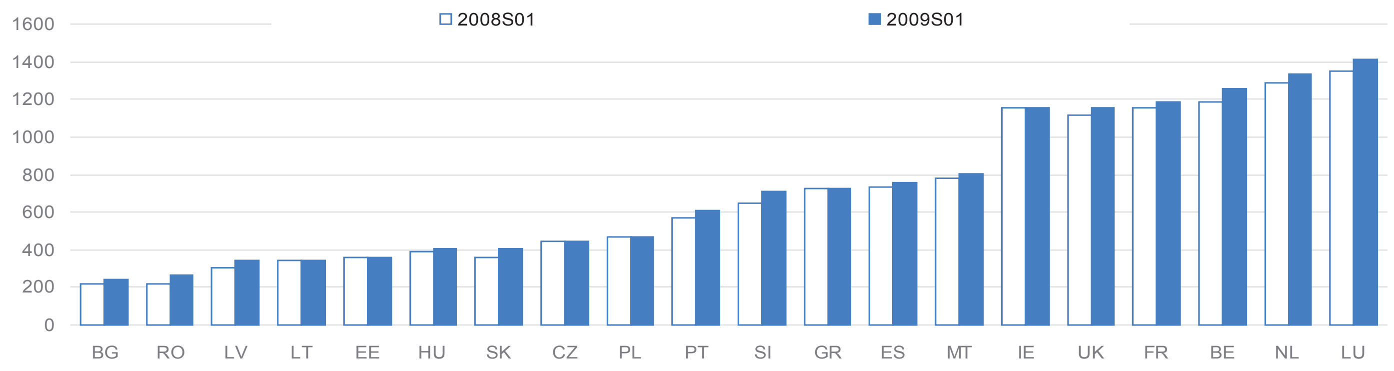
Source: Eurostat (2009) *Labour Cost Index and Harmonized Index of Consumer Prices*. Note: Seasonally adjusted change in real wages and salaries,2008Q2 to 2009Q2, except Netherlands, Luxembourg and Italy 2008Q1 to 2009Q1. (NACE rev2 sectors B-N). Data unavailable for IE, SE and FI

4.1 Income and the crisis

Rising minimum wages

Almost all countries have seen an increase in the nominal (and real) minimum wage during the crisis, though data is only available on a bi-annual basis. Figure 4.3 shows the pre-crisis and post-crisis statutory minimum wages for European countries in terms of Purchasing Power Parity (PPP). PPP adjusts the minimum wage for the differences in purchasing power across countries (e.g. things tend to be cheaper in poorer than in richer countries). Minimum wages tend to reduce income inequality within a country by placing lower limits on the amount people are paid. Interestingly, however, the Nordic countries tend to have the most equal wage structure but have no statutory minimum wage, although union agreements have led to de facto minimum wages. Countries having no national statutory minimum wage are Austria, Denmark, Finland, Germany, Italy and Sweden (European Foundation for the Improvement of Living and Working Conditions 2005). The current low inflation has helped minimum wages keep their value across Europe. For more information on minimum wages during the crisis see Schulten 2009.

Figure 4.3 Minimum wages for 1st half of 2008 and 1st half of 2009 (PPP)



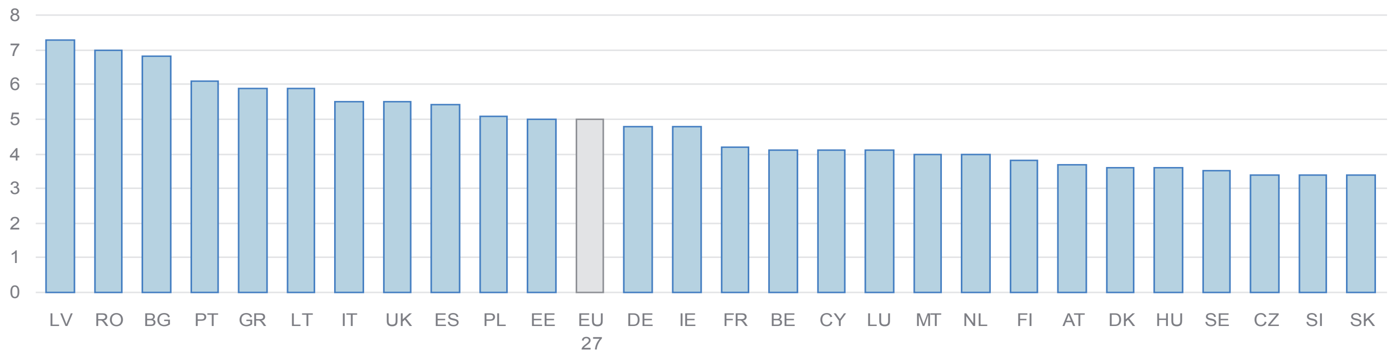
Data source: Eurostat (2009) *Minimum Wages*. Note: Minimum wages for first half of 2008 and 1st half of 2009 (except GR first and second half of 2008). Purchasing Power Standard. PPS estimated for 2009 Data unavailable for CY.

4.2 Inequality and the crisis

Unequal incomes

As stated earlier, measures of GDP give no indication of how income is distributed within a country. The 80/20 income share ratio compares the incomes of the bottom 20% with those of the top 20% (Figure 4.4). In 2008, in Romania those at the top 20% level of income earned seven times more than those at the bottom, while in Slovakia the highest 20% earned about 3.4 times more than the lowest. There is no East/West divide of inequality across Europe. The countries with the lowest inequality are the more economically advanced of the former Communist countries and the Nordic countries. Data is not so far available on how the economic crisis has affected inequality, although, interestingly, between 2007 and 2008 Latvia (one of countries hardest hit by the crisis) saw the 80/20 income share ratio increase from 6.3 to 7.3. From the end of 2007 to the end of 2008 Latvian unemployment doubled, suggesting that the increase in household inequality is due to an increase in unemployment. By contrast, in Lithuania, another country particularly hard hit by the crisis, the ratio has remained constant at 5.9, despite a doubling of unemployment.

Figure 4.4 Inequality of income distribution 2008 (80/20 income quintile share ratio)



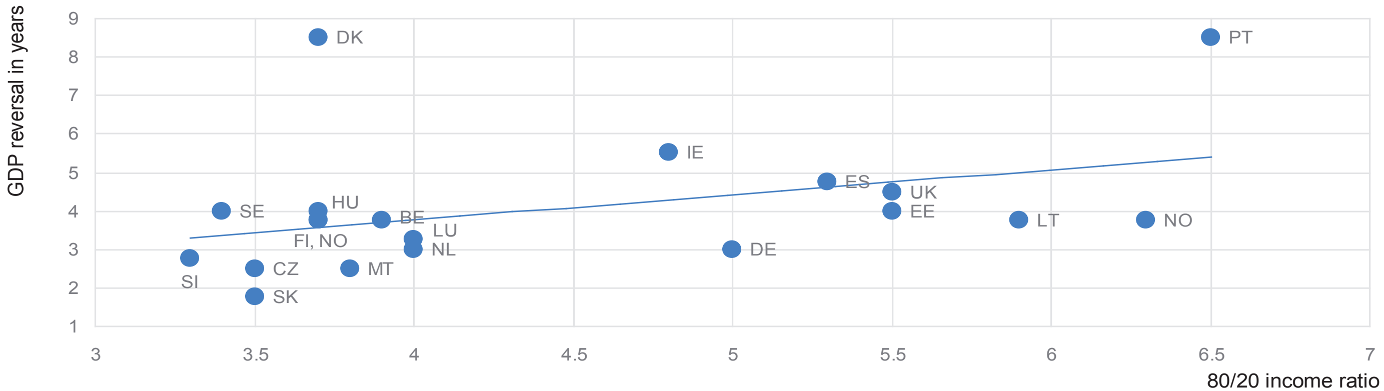
Data source: Eurostat (2009) *Survey of Income and Living Conditions*. Note: 2008 values except for IE, IT, UK and EU27.

4.2 Inequality and the crisis

Did inequality cause the crisis?

Comparing Figure 4.1 with Figure 4.4 shows how inequality is associated with poor economic performance during the current recession. Figure 4.5 shows the relationship between the 80/20 income ratio and the number of years by which GDP has regressed during the current crisis. There is a clear association between inequality and reversals in GDP during the recession (though Denmark, in the top left of the graph, is a notable exception). It is plausible that inequality led to, and exacerbated, the current crisis. European economies can be divided into three categories: relatively equal countries (those countries with an 80/20 income share ratio of less than four); relatively unequal countries with easy access to credit; and unequal countries with limited access to credit. People with lower incomes tend to spend more of their income, rather than save. In equal societies aggregate demand tends to be higher, as those on lower incomes in equal countries have relatively more money than those on lower incomes in unequal countries. This allows for stable growth. In unequal societies (such as the UK and Spain) aggregate demand was temporarily boosted by creating an unsustainable credit boom, allowing people on low incomes to borrow money to match the lifestyles of the richer groups. However, the incomes of these low earners proved too low to allow them to repay their debts, contributing to the financial meltdown. In unequal societies where access to credit was limited (such as Italy), there was no dramatic financial crash. In these countries the lack of aggregate demand resulted in economic stagnation. This suggests that more equal societies, with a more balanced distribution of income, tend to have a more balanced growth path.

Figure 4.5 Relationship between inequality (80/20 income quintile share ratio) and reversal in GDP



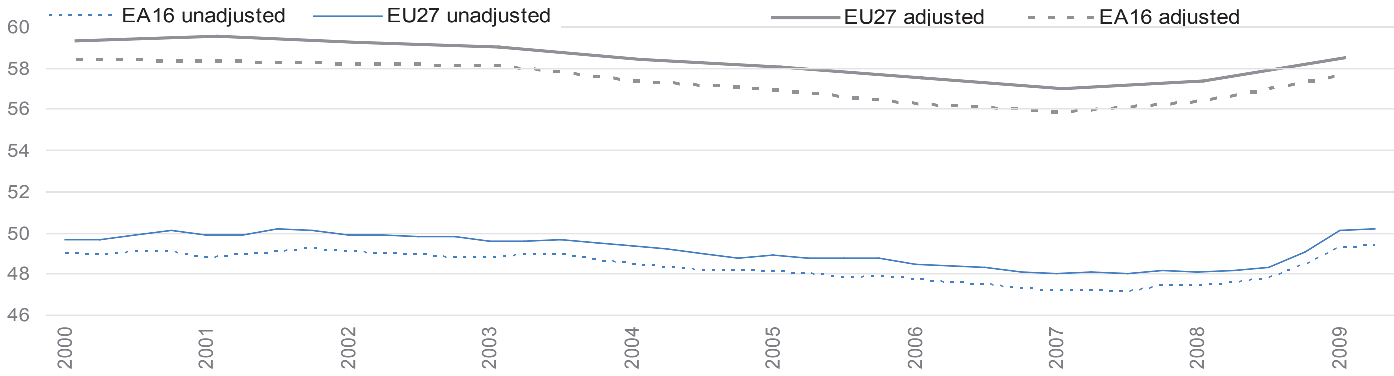
Data source: Eurostat (2009) *Survey of Income and Living Conditions* and *Quarterly National Accounts*. Note: 80/20 income ratio uses 2007 figures GDP reversal as per Figure 2.

4.2 Inequality and the crisis

Wage share increases slightly

The wage share gives the share of GDP that goes to workers in the form of compensation (the sum of wages and other contributions from employers). The unadjusted wage share is simply the compensation of all employees in an economy as a share of GDP, and so excludes the self-employed. As there may be some bias caused by workers switching from being employees to being self employed, the adjusted wage share adds the earnings of the self-employed (by implicitly assuming that they earn the same as employees). During recessions the wage share typically increases, which has been the case during the current crisis (Figure 4.6), as the profits of firms fall faster than wages and employment adjusts in the face of downturns in the economy. However, this increase in the wage share is most likely to be temporary, as more workers are laid off during the recession (see Arpaia and Pichelmann 2008 for more information). As can be seen from Figure 4.6, the adjusted and unadjusted wage share move broadly parallel to each other.

Figure 4.6 Wages as a share of GDP: adjusted and unadjusted EU wage share



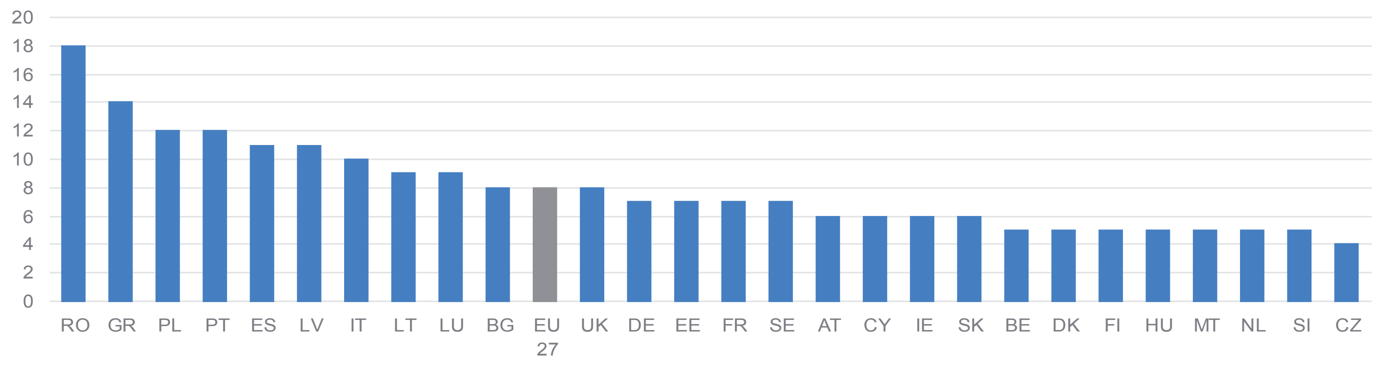
Data source:Eurostat (2009) *Quarterly National Accounts* (unadjusted share) and AMECO (adjusted share). Notes: Adjusted wage share at current market prices uses annual data (2009 figure is estimated); Unadjusted wage share uses seasonally adjusted quarterly data.

4.3 The working poor

When working is not enough

Although the unemployed and inactive are perhaps the group most likely to face poverty, being in work is, despite the existence of minimum wages, no guarantee of escaping poverty. The ranking of countries with the highest at-work risk of poverty (where disposable household income is 60% or less of median disposable income) are broadly in line with measures of inequality (Figure 4.7). In Romania a staggering 18% of those working are at risk of poverty, whereas the EU average is 8%; in the Czech Republic, meanwhile, the figure is as low as 4%.

Figure 4.7 In work at risk of poverty



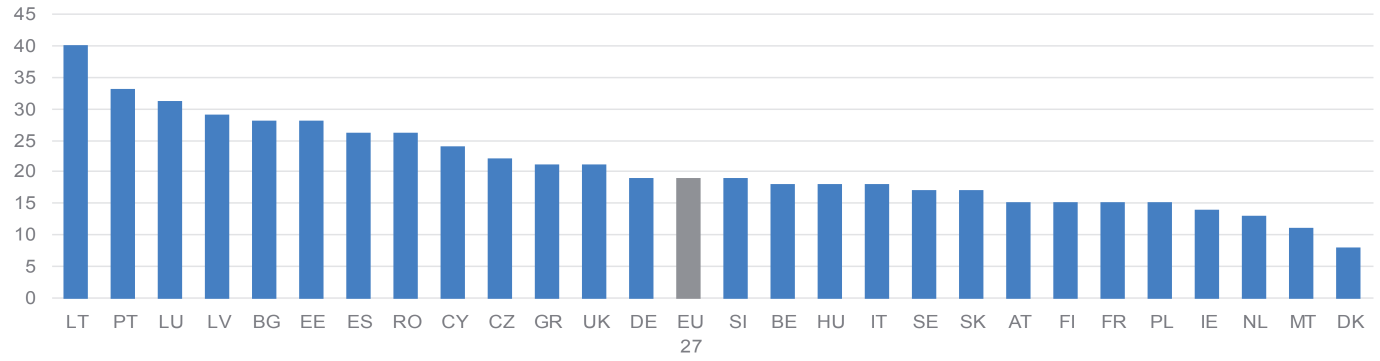
Data source: Eurostat (2009) *Survey of Income and Living Conditions*. Note: 2008 Figures except IE, IT, UK, and EU27.

4.3 The working poor

Some groups are more at risk

Eurostat data shows that the risk of poverty is even higher for groups such as younger workers, and particularly for single parents, as illustrated in Figure 4.8. Though it is too early to see how the crisis, overall, has affected the risk of poverty for working single parents, Lithuania saw an increase in this risk from 24% to 40% between 2007 and 2008, Latvia an increase from 23% to 29% and Portugal from 19% to 33%. The ranking of countries in relation to this risk is somewhat different to that relating to 'at risk of poverty' for all workers and rankings of inequality. For example, Ireland and Luxembourg have average levels of inequality as measured by the 80/20 income ratio, but Ireland has one of the lowest measures of in-work risk of poverty for single parents, while Luxembourg has one of the highest levels. Although Nordic countries are normally associated with greater equality, Norway and Sweden come mid-table for this particular group of marginal workers. Possible explanations for the difference between the at-work risk of poverty among single parents and for all workers include government measures such as child welfare payments, social welfare payments, and programmes to promote work amongst women, as well as cultural differences such as the fact that young Irish single mothers tend to live with their parents (Combat Poverty Agency 2006). What is more, the propensity for single parents to work may differ from one country to another.

Figure 4.8 In work at risk of poverty – single parents



Data source: Eurostat (2009) *Survey of Income and Living Conditions*. Notes: 2008 Figures except IE, IT, UK, and EU27.

4.4 Conclusions

A noticeable trend across the EU, applying equally to both east and west, is that the more unequal countries have been the hardest hit by the current recession. In terms of real GDP, countries such as Slovenia, the Czech Republic and Slovakia in the east, and the Nordic Countries in the west, have not suffered the same reversals as the less equal Baltic countries in the east or Mediterranean countries and the UK in the west. Indeed, the current crisis shows how the notions of east and west are increasingly irrelevant in relation to considerations of equality and inequality, Denmark being an interesting exception in this respect for, in spite of a noticeable increase in inequality over the past decade of slow economic growth, Denmark still has incomes among the highest in Europe, and inequality that is among the lowest. In terms of GDP, the first decade of the new millennium is, for many countries, a lost decade with Denmark, Portugal and Italy having fallen back to levels of GDP first seen at the beginning of the decade. Though there has been a definite drop in GDP, the impact on wages has so far been unclear. In Lithuania and Estonia wages have already fallen in nominal and real terms.

Given the record low inflation combined with both real and nominal wage increases due to lags in collective agreements, wages have so far been stable across the EU, but it remains to be seen how they will develop if unemployment remains high over the long term. As a result of the crisis, many more people are having to survive on unemployment benefits, while there have been effective wage cuts due to the fact that many employees are working reduced hours. To date minimum wages have remained largely stable throughout the crisis. Due to the lack of up-to-date data, it is unclear what impact the crisis will have on inequality. Countries that have led the recession can give some indication as to what we may expect in the future. Between 2007 and 2008 Latvia saw an increase in the 80/20 income ratio, a pattern that may be replicated in other countries. While labour's share of national income has so far recorded an increase during the crisis, it remains to be seen whether this share will remain higher in the long term since it is a stylised fact that during recessions the wage share first increases and then decreases. The Baltic countries, Malta and the UK, meanwhile, have seen real wage decreases.

As stated at the beginning of this chapter, the word equilibrium has its roots in the Latin words for 'equal' and for 'balance'. In seeking strategies to exit the recession and prevent a future recession, policymakers should remember that it is equality and justice that are at the root of a stable economic equilibrium.

5. Collective bargaining and the economic crisis

Introduction

That the financial crisis dealt a very hard blow to workplaces is fully evident. Irrespective of whether or not there is a willingness to respond proactively, and no matter what measures have been applied at the macro-level, the crisis has had a direct and substantial impact on working conditions and labour relations at the micro-level. Interest representatives – more often than not the local trade unions – have been under pressure to tackle the outcomes generated by plunging demand and/or banks' unwillingness to grant the loans necessary to launch new investments.

Apart from the financial dimension of the crisis, it has entailed serious social consequences for employees. Economy measures introduced by companies in times of crisis can include cuts to the workforce and mass layoffs, the reduction of working time or reorganisation of corporate structure, or the relocation of production for the mere purpose of short-term cost-cutting. Such measures have led, in general terms, to increasing levels of job instability (Blum 2009; European Foundation for the Improvement of Living and Working Conditions 2009a).

All this has represented a tremendous challenge to industrial relations in general and relations between the two sides of industry at company level. This chapter describes examples of typical roads taken by social partners in the field of collective bargaining. It also investigates how far the trans-national level has become involved and been used as a reference or platform for promoting solutions which transcend local or national borders. In this latter respect, the use of European Works Councils (EWC) is exemplary.

One of the striking features of the current crisis might indeed be that, in order to be overcome, it requires trans-national cooperation and action. EU member state governments have in general shown mutual understanding in relation to this challenge. The President of the EU Commission, José Manuel Barroso, has underlined, in several speeches given on the occasion of the European Commission renewal, the major importance of social issues, including unemployment, insofar as they have been exacerbated by the crisis (e.g. Barroso 2009). Notably, he highlighted a possible way out of crisis, based on strengthening the industrial basis of Europe by the creation and application of new technologies, while also taking account of the ambition to reverse climate change. At the same time, however, it is highly noticeable that the European political level flagrantly underrates the potential of social partnership to achieve change and improvement. It is to the

Themes

5. Collective bargaining and the economic crisis

Introduction

social partners, indeed, that has fallen the task of keeping companies running under adverse circumstances. It was employees who agreed on concessions regarding pay, short-term work or the at least temporary detachment of employees from their workplaces and their delegation to training schemes funded mainly by external labour authorities as a means of stabilising a company's financial situation without the need to resort to mass redundancies. This – as a means of retaining a qualified workforce until the advent of better days – has been one form of action conducted on the ground by way of implementation of the high-flown political objectives.

The ETUC showed more awareness than the political world of the tried and tested problem-solving capacities of industrial relations. In its first response on the crisis entitled "Towards a new social deal in Europe" (ETUC 2009b), the ETUC stressed six major social and employment fields for mutual action. Two of these are "Better pay: stronger collective bargaining" and "Stronger workers' rights", the second of which includes the demand for a "Social Progress Protocol" designed to give priority to social rights and collective action in order to stem the tide of rising inequality.

Industrial relations systems within the EU continue to differ fundamentally from one another in so many respects that the emergence of a single European industrial relations system is currently nowhere in sight. Consequently, the responses to crisis phenomena have been devised to fit the specific national contexts. There are only a few and rather out-of-the-way signs to suggest that the crisis has triggered more trans-national cooperation or, at least, some increase in cross-border coordination.

The following reactions to the crisis are some of the most noteworthy of those to have been observed:

— An increased role of collective bargaining in addressing effects of the crisis (employment, decreased demand for industrial output and labour).

— The important role of collective bargaining in implementing statutory provisions on short-time working and partial unemployment on the company level.

— The 'crisis-related' provisions of many collective agreements concluded in the October 2008 — October 2009 period, dealing mainly with issues such as:
  - A flexible reduction of working time, typically based on legal provisions and guaranteeing the full or partial compensation of losses in workers' incomes.
  - More 'defensive' job-preservation agreements, sometimes entailing far-reaching concessions from workers (e.g. no financial compensation for cuts in working time).
  - Partial decentralisation of wage-setting (e.g. 'incremental', step-by-step wage increases taking into account the specific economic situation of the company).
  - Stronger links between training and short-time working (training measures having been included in only rather few collective agreements in numerous EU member states before the crisis, with possible continuing shortcomings in this respect).

— Engagement of interest representation bodies, together with the employers' representatives, to devise and implement socially acceptable solutions – short of redundancy – for employees over a longer time period.

— No remarkable increase in the involvement of European Works Councils despite their design and function as trans-national platforms for processing restructuring from an employee point of view.

Finally, it has to be stressed that, for the time being at least, it is not possible to present any generalisations or final conclusions concerning the effects on the industrial relations systems and their role in solving crisis-related problems. Further attention should certainly be paid to the capacities of collective bargaining and interest representation as direct routes of problem resolution.

5.1 Collective bargaining and the economic crisis

Collective bargaining responses to the economic downturn

In addressing the effects of the economic crisis on collective bargaining, three aspects are of particular relevance:

First, the existence of statutory (law-based) short-time working arrangements, aimed at maintaining employment by setting a framework for the collective reduction of working time and by providing workers and employers with financial compensation from public (unemployment) funds;

Secondly, the role of collective bargaining parties in concluding collective agreements addressing the effects of the economic downturn;

Thirdly, the contents and measures included in collective agreements on the (inter)sectoral, sectoral and company levels in order to tackle the decline of demand for industrial output and labour.

In a number of countries (such as Germany, Austria, the Netherlands, Belgium, France and Italy) statutory arrangements for short-time working and partial unemployment existed prior to the crisis, their purpose being in most cases to cope with seasonal fluctuations in employment in particular sectors. Against the background of the crisis, eligibility for and duration of such schemes have been extended by governments (Glassner and

Figure 5.1 Short-time working schemes and their implementation via collective bargaining

National short-time working arrangements	Country/ countries	Based on labour law (LL) or on inter-sectoral collective agreement (CA)	Implemented by collective agreement	
			on sectoral level	on company-level
Short-time working (*Kurzarbeit*)	DE, AT	LL	**	**
Partial unemployment (*Chômage partiel*)	FR	LL	*	**
Temporary economic unemployment	BE	LL	**	**
Reduction of working time (*Werktijdverkorting*)	NL	LL	**	**
Short-time working, reduction of working time, wage subsidies for companies	PL, BG, HU, SI	LL	-	*
Wage Guarantee Funds (*Cassa integrazione guadagni*)	IT	LL	*	**
Temporary lay-offs	SE	CA	*	**
Work-sharing	DK	CA	*	**

** predominant level(s)
* important level
- bargaining level marginal or non-existent

Sources: Glassner and Galgóczi (2009); Glassner and Keune (2010).

5.1 Collective bargaining and the economic crisis

Collective bargaining responses to the economic downturn

Galgóczi 2009; European Foundation for the Improvement of Living and Working Conditions 2009b), while in other countries (i.e. Bulgaria, Hungary, Poland and Slovenia) legal provisions for short-time working have been newly introduced. Arrangements for the collective reduction of working time differ between countries in terms of duration of entitlement, workers eligible (e.g. temporary and fixed-term contract workers), the level of pay compensation for working hours 'lost', etc. In general, however, these arrangements have in common one important feature which is that they have to be implemented via collective agreement on the company and/or (inter)professional level. In almost all the countries considered in Figure 5.1, provisions for short-time working are based on labour law, the only exceptions being Sweden, where a collective agreement on temporary lay-offs was concluded in March 2009, and Denmark, where 'work-sharing' provisions are stipulated in a collective agreement for the industrial sectors.

The link between collective bargaining and statutory short-time working schemes is shown in Figure 5.1 (see previous page).

Social partners have played an important role in promoting the introduction or extension of short-time working and partial unemployment schemes. Even more important has been their role in implementing these provisions on the sectoral and – in particular – the company level. In countries such as Austria, Germany, Belgium and the Netherlands, a number of sectoral collective agreements contain provisions on the implementation of short-time working schemes. This is particularly the case in Germany, where in sectors such as metals, chemicals, public services, textiles, banking, construction and retail trade, agreements have been concluded to implement statutory provisions on short-time working. Some of these now specify, for example, top-ups of the statutory short-time working benefits (Bispinck 2009).

In other countries – mostly those where collective bargaining is predominantly carried out on the company level – partial unemployment provisions are primarily implemented through company agreements. In some of these countries characterised by decentralised collective bargaining and weak representation of workers on the company-level, i.e. Bulgaria, Hungary and Poland, collective agreements on short-time working have been implemented primarily in large and multinational companies. In Slovenia the provision on wage subsidies for cuts in the full working time (i.e. 40 hours per week) requires a collective agreement at the company level.

In Italy the two Guarantee Funds (see Figure 5.3 on page 64) that allow for the reduction of working time or the temporary total suspension of activity by compensating workers for losses in income resulting from cuts in working hours are implemented via collective agreement on the company/plant level.

The Swedish multi-sectoral agreement on temporary lay-offs covers exclusively companies in the manufacturing and technical (engineering, architecture) sectors (blue-collar workers and professional technical staff).

Issues and measures of collective agreements

Collective agreements concluded at sectoral or multi-sectoral level in response to the effects of the economic crisis include a wide range of topics. One important issue in these agreements concluded between September 2008 and September 2009 is the flexibilisation of wage-setting (see Figure 5.2).

In this respect, three topics are typically encountered, examples being as follows. First, the collective agreements on pay in the Finnish technological manufacturing allow for the case-by-case implementation of pay increases, depending on the economic situation of the company. Furthermore, wage increases settled in the sectoral agreements may be suspended if the company is facing economic difficulties, or the total pay increase may be phased over a certain period (i.e. September 2009 and January 2010) in two or more steps ('incremental pay increases'). The agreement for academically trained and managerial staff provides for the re-negotiation of wage increases in 2010 and 2011, subject to the economic situation of the company.

Secondly, in Sweden two collective agreements for employees in the technological sector (i.e. engineers, architects and other professional technical staff) secure a general pay increase of

Figure 5.2 Examples of innovative (multi-sectoral) agreements allowing for the flexibilisation of wage-setting

Country	Name of the agreement	Signatory parties to the agreement	Main provisions of the agreement
Finland	Three-year pay agreement for the technological manufacturing sector (August 2009)	Metalworkers' Union (Metallityöväen Liitto) and Confederation of Finnish Industries – EK Later (September 2009) adopted for academically trained and managerial staff in the technological manufacturing sector (concluded by the Federation of Professional and Managerial Staff – YTN and EK)	— Possibility to set pay increases on a company-by-company basis, depending on the economic situation of the company — Increasing flexible wage-setting in line with economic developments by allowing for step-wise ('incremental') increases of salaries — Suspension of wage increases only in the case of a continued demand crisis, where growth in labour costs is not bearable for the company and pay rises would threaten jobs
Sweden	One-year national collective agreement on pay for professional technical staff (September 2009)	Unionen and Almega STD	— Collectively negotiated wage increase of 2.3 % that can be undercut at company level if economic conditions require it
Sweden	Two-year agreement on pay (September 2009)	Sveriges Ingenjorer and Sveriges Arkitekter, and Almega STD	— Collectively negotiated wage increase of 2.3 % that can be undercut at company level if economic conditions require it — For 2010 no general wage norm in the agreement, wages set exclusively at company level
Germany	Collective agreement metal sector (November 2008)	IG Metall (Baden-Württemberg) and the employers' association Gesamtmetall	— Phased general pay increases (2.1% bi-annually in 2009) — Lump-sum payment of €510 to compensate for three months without pay increase (November 2008 to January 2009) — Contributions by employees (0.4% of monthly wages between January and April 2010) to finance pre-retirements.

Sources: Glassner and Keune (2010).

Issues and measures of collective agreements

2.3 % for a period of one year that may, however, be undercut if the company faces economic difficulties. In contrast to the agreement concluded by the Swedish white-collar multi-sector union Unionen, the agreement for architects and engineers does not include a general wage norm for 2010, and pay increases are set exclusively at local level.

Another exemplary agreement is that concluded in the German metal sector in November last year. The agreement – which had an important ‘signalling function’ for wage bargaining in other sectors in the last bargaining round – stipulates, besides a lump sum and a special one-off payment, a general pay increase of 2.1 % in two steps that can be suspended in the event of the financial situation of the company being under severe strain.

Collective bargaining responses to the economic crisis by company-level social partners have proved decisive as the sudden and – in some sectors – continued decline in demand is felt foremost and primarily at the level of the company. The most important issues addressed in micro-level collective agreements are the flexible reduction of working time, internal restructuring (mobility procedures, job-sharing via solidarity contracts) and training (see Figure 5.3).

Figure 5.3 Company-agreements and measures dealing with effects of the crisis

Issues/measure	**Examples (instrument, country, *company*)**
Flexible reduction of working time with **partial or full compensation** of losses in income, based on **statutory short-time working** or financed by public unemployment benefit funds	— CIGO – Ordinary Wages Guarantee Funds, applicable for a maximum period of 12 months: (IT): *Ilva, , Powertrain, Fiat* — CIGS – Special Wages Guarantee Funds, applicable for a period of between 12 and 24 months (IT): *Indesit, ThyssenKrupp, New Case Holland* — Temporary lay-offs (SE):*Volvo, Scania* — Short-time working (‘*Kurzarbeit*’) (DE): *Schaeffler*, *Daimler* — Short-time working (NL): *DAF Trucks* — Maintaining workers’ net salaries through establishment of company ‘crisis funds’ at *Renault* (FR) — Work-sharing (DK): *Danfos, Grundfos*
Internal restructuring and reorganisation ('Mobility procedures', 'Solidarity contracts')	— Mobility procedures, internal transfers of workers (IT): *Indesit, Telecom Italia, Powertrain, Fiat* — Solidarity contracts (IT): Telecom *Italia*, *Italtel*
Training programmes	— ‘Restructuring Agreement’: *Telecom Italia* (IT) — Agreement on ‘Training and compensation during partial unemployment’: *PSA Peugeot Citroen* (FR) — Job-saving agreement: *EON* (DE)

Source: Own table, based on Glassner and Keune (2010).

5.1 Collective bargaining and the economic crisis

Issues and measures of collective agreements

One of the most frequent measures has been the flexible reduction of working time on the basis of statutory provisions and instruments to regulate and financially support short-time working. For instance, in Italy in companies such as the steel manufacturer Ilva, the Fiat-affiliate Powertrain and at the Fiat plant in Naples, agreements on the use of the Ordinary Wages Guarantee Funds (CIGO) have been concluded by metal sector unions and the companies' managements in order to maintain employment through the reduction of working time. Similar agreements have been concluded in companies such as the steel producers Indesit and ThyssenKrupp as well as at the producer of agricultural machinery New Case Holland. Collective bargaining has, however, not always been conflict-free. For instance, the management at a Fiat affiliate in the province of Emilia Romagna accepted the need to negotiate the introduction of short-time working only after strike action had been taken by the workers. Similarly, collective action by workers at the producer of household appliances Indesit led to the resumption of negotiations by the management and the avoidance of a plant closure that saved 600 jobs.

In Sweden, the multi-sectoral agreement on temporary lay-offs has been implemented via job-saving agreements such as those concluded at Volvo and Scania. At Volvo, jobs have been saved by reducing working time mainly via flexible working time accounts with wages having been almost fully maintained. Likewise, at Scania a similar agreement that limits losses in pay to 10 % (while working time is reduced by 20 %) has been concluded, including the adoption of a training programme funded by the European Social Fund.

Collective bargaining aimed at the conclusion of 'job-saving' agreements, including an extensive use of short-time working measures, has been more conflict-ridden at two companies particularly hard hit by the crisis, namely, Schaeffler and Daimler. At Schaeffler, workers' wages have been 'adjusted' in line with the reduction of working hours and one-off payments have been cut. The 'cost-cutting package' concluded at Daimler does not provide for pay compensation of working hours lost. The general pay increase of 2.1 % set by collective agreement has been postponed, and a job guarantee settled in a previous agreement has been made conditional on the company's economic situation in 2010.

This contrasts with collective agreements negotiated at the Dutch subsidiary of DAF Trucks and at Renault in France where reductions in working time entail no losses of income for workers. At Renault, net wages and salaries have been maintained through the establishment of a 'solidarity crisis fund' funded by executive and managerial staff.

Measures aimed at maintaining employment through the reorganisation of working time in companies facing economic difficulties have been adopted in Denmark via the instrument of 'work-sharing'. Job-sharing measures – financed through the public unemployment fund – can be adopted for a period of 13 weeks, as stipulated in the collective agreement for the manufacturing sector. This period can be extended to 26 weeks through company agreements, as has happened, for instance, at the national engineering company Danfos and at the multinational Grundfoss.

Internal restructuring measures are likely to increase during an economic downturn. Mobility procedures that regulate the transfer of workers within companies have in many cases been combined with the introduction of short-time working. For instance, mobility procedures have been adopted at a number of companies in Italy, such as Indesit, Telecom Italia, Powertrain, and Fiat. At the Fiat plant in Naples the introduction of job placement measures ('mobility procedures') has been criticised by unions as representing 'unilateral postings' of workers by the management from one plant to another. Another instrument aimed at maintaining employment through job-sharing is the 'solidarity contracts' that have been increasingly applied in Italy. At Telecom Italia, for instance, a two-year agreement sets conditions for working time reductions and training measures in order to save 470 jobs. Furthermore, at the Italian telecommunications provider Italtel, an agreement has been reached on working time reduction via solidarity contracts that will save 90 out of 250 jobs.

In contrast to 'emergency' agreements aimed at avoiding large-scale redundancies or mitigating the social effects of redundancies, training programmes for temporarily unemployed or inactive workers tend to be included in certain company agreements on restructuring, generally with a longer-term perspective. For instance, the restructuring agreement at Telecom Italia and the Agreement on 'Training and compensation during partial unemployment' at PSA Peugeot Citroen provide for training measures for employees on short-time working. The job-saving agreement concluded at the German energy provider EON includes – among other issues – training measures for a large section of the labour force.

5.2 European Works Councils (EWC)

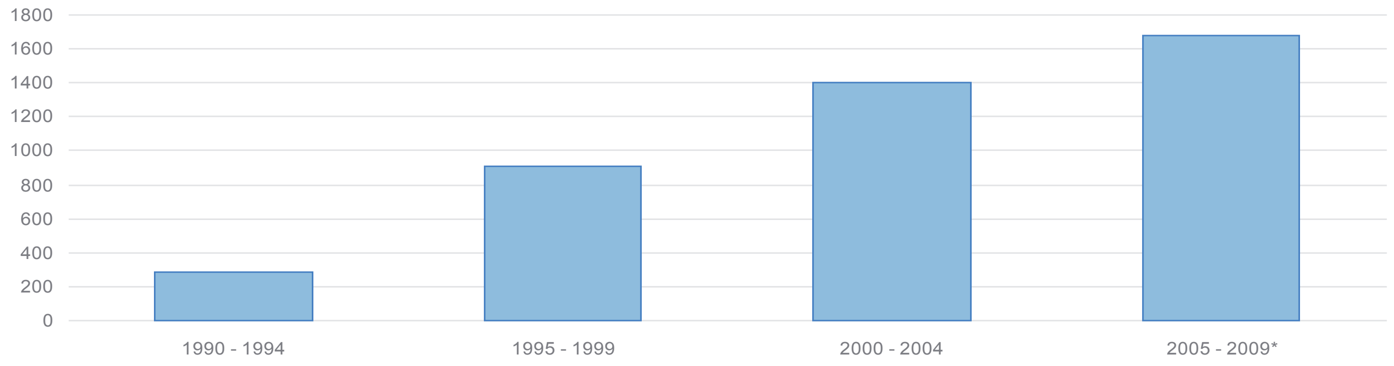
Restructuring in EWCs

The scale of the crisis as it has impacted upon employees and their representatives is measured by the most practical and concrete consequences that directly affect their interests. Given the transnational dimension of the crisis and its effects, its repercussions are clearly a matter on which employees in multinational companies should be informed and consulted. The prerogatives exercised by employee representatives in regard to restructuring measures on a cross-border level are enshrined in the existing legislation on EWCs (see, for example, Subsidiary Requirements, Annex 1 to Directive 94/45/EC, Article 2, and Annex 1 to Directive 2009/38/EC, Articles 1 a) and 3). Both the 'old' EWC Directive 94/45/EC and the new, recast Directive 2009/38/EC provide for EWCs' competence in anticipating and managing change and its impact on workers. Involving employee representatives in corporate decision-making by means of information and consultation is not only a legal requirement, but also, as has been shown by research, a sound management strategy. Researchers in this field emphasise that, as soon as any restructuring entailing possible job losses is contemplated, advance warning, information provision and consultation are the key to minimising the effects of job losses on the workforce and local economy (Morley and Ward 2009).

Accordingly, the question of the role of EWCs in tackling the current crisis can be assessed by examining the nature and extent of their involvement in the restructuring decided in the wake of the crisis. It must be mentioned from the outset, however, that solid statistical data or case studies on this matter are not yet available. Information on EWCs' involvement in handling the outcomes of the recent crisis is, as such, necessarily fragmentary.

The EWC database managed by the ETUI (www.ewcdb.eu) provides information on companies with established EWCs that have undergone merger or acquisition, these being forms of restructuring that necessitate obligatory reporting and permission by the EU Commission (Council Regulation 139/2004). Figure 5.4 shows that the number of these merger and acquisition cases has been rather stable over the last five years. It is necessary, however, to bear in mind that merger and acquisition cases notified to the EU Commission and requiring an obligatory consent as not potentially causing distortions of competition on the EU single market relate exclusively to the largest companies (see Council Regulation 139/2004). As such, the statistics do not cover all the cases in which EWCs have been affected by restructuring processes. By reference to other sources, however, it is possible, to a certain extent, to complete the picture of the degree to which EWCs are affected by restructuring. Firstly, a survey by Waddington (2006) found that 80% of the surveyed EWC members had, in one way or another, been faced with restructuring in their undertaking within the three years preceding the study. The constantly increasing pace of – broadly defined – restructuring processes is corroborated by records of the European Restructuring Monitor Quarterly (European Foundation for the Improvement of Living and Working Conditions 2009a) and further research (e.g. Voss 2006).

Figure 5.4 Number of merger cases notified with DG Competition of the European Commission (1990-2008)



Data source: http://ec.europa.eu/competition/mergers/statistics.pdf. Note: Data for 2009 incomplete.

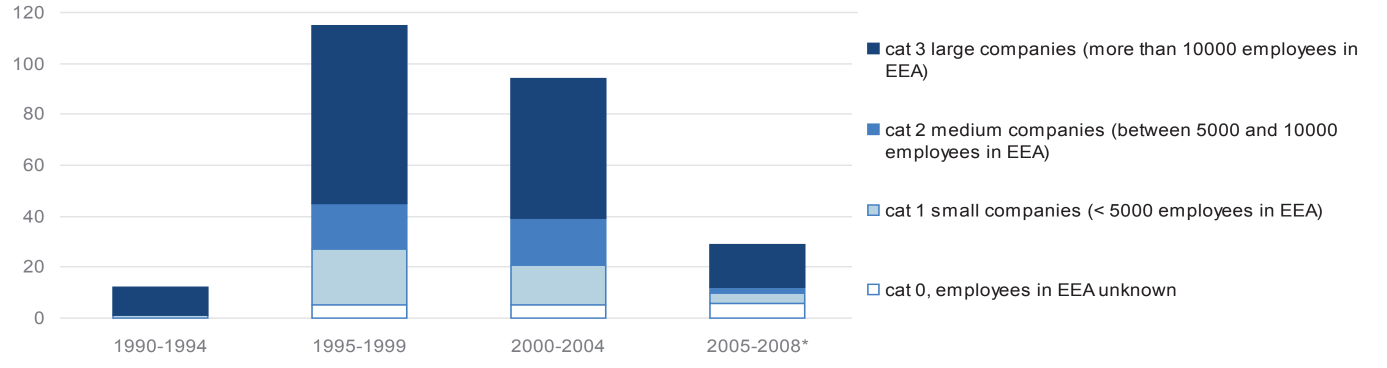
Restructuring in EWCs

Unfortunately, statistical evidence on EWC involvement in restructuring is rather scarce. Even though mergers and acquisitions as a phenomenon appear to be relatively easily measurable (Demetriades 2002: 60), the link between company involvement in restructuring and the interaction of EWCs is by no means straightforward (Carley and Hall 2006), due to the fact that the empirical evidence, insofar as it is fragmentary, needs to be treated with caution.

For the period 1990 to 2008 the ETUI database reports about 2260 cases, in 554 companies with a (currently) active EWC, of application to the Commission for authorisation to perform a merger or acquisition. As illustrated in Figure 5.5, a vast majority of notified cases involved multinational enterprises with employment figures of above 10,000 in the EEA (296 or 53.4% of companies in 1647 proceedings). Smaller companies of 5000-10000 employees with a functioning EWC in place were meanwhile involved in only 251 such reported cases of restructuring (99 companies or 17.8%). A high ratio of smaller multinationals with an active EWC and with overall EEA employment of less than 5000 staff (145 firms or 26%) was involved in 330 merger cases. These figures, when compared with the numbers of currently active EWCs broken down by company size in terms of workforce, contradict the popular belief that only the largest multinational companies are affected by the implications of restructuring. While it is indeed the case that the biggest firms (with active EWCs) have been consistently involved in the majority of restructuring cases (Figure 5.5), a slight decrease in their share has nonetheless been observed in the last decade (70% and 71%) compared to the 1990 – 1999 period (75%). In other words, multinational companies with fewer employees have been faced with restructuring to a greater extent than in the 1990s.

The abovementioned evidence allows the conclusion to be drawn that restructuring, for many EWCs, is not an exceptional, but rather a continuous circumstance under which they operate and one which represents an important, if not a pivotal, challenge for EWCs. This observation is supported by the fact that, for multinational companies, restructuring has become a permanent feature of their internal operations and one of the main means of increasing their efficiency, not necessarily associated with crisis situations alone, but occurring also in times of prosperity (Madura 2006: 448).

Figure 5.5 Multinational companies with active EWCs involved in mergers and takeovers reported to the DG Competition of the European Commission (2005 -2008), by size of employment (in EEA)



Data source: http://ec.europa.eu/competition/mergers/statistics.pdf and ETUI EWC database (2010).
Note: period 2005 – 2008 covers only 4 years as data for 2009 is not yet available.

5.2 European Works Councils (EWC)

Quality of EWCs involvement in restructuring

In the 2009 edition of *Benchmarking Working Europe*, we drew attention to a certain ambivalence that is characteristic of the discourse on EWCs and restructuring. On the one hand, the European Commission places emphasis on the EWCs' 'essential role' in anticipating and managing restructuring operations (European Commission 2002 and 2005) and has financed numerous projects and initiatives on this topic. Similarly, according to a survey by Waddington (2006), restructuring (in its various aspects) was reported by employee representatives to be the most important issue on EWC agendas. These results are consistent with the outcomes of debates with employee representatives highlighting that '*Company restructuring and its impact on employees was seen by many as the single most important issue for EWC consultation*' (NSZZ, GMB, SIF 2007) as well as with other research findings on EWCs' involvement in restructuring (Voss 2006). Eurofound research highlights that EWCs' potential role in restructuring depends on the general role ascribed to these bodies and that specific provisions tailored to allow EWCs to contribute to handling structural change are rather scarce, being present in only 14% of Article 13 agreements (pre-directive voluntary agreements) and 11% of Article 6 agreements (those signed after entry into force of directive 94/45/EC; Carley and Hall 2006). At the same time, the respondents in Waddington's survey (2006) reported at great length on the insufficient quality of information and consultation in EWCs (Jagodzinski *et al.* 2008), confirming that, despite employees being affected by restructuring, their EWCs often obtain scant information about its reasons and consequences. 'Consultation' of EWC representatives only *after* the decision has been finalised is, reportedly, a widespread practice (Waddington 2006), it being claimed in a certain number of other cases that the information provided was useless or completely irrelevant.

And yet EWCs do have the potential to become one of the central plant-level actors on the employee side supporting socially responsible management styles. They are in a position, for instance, to decrease enterprises' operational costs by coordinating employee and trade union responses to restructuring on a transnational scale (Moreau and Paris 2008). This capacity has been confirmed, for example, by the 147 EWCs, in at least 89 multinational enterprises, in which transnational agreements between employee representatives and management have been signed (Jagodzinski *et al.* 2008), some of them dealing with the social implications of restructuring measures (European Commission 2008a).

As regards EWCs' involvement in restructuring and dealing with adverse effects of the recent crisis, the available empirical evidence is, for several reasons, scarce. This can be explained, above all, by the fact that EWCs' meetings take place, in the vast majority of cases (68%), only once a year. Thus any research on the presence of crisis-related items on the EWC agenda will appear with a significant delay. Even so, there are significant indications that the involvement of EWCs has taken a number of forms. Here once again, as in the case of reactions to the crisis on the collective bargaining level, it has been the micro level that has played the most important role. Figure 5.6 provides information on some recent crisis-related EWC activities.

Some EWCs have been involved in signing framework agreements in response to the crisis (Arcelor Mittal GM Europe). In other cases, EWCs have been reported to give opinions on measures proposed by companies in the wake of the crisis (Fiat, HP, Dexia, Pinault Printemps Redoute). Alongside individual EWC actions of which knowledge is incidental, a more coordinated approach has been undertaken by UNI Europa. The European trade union federation for services and communication on 01/10/2008 asked its representatives on 51 European works councils in the finance industry to request extraordinary meetings without delay to discuss the impact of the financial crisis. This proposal was immediately taken up by – for example – two very hard-hit banks, Fortis and Dexia. On the other hand, cases have been reported in which EWCs' rights have been ignored. This was true of Anheuser-Busch InBev where on 15/10/2009 the sale to a financial investor of all of its subsidiaries in nine Eastern European countries was announced by central management. The management took this decision without informing the EWC, resulting in involvement of the European trade union federation for the food industry, EFFAT, which examined the possibility of taking legal action (EBR Newsletter 2009).

5.2 European Works Councils (EWC)

Quality of EWCs involvement in restructuring

Due to the fragmentary character of the evidence, it is difficult at the present time to draw conclusions. More information and studies will certainly become available on this topic in the future, once more data has been collected. It is probable, however, that, just as in the past, it has been the group of most active and efficient EWCs that has contributed to curbing the effects of crisis rather than EWCs taken as a whole. These more active and efficient EWCs are, presumably, the project-oriented and participation-oriented ones defined by Lecher (Lecher *et al*. 1999: 64-72), i.e. those that have developed their involvement beyond basic information and consultation and reached the stage of preparing opinions, making recommendations or otherwise participating in the decision-making processes. Should this hypothesis prove correct, it would again emphasise the relatively greater importance of experience and development of EWCs over and above mere compliance with the letter of the law.

Figure 5.6 Examples of EWC involvement in managing restructuring in the period of 2008-2009

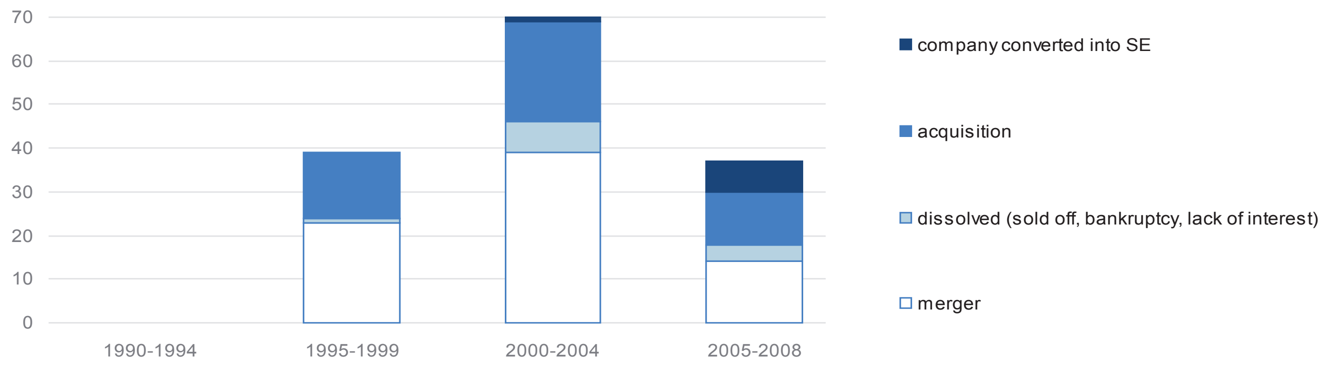
Company	Form / content of involvement
Arcelor Mittal	Framework agreement on social dialogue in times of crisis (July 2009)
General Motors	— Framework agreement on reduction of working time, in exchange for management's guarantees not to apply mass layoffs or site closures in Europe (January 2009; unilaterally terminated by management in July, 2009) — During September - October 2009 the select committee of the General Motors' EWC was in negotiations with Magna (potential investor in Opel at the time) on the extent of the planned layoffs (workforce reduction of 10.500 jobs, of which 4,500 in Germany). — Protest demonstration organized by the European Metalworkers' Federation (EMF) together with the EWC (23/09/2009) at the Antwerp Opel site. Demands: halt to all redundancies and plant closures. — During the meeting of EWC (12/03/2009) claims were issued concerning no site closures and no economic layoffs, and plans for capital-sharing for employees, fair divide of production between European sites and partial unemployment to save jobs were submitted to management. — EWC's announcement that employees would be ready to give up their Christmas and holiday bonuses to save the investor EUR 265 million / year in exchange for a 10% financial participation.
Fiat	EWC's protest on lack of information on the group's mid-term industrial strategies (November 2009); in 2008 demands to strengthen EWC's prerogatives, especially on strategy decisions in times of crisis, were aired.
HP	EWC's opinion criticising management's proposal to cut wages (April 2009)
EDS	EWC's opinion criticising management's proposal to cut wages (April 2009)
Dexia	EWC involved in discussions on a reorganization plan including site closures, the global reorganization of the group and internal mobility (since January 2009, ongoing)
Pinault Printemps Redoute	EWC members object to "the extensive savings plan announced by PPR" providing job cuts in France and throughout Europe (April 2009)
Areva	Coordinated actions throughout eight European countries against the planned sale of their energy transmission and distribution division (15/09/2009). The EWC, together with trade unions, organized a central demonstration in Paris.
Whirlpool	EWC-piloted agreement with management to avoid job cuts (December 2008)
RioTinto	An extraordinary meeting of EWC with management was held (January 2009) concerning 2000 job cuts in Europe.

Source: EIRO Online (www.eurofund.europa.eu/eiro/), EBR News (www.ebr-news.de), Planet Labor (www.planetlabor.com).

Consequences of restructuring for EWCs – Dissolutions of EWCs

It is not simply that company restructuring represents one of the core contents with which EWCs need to deal. A company acquisition, merger with another undertaking or acquisition may actually lead to the dissolution of an EWC. These processes are, indeed, one of the main reasons why EWCs cease to operate: a total of 193 EWCs have been dissolved for various restructuring-related reasons (Figure 5.7). The dissolution of an EWC, as an immediate consequence of a merger or acquisition, represents a serious problem for employees who, precisely during this most turbulent period of restructuring in their company (including mass lay-offs, organisational changes, etc.), are deprived of their sole channel of access to transnational information and consultation. Unfortunately, the 'old' directive 94/45/EC did not contain provisions regulating EWCs transition and continuity of operation in restructuring circumstances, an omission that has been (partially) remedied by the recast directive 2009/38/EC (art. 6.2 g).

Figure 5.7 EWCs dissolved per reason between 1995 and 2010



Data source: ETUI EWC database (2010). Note: period 2005 - 2008 covers only 4 years as data for 2009 is not yet available.

5.2 European Works Councils (EWC)

Recast directive 2009/38/EC – a new tool to handle restructuring?

Restructuring had been one of the main drivers behind the proposal for and adoption of the EWC Directive (Carley and Hall 2006; 9th recital of Directive 94/45/EC). Looking at items of information and topics on which EWCs must be consulted, as stipulated in Directive 94/45/EC, it becomes apparent that restructuring processes, in their various forms, were, indeed, expected to form the staples of EWC practice, or even their *raison d'être*. According to law (Annex to Directive 94/45/EC, Subsidiary Requirements, Article 2), EWCs must be informed and consulted on, amongst other things, '*substantial changes concerning organisation, introduction of new working methods or production processes, transfers of productions, mergers, cut-backs or closures of undertakings, establishments or important parts thereof, and collective redundancies*'. Due to the shortcomings in definitions of 'information' (missing entirely) and 'consultation' (weak), EWCs have, in practice, tended to exert limited influence on managerial decisions (Waddington 2006; Jagodzinski *et al.* 2008).

During (unofficial) bargaining preceding the adoption of the long-awaited recast Directive 2009/38/EC, great hopes were entertained for qualitative progress in EWC operation (ETUC and ETUI 2009). However, it must be conceded that the new law does not contain any amendments that directly and specifically enhance EWCs' capacities to deal with restructuring. Nonetheless, some of the changes may help EWCs to contribute to discussions on restructuring in companies.

First of all, a potential in this direction may be found in the improved definitions of information and consultation (art. 2 directive 2009/38/EC). Where 'information' is concerned, emphasis is placed on its timeliness, mode of transfer and content that must be such as to enable in-depth analysis by the EWC and preparation for consultation. This new provision makes it clear that the EWC must be informed *before* decisions are taken and must have time to assess the impact of, for example, the restructuring processes under consideration by management. Consultation is defined as an exchange of views that includes the EWC's right to issue an opinion that can be taken into consideration in the decision-making process. All of this requires that both information and consultation be considered inherent components of the decision-making process and not, at best, a mere stage between adoption of a decision by management and its implementation.

Secondly, in line with the provision of Article 6.2 g) requiring that, '*where necessary'*, arrangements be made to form a "Select Committee" (responsible for coordination and steering the work of EWC), a part of an EWC agreement may also extend the EWC's capacity to react quickly and efficiently to extraordinary situations, such as these resulting from restructuring or crisis. At the present time, a Select Committee (an internal body within the EWC facilitating liaison and organising work) would seem to be still lacking in approximately 43% of cases (ETUI database of EWCs 2009). Select Committees may, where they exist, play the role of liaison body between management and the EWC plenum, thereby facilitating and speeding up information flow and consultation processes (Lecher *et al.* 2001). From this point of view, EWCs that have failed to set up a Select Committee are deprived of an important structure capable of boosting their efficiency and, consequently, suffer from a disadvantage that impairs their efficiency and the quality of their work.

Thirdly, the recast directive offers the possibility of stronger links between EWCs and national or plant-level employee representation bodies. Articles 10.2 and 12.2 stipulate respectively that EWC members must communicate with the local level representatives on the content of information and consultation and also that arrangements for this cooperation must be made in the EWC agreement.

These new rules, combined with the reinforced entitlement of EWCs to be provided with the means necessary to exercise the rights stemming from the directive, can result in an overall improvement of EWCs' capacities to handle restructuring more effectively.

At the same time, the new recast directive suffers from at least two major shortcomings in relation to the need to improve EWCs' capacity to handle restructuring. First, a major disappointment consists in the fact that the minimum frequency of EWC meetings has not been increased. By 2009, almost 70% of the EWCs were holding only one plenary meeting per year (ETUI database of EWCs 2009). It has to be conceded, however, that 81% of Article 13 agreements and 97% of Article 6 agreements do provide for some form of extraordinary meeting in exceptional circumstances (SDA Database quoted by Carley and Hall 2006: 14). The fact that the new recast directive did not increase the minimum number of EWC meetings seems to be at dissonance with the goals set for EWCs, especially in the context of restructuring. In view of the high (and growing) number of restructuring cases affecting companies with EWCs (Jagodziński *et al.* 2008), this can indeed be considered a shortcoming of the recast directive. Secondly, the excessively hazy definition of old Directive 94/45/EC concerning what constitutes a 'transnational issue' (*Benchmarking Working Europe 2009*) was not amended by the recast. This very general definition has all too often resulted in EWCs being hindered in their consultation activities because of the management's unilateral classification of restructuring measures as purely 'national' or 'local'.

The above findings on EWCs' involvement in restructuring are in line with the critical assessment of the European Commission (2009). Insofar as the final outcome of the revision process granted EWCs no new or significantly extended competences for tackling restructuring (for further details see Jagodziński and Pas 2010 forthcoming), an enhancement of their overall efficiency in this regard is likely to be restricted.

5.3 Conclusions

Collective agreements, as well as interest representation by shop stewards, works councils and employee representatives in company boardrooms, are essential components of an intermeshing system of interest representation and collective bargaining with employers, mainly at the micro level. Both levels supply evidence of the extent to which social interests are taken into consideration in the situation of crisis and to which flexible and also innovative responses have been found by the social partners. While we have gathered a considerable number of experiences and examples, we are certainly in no position to assess the developments accurately. Nor are we able to draw conclusions about the meaning of these experiences and social partners' responses to the crisis for future industrial relations, the position of the social partners, and forms of interest representation. From a European point of view, it clearly appears appropriate to pay close attention to the question of the extent to which the trans-national level has been involved in crisis solutions and to whatever role may have been played by European provisions and platforms such as European Works Councils.

All the agreements including responses to the crisis that have been presented in this chapter were concluded between industrial actors such as trade unions, works councils or shop stewards, on the one hand, and employers' federations and company human resource departments, on the other. Insofar as these have been the industrial parties most directly concerned, they have come up with recipes for taking effective steps at short notice. Overall, pragmatism and adaptive reaction rather than systematic reflection have guided the involved parties in almost all of the examples found. Collective bargaining and interest representation systems have been used as tools to avoid the worst, which means redundancies, extensive job losses and company closures. The agenda has been driven by the particular situation at the local or the national level and, at these levels at least, the various systems seem to have proved resilient in tackling the consequences of the crisis in a socially responsible and, at the same time, economically supportive manner. These observations would seem to prompt the provisional conclusion that, in cases where laws were respected, the system of industrial relations has proved robust and appropriate to contributing to conflict resolution in the wake of crisis.

It is necessary, however, to be quite honest and to state that it is much too early to draw any final conclusions concerning trends and impacts for the future structure and role of industrial relations beyond the crisis. This is due, not least, to the as yet incomplete state of the relevant data (concerning, for example, the role of EWCs). At the moment, we do not know whether we will emerge from the crisis with a continuation of earlier industrial relations developments – such as the decentralisation of collective bargaining or individualisation as a phenomenon challenging collective interest representation – dating from pre-crisis days. We have, in fact, observed a number of counter-developments such as a strengthening of company-level bargaining that has tended to be accompanied by an increased importance of higher level bargaining on the (inter) sectoral level (in systems of multi-level bargaining as in most EU countries). This was as a result, for the most part, of the existence or introduction of public short-time working schemes that had to be implemented by collective agreement.

At the same time, however, there can be no doubt of the fact that, in the absence of supportive governmental measures to foster collective bargaining by stabilising the position of the negotiating parties, collective bargaining at the national or sectoral level cannot contribute to the functioning of a proper industrial relations system. Similarly, without proper governmental support and guarantees, workers' interest representation will not be capable of constructively participating in the resolution of crisis situations. This is true, in particular, of most of the EU new member states, where, in all likelihood, many small and vulnerable plants have been overwhelmed by the crisis and failed to survive its repercussions.

With regard to interest representation at transnational level through EWCs, it might be assumed that an appropriate European framework for coordinated action now exists. Yet in actual fact the agendas of interest representation bodies have been profoundly shaken by the crisis. At the same time, these bodies have sometimes become overloaded by issues that exceeded their information and consultation competences and the tools and resources available to deal with them. And so it is important to point out that we failed to discover any significant evidence suggesting increased recourse to the transnational level in times of crisis. According to our own observations, supported by the information on agreements gathered in the ETUI EWC database, only in exceptional cases have agreements between employees and management, concerning information and consultation on special measures triggered by the crisis,

5.3 Conclusions

been concluded at the transnational level. Much more frequently it would seem that crisis-related problems were first of all tackled on a case-by-case basis by the national level of interest representation. Yet the improved rights on information and consultation – and on providing information to all levels of interest representation – provided by the recast of the EWC directive may have created a modicum of extra stimulus to develop cross-border interest representation under these extraordinary circumstances.

In conclusion, a key question arising from the presentation in this chapter relates to the imminence, or otherwise, of a re-nationalisation of industrial relations and collective bargaining. This question arises necessarily, due to the fact that, in many cases, national responses have proven to be the most obvious, most effective and most appropriate form of reaction to the crisis at micro-level. Consequently, the question prompts further queries about relationships between re-nationalised industrial relations and transnational institutions such as EWCs. However this may be, and even if we are as yet unable to describe or explain what has happened, changes to industrial relations systems have indeed been triggered, bringing them into a state of transition, and these changes will inevitably impact upon the future of the European industrial relations and collective bargaining system.

6. The European interprofessional and sectoral social dialogue and the economic crisis

Introduction

It was inevitable that, after a financial crisis had turned into an economic as well as a social crisis, that this would affect and demand the attention of national social partners, influencing their dialogue at different levels, as well as the European social dialogue and its actors. Among the latter, since the outbreak of crisis, its "phantom" has indeed been and remains in various ways omnipresent in all discussions conducted within both the European interprofessional and the sectoral social dialogue.

This chapter provides an overview of the most important features, processes and outcomes that, over the past year, have characterised both levels of the European social dialogue, describing how they have been affected by and/ or responded to the economic crisis. Other significant developments are also covered including, for the interprofessional level, a brief examination of the implementation of the "leftovers" of the 2nd Joint Work Programme of the European social partners, as well as a concise overview of what may be regarded as some of the stronger and not so strong features of the recently adopted revised Framework Agreement on Parental leave (June 2009).

In view of the specific focus of this edition of the *Benchmarking Working Europe* report on the economic crisis, this chapter does not, as it has done in previous years, examine developments in European labour law. It would of course have been possible to discuss the Commission's Better Regulation agenda, or the European "Competitiveness" (Internal Market, Industry and Research) Council's claim, at its meeting of 24-25 September 2009, that the *"Services Directive could serve as a tool to help Europe recover more rapidly from the economic crisis when starting business on new markets is facilitated in all Member States at the same time as further trade barriers are abolished (insofar as) the Directive can realise considerable economic growth and job opportunities in the service sector in Europe"*.

As, in relation to both the aforementioned initiatives, it is highly unclear how, and indeed doubtful whether, they will contribute to more Social Europe, let alone help to overcome the crisis, it was decided instead to place the focus on the European social partners' own debates in relation to the crisis, a further consideration being that most regulatory developments of relevance to the crisis (or to how it is to be overcome) took place at the national level and are selectively touched upon in Chapter 5.

Themes

6.1 How has the European interprofessional social dialogue responded to the crisis?

The crisis as an omnipresent "phantom" in the autonomous interprofessional social dialogue

When the first signs of the detrimental impact of the crisis on Europe's economies and labour markets began to emerge in October 2008, the EU social partners had just started negotiations on the content of their *3rd autonomous joint work programme 2009-2010* (see Figures 6.1 and 6.2). Just as the Lisbon Strategy had largely influenced the two previous work programmes of 2003-2005 and 2006-2008 (*Benchmarking Working Europe 2009*, Chapter 6), it was clear that the crisis would form a crucial contextual framework for this third version which, as had been agreed from the outset, would be limited to a two-year programme, so as to coincide with the end of the Lisbon Strategy period, and would once again focus on the quality of actions taken or to be taken (with the creation of "more and better jobs" as the underlying top priority) rather than on their quantity. A further reason for this focus was that several important actions contained in the 2006-2008 work programme – like the negotiations on an autonomous framework agreement on inclusive labour markets (see also below) and a framework of actions on employment, as well as the talks foreseen on the "further development of a common understanding of the various instruments of the European social dialogue" – had barely started or had not even yet been jointly embarked upon. Thus, in order to bring the "old actions" to a satisfactory end, as well as to identify the most appropriate new actions, the European social partners recognise, in the introduction of their 3rd autonomous work programme, that the requisite steps have to be taken in *"the new context created by the current financial and economic crisis and they are ready to consider the short-, medium- and long-term implications this will have on workers and employers. To foster sustainable development, the European social partners consider that Europe needs to restore economic growth, to improve competitiveness, productivity and job quality, to achieve full employment and social progress and to enhance environmental protection. In this context, they will seek to evaluate the appropriate mix of macro, micro and labour market policies conducive to stabilising the economy and to reaching sustainable growth and high levels of employment."* Developments in the economic and social crisis will thus certainly have a major impact on new actions such as a joint recommendation aimed at contributing to defining a Post-2010 Lisbon Strategy, a joint action on the social and employment aspects of climate change, and the monitoring of the implementation of the common principles of flexicurity.

Also in October 2008, the European social partners started their *negotiations on an autonomous framework agreement on Inclusive Labour Markets*. Although the 2nd Work Programme 2006-2008 had foreseen negotiations on an autonomous framework agreement on either lifelong learning or the integration of disadvantaged groups into labour markets, it was decided – after intense discussion and as the two

Figure 6.1 Implementation of the 3rd Work Programme of the European Social Partners 2009-2010 – Status 12/2009, new actions

Actions foreseen **New actions**	**Actions undertaken**
Joint recommendation contributing to the definition of the Post-2010 Lisbon agenda, also in the context of the current economic and financial crisis	Decision at Social Dialogue Committee meeting of 27/10/2009 to set up an ad hoc working group; first meeting of this group is scheduled for 03/02/2010.
Development of a joint approach to the social and employment aspects and consequences of climate change policies with a view to maximising opportunities and minimising negative effects and to identify possible joint actions	No joint action yet
Jointly monitoring the implementation of the common principles of flexicurity, notably in order to evaluate the role and involvement of the social partners in the process and to draw joint lessons	No joint action yet

Source: ETUC and ETUI (*Benchmarking Working Europe*, 2007/2008/2009). To be read in conjunction with Figures 2 in the respective chapters on social dialogue.

issues were closely intertwined – to refocus the topic of negotiations. These negotiations proved extremely difficult from the outset. The causes of the difficulties included: 1) the employers' wish to focus exclusively on "outsiders" (i.e. inclusion of those currently outside the labour market) versus the trade union insistence on the need to focus on "in- *and* outsiders" (i.e. to ensure also that those inside the labour market but at risk – e.g. because of restructuring – would remain inside) and on enabling all workers to make progress on the labour market; 2) the responsibility of the individual to ensure his/her labour market inclusion versus the responsibilities of enterprises, trade unions and public authorities in this respect; 3) the sometimes very thin borderline between what kinds of actions the social partners are genuinely in a position to undertake jointly and those that fall rather within the responsibility/competence of others (i.e. public authorities, NGOs, social economy, education systems, etc.). On top of this, there was of course the factor of the "crisis". Although both sides of the negotiating table agreed – in particular at times of crisis – on the importance and urgency of tackling this issue, the argument of the crisis also undercut the still ongoing negotiations in relation to how far

Figure 6.2 Implementation of the 3rd Work Programme of the European Social Partners 2009-2010, continued actions from Work Programme 2006-2008 – Status 12/2009

Continued actions from WP 2006-2008	Actions undertaken
Negotiation of an autonomous framework agreement on inclusive labour markets	Negotiations started on 17/10/08 and ended 09/12/09; draft agreement is now up for adoption
Finalisation of the national studies on economic and social change in the EU27	Joint project "Integrated Programme of the EU Social Dialogue 2008-2010" "Subproject II Joint Study on restructuring in EU MS – Final phase (7 countries)"
Negotiation of a framework of actions on employment	No joint action yet
Continuation of the work on capacity building for social partners in an enlarged EU, in the EEA and in candidate countries including further developing the activities of the social partners' respective resource centres	— Joint project "Integrated Programme of the EU Social Dialogue 2008-2010" - Subproject I: *"Joint project on Social partners' participation in the European social dialogue: What are Social Partners' needs?" in Romania, Bulgaria, Croatia and Turkey – phase 2"* — Subproject III: "Resource Centres – services and websites" – redesigned ETUC Resource Centre available at: http://resourcecentre.etuc.org/
Monitoring, assessing and evaluating the implementation of EU social dialogue framework agreements and frameworks of actions	Stress at work: — Commission Conference on 01/07/09 (DVD and conference documents available at: http://ec.europa.eu/social/main.jsp?catId=329&langId=en&eventsId=187&furtherEvents=yes) — Commission's own implementation report in preparation and to be published by September 2010 Harassment and violence — 2nd joint EU social partners' implementation table adopted at SDC of 16/06/2009 (available at: http://resourcecentre.etuc.org/Agreements-57.html) — ETUC follow-up project http://www.etuc.org/a/4629) Gender equality: Final evaluation report of 2009 available at http://resourcecentre.etuc.org/
Further develop the European social partners' common understanding of the various instruments resulting from their negotiations, determine their impact, etc.	No further concrete joint action yet
Other actions in reaction to Commission proposals and initiatives	Replies to the following Commission consultations: — 1st Consultation on notifications by Member States under Article 17(5) of Directive 2003/88/EC (working time of doctors in training) — 1st Consultation of the social partners on the protection of workers from the risks related to exposure to electromagnetic fields at work

Source: ETUC and ETUI (*Benchmarking Working Europe*, 2007/2008/2009), chapters on social dialogue.

The crisis as an omnipresent “phantom” in the autonomous interprofessional social dialogue

each of the involved actors (social partners, public authorities, etc.) should and could go in taking concrete action, in particular as regards the cost aspects of such action. Despite all this, and after more than 10 months of negotiations, the European social partners succeeded in concluding a draft autonomous framework agreement on 9 December 2009. This draft agreement has been submitted to their member organisations for their consultation in view of an eventual formal adoption by the respective decision-making bodies of the European social partners.

As for actions outside the framework of their work programmes, it is worthwhile mentioning three joint initiatives/talks in relation to which the crisis has already represented an influential argument.

Firstly, there was the start, at the beginning of 2009 and in view of the Tripartite Social Summit of March 2009, of joint talks in order to deliver at the Summit a “*Joint Declaration on action to address the current financial and economic crisis*” focussing mainly on the social and labour market implications of the crisis and including also an annex on “Recommendations of the European Social Partners on how the European Social Fund (ESF) can support economic recovery”. The intended objectives of the declaration were to 1) recall the specific contributions of the European social dialogue to be delivered in this context via its 3rd Work Programme, specify the urgent short-run measures regarded as necessary by the European social partners in order to stabilise the economy and limit the most severe social consequences of the crisis, 3) describe the medium-term actions they considered necessary to turn the economy around and restore job creation, and 4) recall – in particular in these times of crisis – the need to intensify consultations between the social partners and the EU institutions. However, after several intense debates, the European social partners failed, for a number of different reasons, in their endeavour to arrive at such a joint declaration. One major reason was, for example, that the employers’ side wanted to integrate into the text a call for a general reduction of labour costs via the reduction of employers’ contributions, which would affect all incomes irrespective of their level. The trade union side was unable to accept this as it would – further – undermine, throughout Europe, many social security systems the financial sustainability of which had to be upheld and ensured, all the more so at times of an economic but also social crisis. The social partners did, however, reach a compromise on the joint recommendations on the use of the ESF.

Secondly, there are the still ongoing *joint talks on the consequences of the ECJ judgments Laval, Viking, Rüffert and Commission vs. Luxemburg*. It may be recalled that in the course of 2007 and 2008, the European Court of Justice interpreted existing European rules on the posting of workers in the context of the freedom to provide services (Laval, Rüffert and Commission vs. Luxembourg cases) and on the freedom of establishment (Viking case). In these judgments, the European Court of Justice formulated, in particular, its interpretation of the relationship between fundamental social rights and economic freedoms in the internal market. In October 2008, the European Commission and the French presidency called on the European social partners to jointly develop an analysis of the consequences of the ECJ cases. This was accepted by all, albeit with hesitation and reservation on both sides and, on the trade union side, with very low expectations of a positive outcome. It was deliberately decided to call this exercise not “negotiations” but “talks”, so as not to give the impression that the social partners could reasonably be expected to come up with an agreement on this topic. Though it had been intended that this should be a very quick exercise, the talks dragged on. In all likelihood they will soon be brought to an end with a progress report including some points of agreement, but, above all, points of divergence concerning the ECJ decisions. The social partners have so far focussed their discussions on two central themes, namely, a) the context of the single market and the impact of the ECJ rulings and b) the relationship between economic freedoms and fundamental (social) rights. During the discussions on the first point, the need to reinforce confidence in the social dimension was recognised. With regard to the economic and financial crisis, the social partners recognise that it could, among other things, further intensify the rise of protectionism and xenophobia recently observed in Europe.

Thirdly, and to end on a positive note, there were the *negotiations on the revised parental leave agreement*. Having begun these negotiations in September 2008, after six months and seven negotiating rounds, on 18

6.1 How has the European interprofessional social dialogue responded to the crisis?

The crisis as an omnipresent "phantom" in the autonomous interprofessional social dialogue

June 2009 the European social partners signed an agreement revising their 1995 Framework Agreement on Parental Leave. This is regarded as a milestone since it was the first time in the history of the European social dialogue that such an exercise to revise a pre-existing framework agreement had been undertaken. The joint European social partners' press release stated that *"the successful conclusion of this agreement illustrates the positive role of the European social dialogue in finding solutions to respond to important challenges, also in times of crisis."* This is certainly true, if only because in 2009 this revision is the most genuine positive result to have come out of the European social dialogue. But it is also true when considering that, here again, the negotiations were on several occasions overshadowed and complicated by the element of crisis.

Whereas some – in particular on the employers' side – even questioned whether, as a matter of principle, negotiation of such a revision in times of crisis was the most appropriate signal to give, insofar as there existed more fundamental problems requiring strong solutions, the "crisis argument" was also – albeit with fluctuating success – used when specific demands were put forward such as on 1) including in the negotiations other forms of leave (paternity leave, filial leave (i.e. leave to take care of dependent family members), etc.), 2) extension of the periods of parental leave; 3) raising the age of the child in relation to whom leave entitlement should be granted and 4) integration of references to the fact that the parental leave should be paid. Figure 6.3 gives an overview of what are – in our own view – the positive results achieved, as well as aspects concerning which we have mixed feelings or even consider the revised agreement to represent a missed opportunity. On 30 November the European Council of Ministers of Employment/Social Affairs reached a political agreement on the text of the proposal for a Directive incorporating this revised framework agreement.

Figure 6.3 Analysis of the pros and cons of the revised framework agreement on Parental Leave

Pros	— 1 month additional leave (4 instead of 3 for each parent now of which 1 month is non-transferable) (*Clause 2§2*) — Strengthening of the "individual" nature of the right *(Clause 2§1)* — Strengthening of the rights of "atypical" workers (fixed-term, part-time, agency work) to parental leave *(Clause 1§3 and 3§1(b))* — Increased protection against unfavourable treatment as a result of exercising the right to parental leave (and thus not only in relation to dismissal as in 1995 agreement) *(Clause 5§4)* — Rights to flexible arrangements upon return to work/ arrangements for "keeping in touch" during the leave period *(Clause 6)* — Respect for diverse family structures *(Clause 1§1)* — New reference to rights of parents with children with disabilities or long-term illness *(Clause 3§3)*
Mixed feelings	— Principle of non-transferability for whole period of leave (in 1995 the whole period was considered "in principle" non-transferable) *(Clause 2§2 and Preamble 16)* — Only references to role and level of income in relation to the take-up of parental leave, in particular by fathers, and thus not a clear statement/ provision making it obligatory to ensure paid parental leave by providing an adequate replacement income. *(Clause 5§5 and Preamble 18-20)* — Strengthening of the rights of "atypical" workers (fixed-term, part-time, agency work) to parental leave *(Clause 1§3 and 3§1(b))*
Missed opportunities	— No increase of the age of the child (remains 8 years – *Clause 2§1*) — Deals only with parental leave and not with other forms of leave like paternity leave or, filial leave (i.e. leave to take care of dependent family members) — No new rules on leave for reasons of "*force majeure*" (i.e. mostly seen as very short-term leave of one or a few days to take care of a child that has fallen suddenly ill in cases where no other care could be found at short notice) *(Clause 7)*

Source: ETUI own input.

6.2 European sectoral social dialogue and the economic crisis

Concerns and mobilisation of European sectoral social partners against the economic crisis

In 2009, several initiatives in the European Sectoral Social Dialogue Committees addressed the issue of the impact of the economic and financial crisis on sector-related policies. As shown in Figure 6.4, at least seven European Sectoral Social Dialogue Committees issued joint positions on the impact of the economic crisis on their respective sectors and urged the European and national public authorities to take seriously their responsibilities to maintain employment and competitiveness.

In general, the European industry federations and the respective employers' associations agree that what started as a financial crisis has reached the level of a global economic crisis that directly and severely affects employees and employment in all sectors in Europe and in particular the sectors mentioned in the table: transport, construction, chemicals, commerce, public services and regional and local government. Effects of the economic crisis can be witnessed in terms of a general decline in activity, the introduction of short-time working schemes, temporary or permanent layoffs, restructuring plans, but also the restricted access to capital and credit insurance that has led to the lowering of employees' purchasing power and a large increase in bankruptcies among SMEs.

In order to help maintain the competitiveness of their respective sectors during the economic crisis, as well as to prevent worst-case scenarios, most European sectoral social partners mentioned in Figure 6.4, and including their respective national and local level of representation, have carried out analysis of the effects of the economic crisis in, for example, the construction sector or in the public sector. All of them also conducted activities in the framework of the social dialogue to find mutually acceptable solutions designed to reconcile recovery and growth with decent employment opportunities. However, sectors invariably foresee a worsening of the current economic situation if no measures are taken and all sectors, in general, appeal for three kinds of measure: 1) to increase EU and national financial support in order to maintain investment and restore credit, 2) to invest in public infrastructure needed for the recovery of the economy, 3) to support training and further qualification schemes in order to retain skilled workers in the sector (especially during periods of unemployment) and boost the employability of workers who are particularly vulnerable on account of educational or skills deficits.

Additionally, the chemical sector, for example, has requested measures to respect existing European and national legislation on information and consultation as well as the involvement of European Works Councils in cases of restructuring. The inland waterway transport sector faces severe economic and social impacts due to the economic crisis, the most severe being the race to the bottom regarding freight rates and the worsening of working conditions. Indeed, companies do not hesitate to recruit workers on rates of pay that are below the applicable minimum wage or to establish subsidiaries in Member States without specific social regulation for Inland Waterway Transport. This latter issue led to a Joint sectoral contribution by the European sectoral committee's members to the Commission's

Figure 6.4 Main joint positions in the sectoral social dialogue committees in reaction to the economic crisis in 2009

Commerce	**Euro Commerce and UNI Commerce statement** of 18.12.08 on the effect of economic and resulting financial crisis on both businesses in commerce and consumers.
Regional and local government	**CEMR-EP-EPSU joint Message** of 27.02.09
Live performance	**EAEA-PEARLE statement** on 'The impact of the financial crisis in the live performance sector' of 06.05.2009.
Chemical	**EMCEF-ECEG declaration** on the global economic crisis of 13.05.09.
Road transport	**IRU-ETF statement** on the economic crisis of 14.05.09.
Construction	**EFBWW-FIEC declaration** on 'The global economic crisis and its consequences for the European construction industry. Positive measures and concerns of the European Social Partners EFBWW and FIEC' of 30.06.09.
Inland waterway transport	**EUB, OEB-ESO and ETF contribution** to the Commission's Consultation on the future of transport of 30.11.09.

Source: ETUI own input.The joint texts referred to in the above table can be consulted in the European Commission, *Social Dialogue texts database*.

6.2 European sectoral social dialogue and the economic crisis

Concerns and mobilisation of European sectoral social partners against the economic crisis

Consultation on the future of transport, calling for the creation of transparent EU legislation to ensure a uniform legal and social security system applicable for all crew members, thus taking into account the transnational nature of the daily work in Inland Waterway Transport (currently not tackled in the EU regulation 883/2004 on the coordination of social security systems that will enter into force in May 2010). In the construction sector, meanwhile, further measures are required to maintain skilled workers in order not to lose human resources for the future, or to provide incentives for workers to buy and renovate properties and guarantee access to mortgages. Other sectors call upon the Member States and the EU to adopt special recovery plans – as in the road transport sector or the live performance sector – in order to restore or safeguard growth and quality employment.

Not only private sectors, but also public services, are deeply affected by the financial and economic crisis. Accordingly, the European Federation of Public Services Unions (EPSU) adopted, at its 8th Congress (June 2009), a resolution on the financial and economic crisis and its consequences for the public sector and the economy at large. The aim is to prevent the current crisis from being used to diminish the role of government and public services. A set of action points was thus drawn up to tackle the economic and financial crisis including a) the promotion of investment in public infrastructure and services in order to encourage stability; b) the promotion of policies to prevent mass unemployment; c) strict regulation of the banking sector and financial products to ensure that their main function is to support the real economy. According to EPSU, regulating the financial markets would ensure that governments use the public money invested in the financial system to seek fundamental changes, particularly increasing control, transparency and democratic governance with a focus on long-term investment – especially in public infrastructure, public services and an environmentally and socially sustainable economy. Furthermore, a policy of wage moderation should be at the centre of political and economic debate, as it has been a characteristic of European collective bargaining in all sectors of the economy for more than ten years. EPSU fears that while the economic crisis has placed the issue of wage moderation at the centre of political and economic debate, there is an increasing risk that the recession could be used as a reason to restrain wages. A study carried out for the electricity and gas social dialogue committees confirms that the electricity and gas sectors have shed about 300,000 jobs over the previous decade, while showing significant increases in profits and total dividend payout. Finally EPSU stresses that an adequate strategy to address the crisis requires the involvement of the social partners (EPSU 2009).

On a side note, the European Organisation of Military Associations (EUROMIL) addressed the issue of the impact of the financial and economic crisis on policy choices for the armed forces and their subsequent impact on employment and working conditions in the sector. At the 100th EUROMIL Presidium held on 6 November 2009 national military associations and trade unions of EUROMIL expressed their concerns and EUROMIL pointed out that, while analysts forecast that expenditure for defence is likely to be less affected by cuts in countries with a larger GDP, countries with a smaller GDP will have to make strategic choices that will impact on the armed forces. Such strategic choices will affect salaries, recruitment, exercise and training, cause delays for particular protective equipment or lead to an increase in private funding and outsourcing.

Furthermore, direct impacts of the economic crisis were witnessed in many European sectors. For example, the restructuring of the German engineering group Siemens involved cutting 16,750 jobs among its 400,000 global workforce and will affect all segments of the group and production sites in various European countries. The European Metalworkers' Federation (EMF) has been much involved in coordinating trade union action, together with the European Works Councils (EWC). Here again, as in most cases, central management's information policy does not include information and consultation of the EWC (here the Siemens Employees Committee – SEC) as it had not been informed about the details of the restructuring plan, thus not respecting elementary provisions of European law regarding information and consultation of workers (on EWCs see also Chapter 5). Solidarity actions, together with actions taken to stress the Commission's responsibility to ensure proper application of EU law, led Siemens to sign a restructuring plan including financial support as well qualification-improving measures for the workforce.

6.2 European sectoral social dialogue and the economic crisis

Concerns and mobilisation of European sectoral social partners against the economic crisis

As Figure 6.5 shows, numerous other activities took place in the framework of the European sectoral social dialogue. In a large majority of cases, international or European framework agreements were signed between European industry federations and multinationals on issues that included ethical employment, fundamental labour rights, ethical cross-border recruitment, working conditions for maritime workers, and health and safety at the workplace. In general, over the last decade, there has been an increase in such agreements within the framework of the European sectoral social dialogue, accompanied in some cases by clear policies on the part of the European industry federations (see for example EMF 2009).

In the automobile industry, the EMF, together with European Employees Forum (GM's EWC), reacted to General Motors' outsourcing plans involving massive jobs cuts in Europe in 2008 and 2009. EMF supported the employees' request to management to respect existing agreements and conclude a European framework agreement on restructuring. Facing the GM management strategy to push through change at local level, the European Employees Forum and EMF organised a European-wide employee mobilisation. In summer 2009, negotiations on the future of GM's European operations in Europe – namely to sell Opel and Vauxhall, its main European operations, to Magna and Sberbank – showed the power of multinational companies to place national governments and trade unions in opposition, even in situations of extreme trade difficulties. In this case, the planned sale had led to highly controversial debates, as subsequent restructuring would have fallen disproportionately on plants in Europe. Such restructuring at a time of financial and economic crisis clearly represents a hard challenge for European-level trade union cohesion.

In the same vein, the European Metalworkers' Federation (EMF) and UNI Europe affiliates in Europe joined forces calling for meaningful information and consultation processes to help pave the way for acceptable solutions for all workers in a restructuring phase following the takeover by the computer manufacturer Hewlett-Packard of the information technology service provider Electronic Data Systems, HP. Such restructuring forecasts a general reduction of 24,000 jobs, with about 9,300 in Europe including freeze wages and benefits, thus without respecting EU and national legislation requirements on the information and consultation of the workforce.

Figure 6.5 European sectoral social dialogue main activities in 2008-2009

Sectors	Activities
Hospitals	**Code of conduct** (April 2008) on ethical cross-border recruitment and retention practices signed by Hospeem (European Hospital and Healthcare Employers' association) and EPSU.
Maritime transport	**European Agreement** to improve working conditions for over 300,000 maritime workers across Europe signed in May 2008 between the ETF and the European Community Shipowners' Associations (ECSA).
Bank	**International framework agreement** on fundamental labour rights signed in September 2008 between the Danish-based finance multinational Danske Bank and UNI Finance with the help of six trade unions in the Nordic countries and Ireland.
Private security	**International framework agreement** on 'Ethical employment partnership' signed in December 2008 between G4S (world's largest security solutions group) and UNI Property Services together with GMB (British General Municipal, Boilermakers and Allied Trade Union).
Energy	**European framework agreement** on improving professional development of the group's European employees. through the implementation of an annual anticipation process linked to future employment prospects signed in June 2009 with the Thales Group and European Metalworkers' Federation EMF
Healthcare	**European Framework agreement** signed in July 2009 by the European Hospital and Healthcare Employers' Association (Hospeem) and EPSU, the European Federation of Public Services Unions.

Source: ETUI own input.

6.3 Conclusions

From the above it is clear that, in a variety of different modes, the "phantom of the crisis" was throughout 2009 – and of course continues to be – omnipresent in all discussions in the European interprofessional as well as sectoral social dialogue. As for the interprofessional level, all issues tackled or in the process of being dealt with have in one way or the other suffered and/or been influenced by the changed context introduced by the economic crisis. While the fact of the crisis certainly did not facilitate the negotiations – indeed it undoubtedly rendered them more complex – its irruption had the effect of increasing the importance and the urgency of certain issues under discussion (like the negotiations on inclusive labour markets).

In the European sectoral social dialogue too, the crisis has "occupied" several sectoral social dialogue committees and talks/initiatives. Apart from the six joint texts agreed upon and relating directly to the crisis, the changed context also overshadowed this level of social dialogue both directly and indirectly.

With the crisis – and in particular its social and labour market implications – far from over, it can be predicted with little risk of error that the "crisis element" will weigh heavily in the future negotiations and is unlikely to make them any easier. This will undoubtedly be the case at the interprofessional level where several issues of the 2nd as well as the 3rd Work Programme still have to be embarked upon, some of these being of particular relevance in the current context including the scheduled discussions on a joint recommendation aimed at contributing to defining a Post-2010 Lisbon Strategy, a joint action on the social and employment aspects of climate change, and the monitoring of the implementation of the common principles of flexicurity. A similar conclusion can without doubt be drawn in relation to the sectoral level when looking at the economic (and thus social) forecasts, although some sectors are bound to be harder hit than others.

Furthermore, 2010 promises also to be an interesting and challenging year as the European social partners will have at least to start their discussions on what, in the 2nd and 3rd work programme, they referred to as the need to "develop further their common understanding of the various instruments resulting from their negotiations, determine their impact on the various levels of social dialogue, further co-ordinate the various levels of social dialogue and negotiations, including the development of better synergies between European interprofessional and sectoral social dialogue". To date, no joint action has been undertaken in relation to this need. However, the exercise is bound to become all the more interesting insofar as, at the beginning of 2010, the Commission is highly likely to launch a Communication indicating its objectives and actions for the review of the European sectoral social dialogue on the basis of the numerous contributions received in the context of the consultation launched on 14 October 2008 for "a review of the implementation of the Commission Communication and Decision of 20 May 1998". These contributions included – alongside some very sectoral-social-dialogue-specific questions – some extremely pertinent questions about how to ensure better synergies between both levels of European social dialogue and, in particular, in relation to better implementation or at least taking into account of negotiation results reached on the respective levels.

It thus remains to be seen how successful (or otherwise) the European social partners will be in further tackling the impact of the crisis as well as the future of their respective social dialogue processes, structures and outcomes, and this is the case equally at the interprofessional and the sectoral level. It will be seen, in particular, to what extent their effectiveness in tackling these two crucial issues can be used as a benchmark to evaluate the efficiency and effectiveness of the European social dialogue as such!

7. Social protection in the time of crisis

Introduction

In the course of the past year social protection systems have been subjected to an unsolicited stress test. The financial and economic crisis has created an upsurge in unemployment, as a result of which the social protection systems have been operating at full stretch in their capacity as automatic stabiliser. Meanwhile, the financial sustainability of these systems is also being challenged as growing unemployment and negative GDP growth impact negatively on the revenue side of the equation, an effect compounded in certain cases by the extent to which funded pension schemes – public as well as private – are dependent on financial markets.

On a more abstract level, the economic and financial crisis has also contributed to a shift in the focus on social protection systems and the role they should play. During the past decade the debate on social protection systems has focused on how to make them financially sustainable and, at the same time, how to build employment incentives into them. Though this debate has not been abandoned entirely, the current emphasis is on how to reform the systems to ensure that they can play the role for which they were originally set up, namely to act as a safety net and protect against risks stemming from a lack of income from employment.

Governments have indeed undertaken swift and rigorous action to adapt the passive and active unemployment insurance system in order to maintain, sustain and promote employment, while at the same time providing a safety net for unemployed and low-income workers. Not all the discretionary reforms embarked upon can, however, be hailed as positive, some countries having already begun to introduce cost-containing reforms, with many others likely to follow in the coming year. However this may be, the crisis has put the activating welfare state to a test; governments have reacted, but only the future will show how social protection systems have stood up to the test and to what extent the social crisis has been alleviated by the various discretionary measures adopted.

This chapter will focus on the type of reforms to which unemployment insurance systems have been subjected in the light of the crisis, discussing them in some detail and drawing up a list of warning signs for the future. While the impacts of the crisis on other aspects of the social protection systems – for instance, pension systems and retirement income – are also relevant, these aspects will not be dealt with here. The reforms implemented in the field of unemployment insurance and assistance schemes testify to the swift reaction of governments to the employment crisis in terms of extending the coverage and action of both the active and passive branches of the unemployment insurance and assistance systems.

Themes

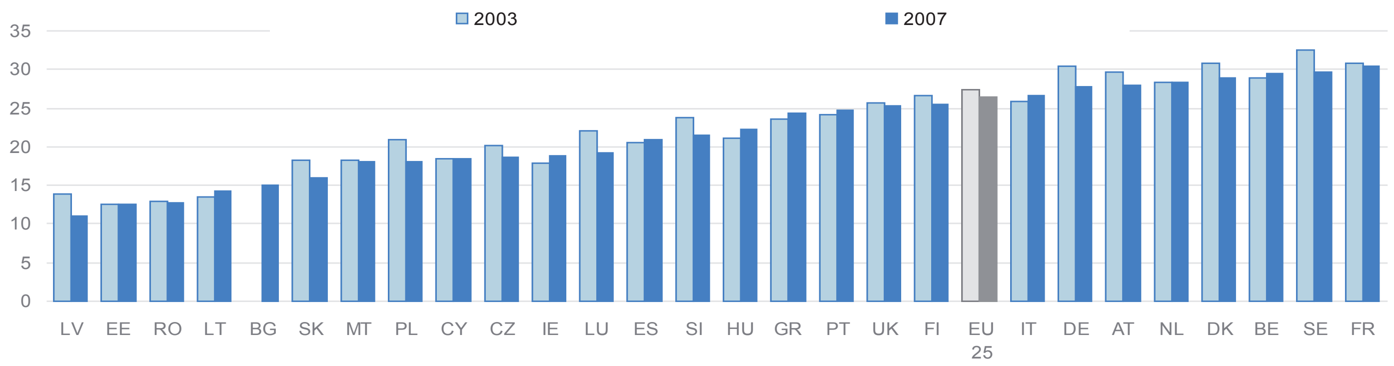
7.1 Social protection expenditure

Decrease or stabilisation of expenditure

In 2007 (latest available data), gross average expenditure on social protection accounted for 26.4% of GDP in the EU25, down from 27.4% in 2003 (see Figure 7.1). The countries with the highest ratios spent (in relation to GDP) more than twice as much as the five countries with the lowest ratios, namely the Baltic countries, Bulgaria and Romania.

In general, social protection expenditure as a percentage of GDP was stable or decreased slightly in most EU member states during the "between-crisis" period (2003-2007); very few countries saw any increase in their expenditure as a percentage of GDP. In most countries, while more resources have been devoted to social protection per capita, this increase has not been proportional to the growth in GDP, indicating that the "between-crisis" period has been used to reform social protection systems while focusing on their long-term financial sustainability and incentive structures. Only in Germany, Denmark and Slovakia has per capita social expenditure decreased.

Figure 7.1 Social protection expenditure 2002-2007 (%GDP)



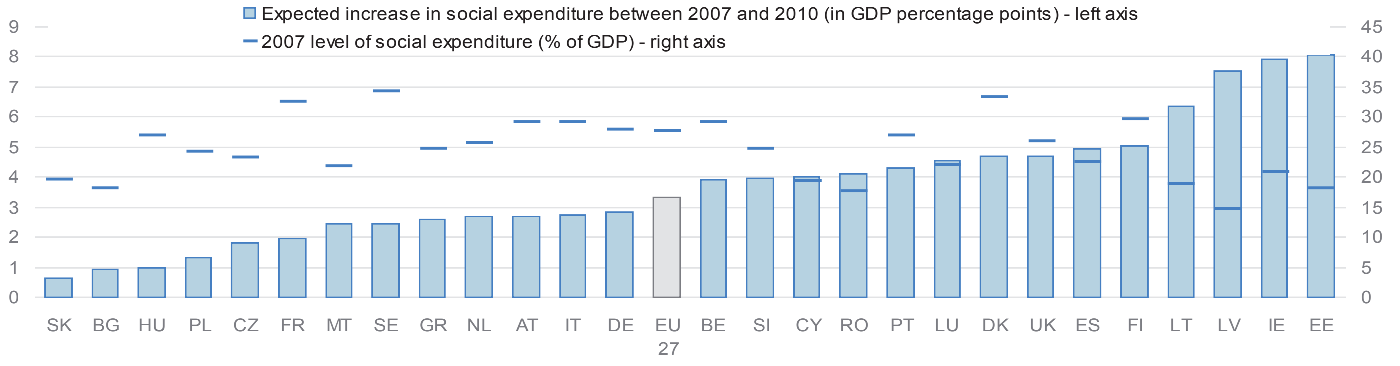
Source: Eurostat (2010) *European System of Social Protection Statistics (ESSPROS)*. Note: Data for Bulgaria 2003 missing.

7.1 Social protection expenditure

Sharp increase in social protection expenditure expected for 2010

The financial, economic and resulting social crisis has challenged this stabilisation of expenditure, given that the social protection system has had to play its role as automatic stabiliser, in particular by providing income replacement for persons losing their employment, and assisting them in finding new jobs, but also by alleviating the income shortfall suffered by workers affected by short-time working arrangements (see chapters 3 and 5). As shown in Figure 7.2, in 2010 social protection expenditure is expected to rise by an average of 3.2 percentage points over the EU27 as a whole, with only a minimal increase in Slovakia and one of above 6 percentage points in the Baltic countries and Ireland, countries which start out at a rather low level of social spending as a percentage of GDP. The responsiveness of social expenditure to the crisis depends on a broad set of factors, including the design of rules granting different kinds of passive and active benefits, and the extent to which expenditure is linked to unemployment rates. However, the expected increase in social expenditure is also the result of discretionary measures taken to reinforce social benefits in view of weaknesses in the current design, and particularly the lack of coverage. It can be said that the stress test to which social protection systems have been so abruptly subjected has identified in them a certain number of gaps and weaknesses, as a result of which governments have been forced, given the gravity of the crisis, to take action and extend the system to groups that were poorly covered and also to raise benefits to more adequate levels, by way of corrective to some of the reforms (or absence of reform) that have taken place during the past 10 years.

Figure 7.2 Forecasting of social protection expenditure 2007-2010



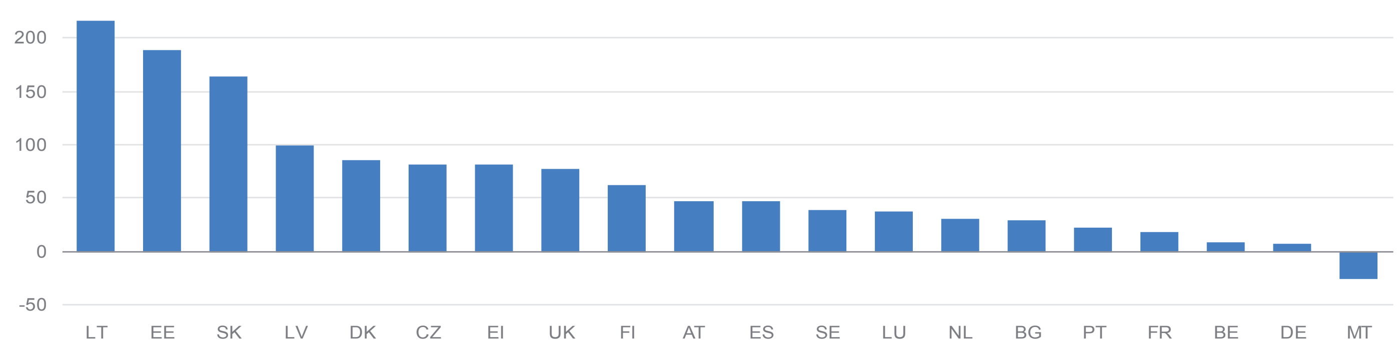
Source: EC Economic Forecast Autumn 2009 in Social Protection Committee (2009).

7.2 The crisis and the reforms of the social protection systems

Sharp increase in unemployment benefits beneficiaries

To understand the strain placed upon social protection systems, it is necessary only to consider the percentage increase in the numbers of persons in receipt of unemployment benefit. Since there are no harmonised European data on this issue, when, in October 2009, the Social Protection Committee circulated a questionnaire on the social impact of the crisis, it included a question on the increase in numbers of beneficiaries. This data, presented in Figure 7.3, is not harmonised, so that no strict comparison is possible, but it does provide an overview of the pressure under which unemployment insurance systems are currently labouring. Most figures provide the increase during the period stretching from the third quarter of 2008 to the third quarter of 2009. Among the EU member states that have responded, more than half report an above 50% increase in the number of beneficiaries, the extreme cases being Latvia (an increase of nearly 220% between September 2008 and September 2009) and Estonia (190% during the same period). In Germany and Belgium, on the other hand, the increase has been less than 10%, while Malta has even seen a decrease. Accordingly, unemployment insurance systems in many EU member states, and most particularly the Baltic States, are under severe pressure. Nor do all EU member states have unemployment insurance systems that are geared to cope with such an influx, be it for paying out income replacement, or with regard to the provision of training or assistance in the search for new employment. For this reason, a very considerable number of discretionary measures had to be adopted in order to handle the sharp increase in unemployment benefit recipients.

Figure 7.3 Increase in number of beneficiaries of unemployment benefits



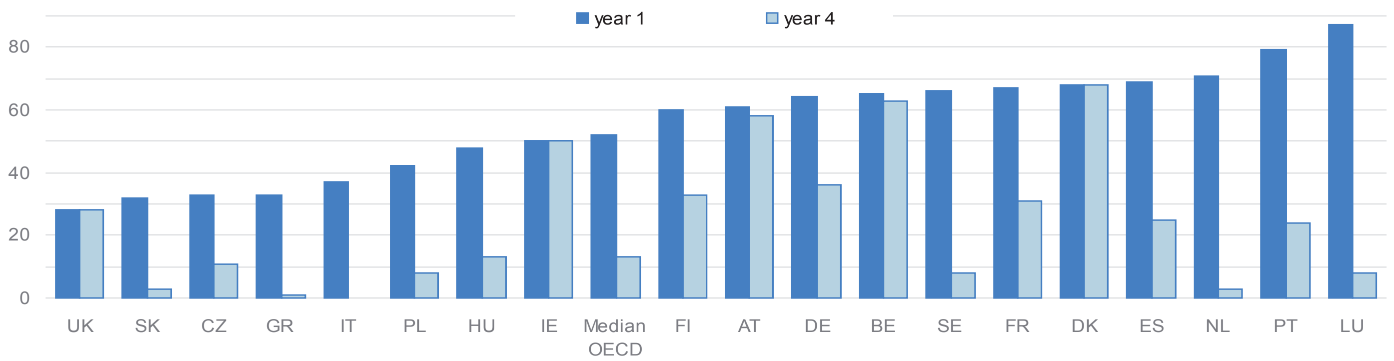
Source: Social Protection Committee (2009).

7.2 The crisis and the reforms of the social protection systems

Unemployment benefits as protection

A key element in sustaining confidence during a crisis is the ability of the state to assure workers that, should they lose their employment and hence their income, the social protection system will provide them with adequate income replacement as well as quality assistance in finding new employment within a reasonable period. Adequate employment safety nets are also important in order to avoid pressure upon and an increased influx into schemes that lead to permanent inactivity, e.g. disability and early retirement. Figure 7.4 displays the net replacement rates (averaged over different earnings levels and family situations) for the first and fourth years of unemployment for some EU member states. The generosity of the unemployment benefits varies greatly not only across EU member states but also across the time period. The median replacement rate in OECD countries is 52% for the first year of unemployment but this figure conceals a large variation ranging between a net replacement rate of 87% in Luxembourg and only 28% in the UK. There appears to be a grouping of southern and eastern member states that provide a net replacement rate below 50% and a grouping of Continental and Nordic member states providing one of above 50%. The net replacement rate for long-term unemployed decreases dramatically in most countries, the exceptions being the UK, Ireland, Austria, Belgium and Denmark.

Figure 7.4 Net replacement rates (averaged over different earnings and family situations), 2007 (%)



Source: European Commission (2009a). Note: The net replacement rates displayed here are for prime-age workers (age 40) with a "long" and uninterrupted employment record. They assume that no social assistance or housing-related benefits are available as income top-ups for low-income workers.

7.2 The crisis and the reforms of the social protection systems

Adaptation of unemployment benefit systems

As already described in previous chapters in this issue of *Benchmarking Working Europe*, the social protection system has contributed to the prevention of job losses, especially via the various short-time working schemes that, in many countries, have been extended in terms of their duration, reason and eligibility (see Chapters 3 and 5). At the same time, however, there has been a sharp increase in the number of workers having lost their jobs (see Chapter 3) and these persons have been turning to the social protection systems for income support and assistance in their search for new employment (see Figure 7.3). With respect to these passive and active measures, while foundations were in place everywhere, these were much better designed in some countries than in others, so that the need for consolidation or reinforcement differs from one country to the next. Even so, all EU member states have taken a number of discretionary measures designed to alleviate the hardship suffered by the unemployed and to assist them in finding new employment.

When it comes to passive measures, at least sixteen countries have, as shown in Figure 7.5, introduced measures, both permanent and temporary, increasing the replacement rate, extending the duration of unemployment insurance and, finally, extending coverage to groups of workers previously poorly covered with young people, especially, having been taken into consideration and granted better access to the unemployment benefit system. In Bulgaria and Poland the discretionary measures also included some that were designed to offer incentives to return to work. Certain countries, on the other hand, already hardly generous in a comparative perspective, have tightened up the eligibility criteria, duration or replacement rate. Hungary, for example, has tightened the conditions governing eligibility for long-term unemployment benefit; in the Czech Republic its duration has been shortened and the replacement rate made regressive with the duration; in Ireland, finally, the jobseekers' allowance paid to new claimants aged under 20 years is to be reduced by 100 € per week.

To complement the unemployment insurance systems many countries (Belgium, Bulgaria, Cyprus, Czech Republic, Germany, Spain, France, Italy, Lithuania, Luxembourg) have also increased the generosity of their minimum income schemes, especially towards pensioners, families and children; in Hungary, however, the amounts have been frozen (Social Protection Committee 2009).

Figure 7.5 Discretionary measures on unemployment benefit systems

country	replacement rate or base of assessment	duration	eligibility criteria
AT	+		
BE	+		+
BG	+	+ (if training)	
CZ	+	–	–
GR	+		
ES		+	
FR	+		+
IE	– (below 20 years)		
IT			+
LV		+	+
LT		+	
PL		+	
PT	+	+	+
RO		+	
SE			+
FI			+
UK	+		

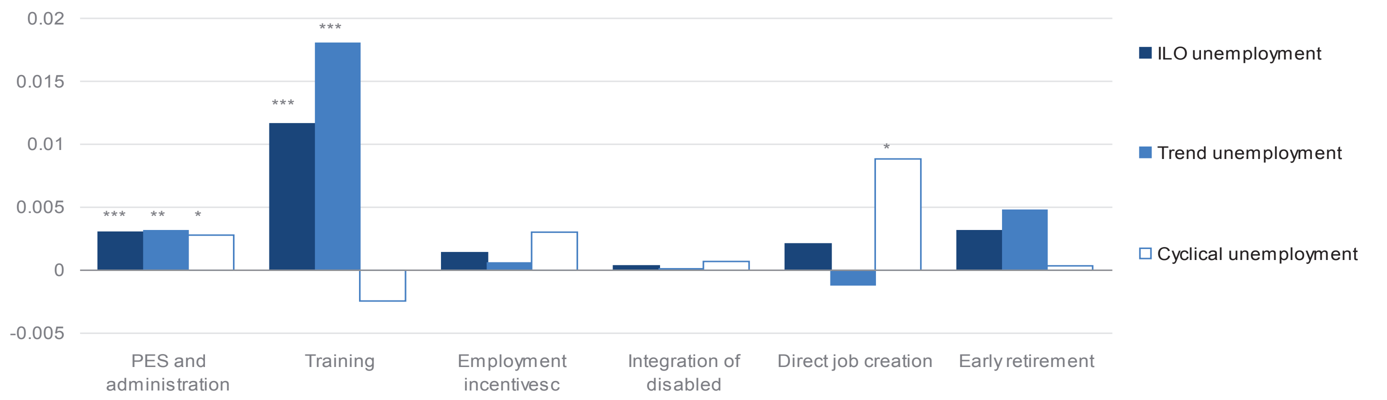
Source : OECD (2009), Social Protection Committee (2009), European Foundation for the Improvement of Living and Working Conditions (2009b).

7.2 The crisis and the reforms of the social protection systems

Extending and reinforcing the active measures

All EU member states have reported discretionary measures to reinforce training and counselling for unemployed; in particular the more vulnerable groups, like low-skilled and older workers, are targeted by these measures. The reported measures mostly focus on ensuring that the unemployed are counselled at an earlier stage than before and that a more individualised approach is taken with regard to the counselling; these measures aim at tightening the activation requirements, thereby promoting an active approach to unemployment benefits. Furthermore, there is considerable emphasis on ensuring that the unemployed are offered training at an early stage, even though it is somewhat doubtful – as shown in Table 3 – whether the institutions are actually able to provide more individualised and intensive counselling/training at a time of such large inflows. This raises the question of the extent to which the actions foreseen are actually realistic and able to be implemented and the doubts in this respect are compounded by the fact that, while the activation requirements imposed upon the unemployed are being increased, there seems to be less reporting on measures taken to reinforce the employment and outplacement agencies whose task it is to ensure that the planned measures are actually carried out. Hence the main issue is whether the planned discretionary measures can be implemented in an adequate manner, given the divergence in the types of measures taken. The results presented in OECD (2009) on the reactiveness of active and passive measures to cyclical unemployment (see Figure 7.6) seem to cast doubt on the ability of countries to set up, on a rather short-term basis, training measures as a response to cyclical unemployment. Past experience seems rather to indicate that it is easier to implement measures that promote direct job creation, reinforce public employment services and administration, and this observation points to the conclusion that, in order to react to cyclical unemployment in a timely manner, there is a need to be able to build on existing structures. If there are no or only limited foundations on which to build training measures, then it proves very difficult to set up the appropriate training measures as a response to crisis. As such, this crisis will represent a litmus test for the efforts to provide training to the unemployed that have been promoted at policy level over the past ten years (European Commission 2009).

Figure 7.6 Responsiveness of active and passive spending (1985-2006)



Source: OECD (2009). Note: *, **, ***: statistically significant at the 10%, 5% and 1% level, respectively.

7.2 The crisis and the reforms of the social protection systems

Beyond unemployment compensation and activation

It is not, however, only the activation, training and unemployment benefits functions of the social protection system that contribute to maintaining individuals and helping them back into employment. A large number of EU member states are using the social protection system to create incentives for direct job creation and subsidising the short-time working schemes. Several member states (Belgium, Germany, Finland, France, Czech Republic) are cutting employer social contributions on either a temporary or more permanent basis. Some of the reductions are targeted exclusively towards new hires or specific groups, especially youth and low-skilled workers.

Other measures that have been used extensively during previous economic and social crises are those that enable permanent withdrawal from the labour market, namely disability pensions and early retirement. While there is as yet little evidence that these measures are being used to any considerable extent, further restructuring can be expected during 2010 and 2011 and an increase in the use of these types of measure can probably be expected, in spite of the fact that they have undergone a rollback over the past ten years.

The countries that have been hardest hit by the crisis have begun to see the emergence of measures that are more negative in scope. Lithuania and Estonia have moved towards less generous health care regimes; pension increases have decreased in Estonia and there has been a pause in the pension contribution transfers to the second pillar. Ireland has abolished the early childhood care allowance, put in place a special pension levy on public wages and transferred pension fund assets from certain pension funds in universities and non-commercial state agencies. Romania plans to introduce a pension freeze, except for social pensions. Decreases in social transfers are foreseen in Ireland, while Lithuania has reduced the maternity leave benefits previously in force.

7.3 Conclusions

The current crisis has sparked unprecedented measures and not only those designed to stimulate the economy and save the financial markets. Governments have also reacted promptly to the looming social crisis and have consolidated and reinforced the safety net that serves to protect the unemployed and low-income workers. An unprecedented volume of discretionary measures have been adopted in the field of active labour market measures that have been revamped and reinforced in order to assist the unemployed in finding new employment and to help prepare the labour markets for a strong recovery. Unfortunately, this sudden upsurge in measures does not seem to have been matched to the same extent by additional funding (OECD 2009). Hence, the effectiveness of this upsurge in active measures needs to be closely monitored in order to evaluate its effectiveness during a steep downturn. Questions remain as to whether the EU member states are really in a position to implement the measures effectively; whether the financial means that have been set aside are adequate; and whether the proposed measures are, taken together, really the most appropriate ones under the circumstances.

As restructuring and unemployment will continue in the coming years, the pressure on social protection expenditure will continue to increase; at the same time, there will be a major loss of revenue given that social contributions will decrease due to less employment, declining GDP and reductions in social contribution. As public deficits rise and exit strategies are put in place, social policies and social protection are likely to become the areas in which containment strategies are introduced. This vicious circle will be further exacerbated by the need to foresee the effects of demographic ageing. Hence the relatively few reforms so far introduced with the aim of cutting transfers and targeting health care and pensions could be precursors of the fate that awaits other social protection systems in the future.

However, the urge to contain costs within social protection systems should be tempered by an awareness of the financial sustainability mechanisms that are actually built into these systems. In other words, costs are anti-cyclical and will go down as employment goes up. Meanwhile, this crisis does seem to be providing substantial evidence that, in those cases where social protection systems are able to partly absorb and alleviate the stress of the downturn (thus playing the role for which they were originally set up), the crisis seems to entail less economic and social costs in the short term, and probably in the long run too, insofar as productive capacity will not be eroded. The effects of the crisis and the reactions designed to offer protection against them should be monitored and evaluated in order allow us to build on the experience gained and to reform our systems in the light of such experience, rather than on the basis of a conviction that public deficits need to be reduced at any cost.

8. The Sustainable Development Strategy: adaptation or transition?

Introduction

Did the economic and financial crisis of 2008-2009 constitute an opportunity to combat climate change and set the European economy on a new path towards true sustainability? Many people, among them leading politicians and economists, believed throughout the year that this crisis would stimulate 'green growth', i.e. clean technologies and renewable energies for a low-carbon economy. Indeed, the Swedish Minister for Enterprise and Energy, Ms Olofsson, stated in July 2009 that the crisis was 'a golden opportunity to reorient our economy towards eco-efficiency'.

Has this turned out to be true? To answer with a degree of irony, yes: global CO_2 emissions for 2009 are expected to drop by 2.8% (Le Monde 2009a), world consumption of electricity and gas is set to fall for the first time since the Second World War by 3.5% and 3% respectively (Capgemini 2009), the volume of air traffic fell by 8.3% between May 2008 and May 2009 (AEA 2009), sales of new cars in Europe shrank by 12.3% in April 2009, dropping for the twelfth consecutive month, according to the European Automobile Manufacturers' Association, and so the list goes on. But rather than indicating a low-carbon economy, these figures mainly highlight the existence of an intolerable recession in terms of the number of jobs being lost. So the question is this: will the recovery that began to emerge at the end of 2009 serve to alter the conceptual framework of the dominant economic model, until now based on the paradigm of infinite — albeit green — growth?

As will be seen below, the European Union Strategy for Sustainable Development remained on track in 2009, with the economic and financial crisis acting as a driving force in some areas, but as a brake in others. As far as a green recovery is concerned, even at this early stage it must be conceded that the environmental impact of national and European recovery plans is far from impressive. There are a number of positive aspects, but in other respects it is clear that there has been no shift in the paradigm. And the latest disappointment for the EU: the outcomes of the Copenhagen climate change conference in December 2009 largely failed to live up to the expectations of a Europe that had wanted to take a lead in the negotiations, but which was not followed by the international community.

Finally, it should be pointed out that in all these debates, the social dimension is generally absent. There is talk of developing new sectors (renewable energy, transport, etc.) but little mention of the quality of jobs in these sectors. In this context, it is no doubt helpful today to seek to combine economic, climatic and social considerations within new indicators for 'growth', 'development' and 'well-being'. However, beyond the 'adaptation' of the economy (green capitalism), does this lead us to a genuine 'transition'? And if so, a transition towards what new model or models?

Themes

8.1 The Sustainable Development Strategy amidst the crisis

Social dimension of the SDS

The Sustainable Development Strategy of the European Union (SDS) 2005-2010 has seven objectives: climate change and clean energy; sustainable transport; sustainable consumption and production; conservation and management of natural resources; public health; social inclusion, demography and migration; global poverty and the challenges of sustainable development.

The attainment of these objectives is evaluated every two years. In 2007, in its Progress Report, the Commission considered that progress on the ground was 'modest' (European Commission 2007: 14). In its 2009 Progress Report, it emphasised a whole host of positive policy developments (European Commission 2009c). Above all, however, it highlights the impact on the SDS of the economic and financial crisis. This crisis 'has shown that sustainability is also a key factor for our financial systems and the economy as a whole. The crisis is affecting all sectors of the economy, households, businesses and jobs. (...) Unemployment is rising, the number of job vacancies is still falling and companies continue to announce substantial job reductions across several sectors. The most vulnerable parts of the labour force are worst affected' (European Commission 2009c: 2). One of the key strands of sustainable development – the social dimension – is therefore hardest hit by the crisis.

Moreover, despite a range of policy developments, some unsustainable trends persist: 'The demand on natural resources has been growing fast and exceeds what the Earth can sustain in the long term. Biodiversity is in decline globally and major ecosystems are placed under increasing pressure. Energy consumption in transport continues to rise. Global poverty persists; the Millennium Development Goals would need major efforts to be achieved' (European Commission 2009c: 2). In addition to these two observations, there is the now inescapable challenge of adapting our societies to climate change, which casts a further shadow over the situation. In 2009 the Commission adopted a White Paper on such adaptation (European Commission 2009g), outlining the enormous tasks to be undertaken at both national and European level, and the social implications are particularly striking (see Figure 8.1).

While the results of mainstreaming sustainable development into European policies appear to be rather thin (the 'Better Regulation' programme, Social Agenda, Employment Guidelines, Corporate Social Responsibility, Sustainability Impact Assessments carried out within the preparation of free trade agreements), it is on combating climate change and clean energy that the most convincing outcomes have been achieved. Since 2006 greenhouse gas emissions have shown a positive trend, with the EU 'on track to achieve its targets resulting from the Kyoto Protocol' (European Commission 2009c: 5).

Below we provide a detailed description of the principal measures taken in 2009 under the SDS in two sectors: sustainable transport, and sustainable production and consumption. This does not, therefore, include other subject areas such as conservation and management of natural resources, public health, social inclusion, etc.

Figure 8.1 The challenges of adapting to climate change

Agriculture	Extreme weather events, soil depletion, health of forests + health of animals and plants
Fisheries + aquaculture	Dangers to coasts and marine ecosystems
Energy	Effects on hydropower production, on the cooling process in thermal power plants, on electricity distribution
Infrastructure	Impacts on densely populated areas (water and energy supply), rise in sea level, spatial planning, transport, regional development, industry, etc.
Tourism	Alpine and Mediterranean regions
Public health	Increase in the number of weather-related diseases and deaths
Water resources	Changes in quality and availability, drought, migration pressures
Ecosystems (including marine)	Loss of biodiversity and hence of ecosystem services

Source: Table compiled from the White Paper 'Adapting to climate change: Towards a European framework for action', COM(2009) 147 final, 1.4.2009.

Sustainable transport

The main European initiative in this sector relates to the implementation of the 'Greening Transport' package tabled by the Commission on 8 July 2008 (European Commission 2008c). This package consists of three elements:

1. adapting transport costs to take account more fully of the costs that transport imposes on society in terms of climate change, local pollution, noise pollution and congestion;
2. the introduction of road charging for heavy good vehicles, to encourage more environmentally responsible behaviour;
3. reducing rail noise.

The revision of the Eurovignette Directive, which forms the main body of the package, met with a barrage of protest from the entire industry. A joint declaration by CLECAT (the European Association for Forwarding, Transport, Logistics and Customs Services), IRU (the International Road Transport Union), EEA (the European Express Association) and ESC (the European Shippers' Council) expresses their misgivings about reducing the external costs of transport (IRU 2008). Similarly hostile is the ACEA (the European Automobile Manufacturers' Association) (ACEA 2008).

At its first reading, the European Parliament drastically cut the Commission proposal, opposing the inclusion of climate change costs in the revised Eurovignette proposal and the widespread introduction of congestion charging (European Parliament 2009). At the end of March, a number of Member States took the view in the Council of the EU that, since the transport sector was already feeling the effects of the financial and economic crisis, a revision of the Eurovignette Directive would be inopportune. Thus the debate was postponed until 'better' days, and the Eurovignette became one of the first environmental casualties of the financial crisis.

In addition to the postponement of the revision of the Eurovignette Directive, 2009 also saw the adoption of a range of sustainable transport measures:

— the adoption of a Regulation on CO_2 emissions from new vehicles, which set 130g of CO_2/km as the average emissions from new passenger cars to be achieved between 2012 and 2015, and a target of 95g from 2020;

— a Commission proposal of 28 October 2009 on the phased reduction of CO_2 from light commercial vehicles;

— the adoption of tyre labelling legislation: from 1 November 2012, all new tyres sold in Europe must be labelled for fuel efficiency, wet grip and noise performance;

— the adoption of an Action Plan on urban mobility, which proposes twenty measures to assist local, regional and national authorities in achieving their goals for sustainable urban mobility;

— the Directive on the promotion of clean and energy-efficient road transport vehicles;

— the adoption of a Communication on the future of transport (following on from the White Papers of 2001 and 2006).

These measures on so-called 'sustainable' transport outline the ways in which current means of transport can be adapted to meet the imperatives of combating climate change and reducing consumption. However, given that over the last few years goods transport in Europe has grown more rapidly than gross domestic product (European Commission 2009c: 6), more consideration needs to be given to the changes that could be made to *modes* of transport and the necessary decoupling of GDP growth and transport *need*. The Commission Communication on the future of transport (European Commission 2009d), which was fiercely criticised by the rail freight companies, puts blind faith in technological innovation and so fails to explore other avenues, e.g. fiscal solutions, to promote modes of transport with low fuel consumption and encourage a modal shift.

Sustainable consumption and production

In 2008, the Commission adopted a Sustainable Consumption and Production and Sustainable Industrial Policy Action Plan (European Commission 2008d). In 2009, the principal European instruments in this respect were the Directives on Ecodesign and Energy Labelling, the Ecolabel regulations, the European Eco-Management and Audit Scheme (EMAS) and lastly green public procurement.

1. Regarding product ecodesign, in April 2009 the European Parliament and the Council agreed a compromise in support of a Commission proposal extending the scope of the 2005 Directive on Ecodesign of products (involving the integration of environmental aspects from the design stage and throughout the life-cycle of a product). The 2005 Directive applies in principle to all products placed on the market that use energy for their operation and covers all energy sources. The revised Directive will authorise the Commission to adopt design specifications for products such as water-heaters, computers, televisions, industrial fans and incandescent light bulbs. It is worth noting that, from 2008 to 2009, nine Regulations were adopted on ecodesign of products (standby and off mode electric power consumption, set-top boxes, lamps, televisions, refrigerators, etc.). If implemented in full, these regulations would result in electricity savings of around 315 TWh every year until 2020, which, according to a Commission press release, amounts to more than the annual electricity consumption of a country such as Italy.

2. With regard to energy labelling, it should be borne in mind that the Energy Labelling Directive established a labelling system that indicates the energy consumption of household appliances such as refrigerators, freezers, washing machines, tumble dryers, dishwashers and ovens. Manufacturers are obliged to indicate energy consumption using a scale ranging from ‘A’ (green products) to ‘G’ (red products with poor energy performance), which is designed to help the consumer assess how much a product would cost to use. On 13 November 2008, the Commission put forward a proposal to extend the scope of this Directive to energy-using products for industrial or commercial use and to energy-related products, i.e. those with an impact on energy consumption during operation. In addition, the proposal included the reclassification of products already covered by the Directive at a lower grade on the A to G scale. Whilst the European manufacturers of household appliances (European Committee of Domestic Equipment Manufacturers - CECED) opposed this reclassification, the European Parliament, on the other hand, wanted it to go further. For instance, the Parliament considered that the product energy classification should only be valid for between 3 and 5 years and that the relevant limits should be regularly updated to take account of technological progress. For its part, the Council of the EU tended to agree with the industry. In a compromise text agreed in the trilogue on 17 November 2009, the new energy labelling system modifies the classification scale for energy performance, extends this system to new energy-using products for industrial or commercial use and stipulates that all advertisements vaunting the technical features of a model must mention its energy consumption grade or energy efficiency. This draft Directive is still awaiting final approval by the Council and the European Parliament, probably in January 2010, and is expected to enter into force in 2011.

3. With respect to the revision of the Ecolabel Regulation and the EMAS Regulation, work continued in 2009 until the adoption on 26 October of a new Community system for the award of the Ecolabel, enhancing its scope and visibility. The revision of the Eco-Management and Audit Scheme (EMAS) was adopted on the same day, aiming above all to raise its profile and increase take-up rates, particularly by small and medium-sized enterprises and local authorities.

4. As to ‘green’ and social public procurement, it should be borne in mind that each year in Europe, public authorities spend the equivalent of 16% of EU GDP on the purchase of goods such as office equipment, building materials, transport vehicles, building maintenance services, cleaning, catering, etc. The example of the Energy Star standards in the United States has shown that, when public authorities adopt environmental standards for public procurement, companies in the sector will adapt accordingly (see Box 1).

8.1 The Sustainable Development Strategy amidst the crisis

Sustainable consumption and production

For 2010, the revised SDS of the EU had set the objective of aligning the average level of green public procurement (GPP) with that of the highest level achieved by Member States in 2006. Hence in 2008 the Commission proposed that, by 2010, 50% of all tendering procedures should be 'green'. However, this target was non-binding, and it is clear that to date, much of the potential for GPP remains unexploited. The Commission had recommended the adoption of national action plans for 2006 to promote GPP. At the start of 2008, only 14 Member States had adopted these plans. Eighteen months later (in June 2009), 10 countries were yet to adopt a target figure, or were merely content to distribute toolkits and handbooks on GPP. A number of Member States did have specific commitments: the Netherlands set a target of 100% GPP by 2010; in Belgium the target was 50% at federal level by 2011 and 100% for the Flemish Region. In other countries, targets were set by product group (electricity, paper, vehicles, etc.). Nevertheless, on the whole there is plenty of room for improvement in this initiative.

Finally, with regard to the social aspects of public procurement (decent work, respect for human rights, support for social inclusion, etc.), in July 2009 the Commission postponed the adoption of a practical and non-binding guide. It should be pointed out that a number of sectoral social partners declared themselves in favour of the inclusion of social criteria in public procurement (see in particular the joint declaration of 18 April 2008 by UNI-Europa, EFFAT, ETUF-TCL and CoEss, Ferco, EFCI and EURATEX entitled 'Towards responsible awarding of contracts' relating to services in the private security, contract catering, cleaning, and textile and clothing sectors).

Box 1

In 1993, the US Federal Government decided to purchase only Energy Star-compliant IT equipment. The Federal Government is the world's largest computer purchaser, and it is estimated that this decision played a significant part in the subsequent move to compliance with Energy Star standards for the vast majority of IT equipment on the market. In the US in 2008, this programme prevented the equivalent of the greenhouse gas emissions from 29 million vehicles. The environmental benefits resulting from the Federal Government's choice of Energy Star amount to 200 billion kWh of electricity saved since 1995, which equates to 22 million tonnes of CO_2. See http://www.energystar.gov/

Source: European Commission (2004).

8.1 The Sustainable Development Strategy amidst the crisis

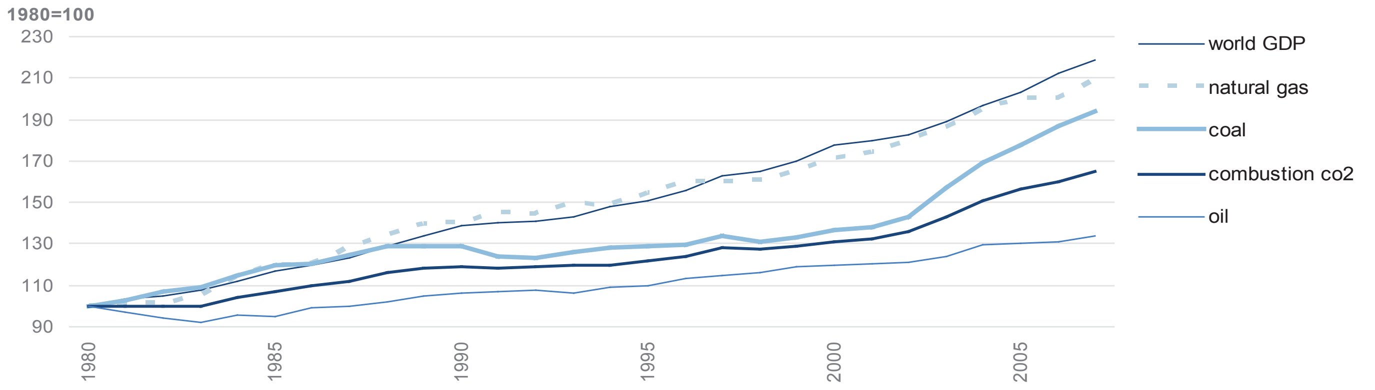
The SDS and decoupling

To conclude this section, a final remark on the concept of 'decoupling'. Put simply, this means finding ways of doing more (generating more economic growth) with less (fewer raw materials and natural resources). The SDS explicitly states its objective of decoupling economic growth from the consumption – and depletion – of these resources.

Decoupling, if really possible, will enable us to continue on the path of economic growth without questioning it. But is this really possible? According to a report entitled 'Prosperity without growth?' by the UK Government's Sustainable Development Commission (Jackson 2009), decoupling is a myth (see Figure 8.2).

'Simplistic assumptions that capitalism's propensity for efficiency will allow us to stabilise the climate and protect against resource scarcity are nothing short of delusional. Those who promote decoupling as an escape route from the dilemma of growth need to take a closer look at the historical evidence — and at the basic arithmetic of growth,' (Jackson 2009: 8) (see also the Jevons Paradox, which states that increased energy efficiency leads to the same level of, or even higher, global energy consumption). In any event, this report convincingly demonstrates that the degree of decoupling required to create a sustainable society can never be achieved by mere appeals for efficiency (in energy or other areas). This remark inevitably prompts a questioning of the notion of economic growth, even green growth, as the ultimate goal of all European and national policies.

Figure 8.2 Trends in fossil fuel consumption and related CO2: 1980-2007



Source: Jackson (2009: 50).

8.2 Recovery plans and green jobs

National and European recovery plans

From October 2008, when it became clear that monetary policies (reducing interest rates) would not be sufficient to stimulate the crisis-stricken economy, most western countries began to draw up recovery plans as Europe entered recession. Between November 2008 and January 2009, all the major EU economies adopted such plans, amounting to a total of 325.5 billion dollars, according to an evaluation by HSBC at the end of February (compared with nearly 1,000 billion dollars in North America and over 1,150 billion in the Asia-Pacific region) (HSBC 2009).

These recovery plans provide for a variety of measures affecting both revenue and expenditure. On the revenue side, most European countries have opted for a reduction in tax on businesses (a temporary reduction in tax rates or deferral of payment) and cuts in social security contributions. This support for employers aims to limit the number of bankruptcies and redundancies, but in some instances the effectiveness of such measures can be called into question (Watt 2009a). Some countries have also changed the rate of VAT in specific sectors or for certain kinds of products.

On the expenditure side, increasing public investment (energy efficiency, research and development, railway infrastructure, etc.) has been 'the most popular choice by European governments in terms of volume' (Watt 2009a). Such increased investment in infrastructure is coupled with support for certain categories of company (particularly SMEs), sectorally specific measures (e.g. in the construction sector or the automobile industry, in particular car scrappage premiums), and direct assistance to households, especially the most vulnerable (increases in social benefits, etc.).

For its part, the Commission put forward a 'European' Economic Recovery Plan on 26 November 2008 (European Commission 2008e). This sets out a package of national and European measures worth a total of 200 billion euros (1.5% of EU GDP), although of this amount only 30 billion (0.3% of GDP) can be seen as directly contributed from the EU budget and the European Investment Bank (EIB). Officially, this plan — a framework for national recovery plans — seeks to maintain jobs during the upcoming period of recession and pave the way for a transition to a low-carbon economy (see Box 2).

The transition towards a low-carbon economy is evident in a number of new European research and development initiatives: the European 'green cars' initiative, European energy-efficient buildings, and Factories of the Future. It should also be pointed out that, alongside other initiatives, the Plan calls on the Member States to pursue energy efficiency targets in public buildings by cutting property tax on energy-performing buildings and reducing VAT on 'green' products and services in the construction sector. It provides for the temporary relaxation of competition rules (state aids) and a more flexible interpretation of the Stability Pact (temporary increase in public deficits).

Box 2 Principal elements of the European Recovery Plan

14.4 billion euros in 2009 from the EU budget + 5 billion euros in new money.
Of the 14.4 billion for 2009:

- — 5 billion in additional funding for energy and broadband interconnections
- — 6.3 billion for advance payments from the European Social Fund and the Cohesion Fund
- — 2.1 billion redeployed to the 'green cars' initiative and the energy efficiency, Factories of the Future and hi-speed internet projects
- — 0.5 billion for the Trans-European Transport Networks
- — 0.5 billion for various other projects.

Furthermore, this plan provides for an increase in EIB investment to 15.6 billion euros in 2009 and the same amount in 2010, to be targeted particularly at SMEs, renewable energy and clean transport in the automobile industry, as well as the establishment of the European 2020 Fund for Energy, Climate Change and Infrastructure ('Marguerite Fund') in partnership with national institutional investors.
For its part, the European Bank for Reconstruction and Development (EBRD) will contribute 500 million euros for financing in the new Member States.
In addition to these amounts, 5 billion euros in new money have been allocated for 2009-2010: some 3.5 billion euros for investment in energy infrastructure (carbon capture and storage, offshore wind projects — only 500 million — and gas and electricity interconnection projects).
1.5 billion will be used for rural development policy.

8.2 Recovery plans and green jobs

Evaluation aspects

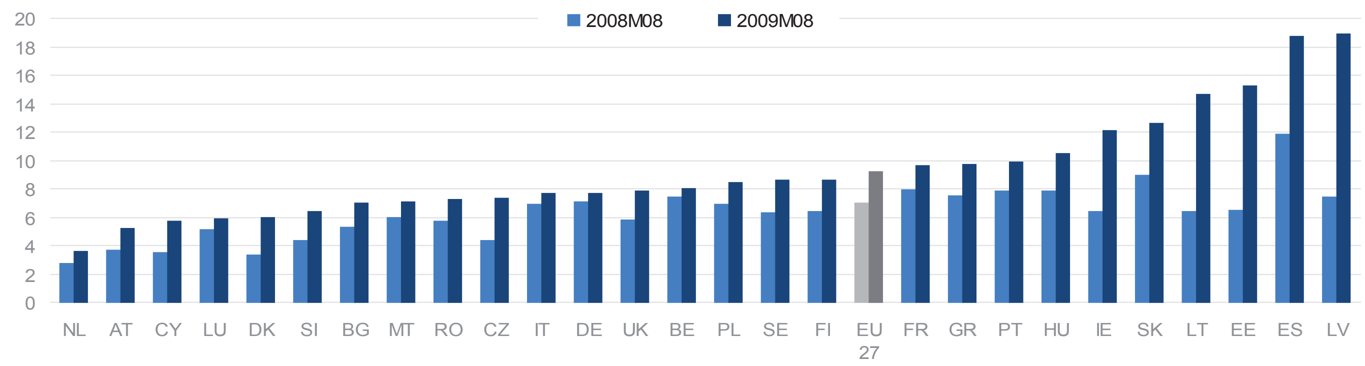
In terms of employment, the Recovery Plan mainly focuses on the automobile industry and the construction sector. These are the sectors most affected and with the greatest structural importance to the economy, as well as major providers of jobs, whether directly or indirectly. The aim is to keep the number of job losses as low as possible.

To this end, the Commission has also reprogrammed European Social Fund expenditure by means of a number of anti-crisis measures. In addition, the rules governing the European Globalisation Adjustment Fund have been amended to speed up these procedures. Taking in addition all the measures taken at national level (the introduction of temporary lay-offs, a reduction in working hours and other schemes to cushion the blow), at the end of November 2009 the Commission took the view — despite 4 million jobs lost in the space of a year — that 'the European labour markets, while seriously affected by the crisis, are proving more resistant than expected' (European Commission 2009e) (see Figure 8.3).

Despite this 'positive' message, it remains important to underline the deeply unfair price paid by workers in this crisis. Before the crisis, people were already condemning widening inequalities and the declining share of value-added represented by pay; added to this we now have a situation in which millions of workers are losing their jobs today, yet tomorrow will continue to contribute as taxpayers, in one way or another, to refilling the state coffers emptied by the crisis.

In terms of the fight against climate change, the impact of the recovery plans appears very limited. Officially, the objectives of both the European and national plans were linked to the fight against climate change, based on the rationale that speeding up investment in energy efficiency and green technologies would create green jobs in the long-term and hence economic growth that is more sustainable in terms of energy consumption and the environment.

Figure 8.3 Comparison of unemployment rates in EU 27 countries: August 2008 and 2009 (%)



Data Source: Eurostat (2009) *European Labour Force Survey (ELFS)*.

8.2 Recovery plans and green jobs

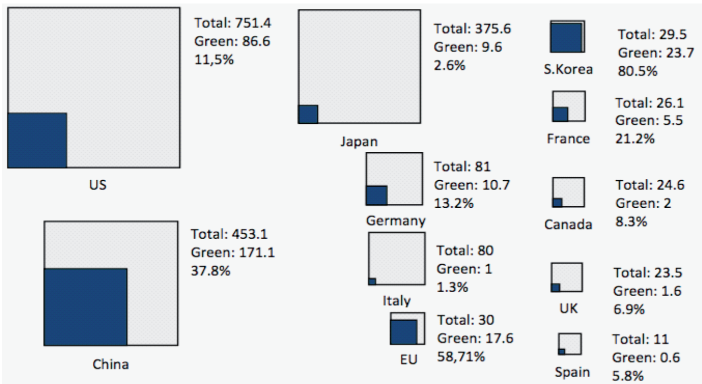
Evaluation aspects

From a methodological point of view, it is nonetheless difficult to find a strict definition of 'green' investment. For instance, does the car scrappage premium introduced in France, Germany, Austria, Italy and Luxembourg constitute green investment? Certainly, if one takes the view that the premium encourages the replacement of the oldest (and most polluting) vehicles in the fleet by cleaner vehicles; but not if one believes that the way forward is not to have 'clean traffic jams' but to modify the modes of transport used and reduce the need for transport (in France, as a result of the car scrappage premium, 2009 was the year with the highest vehicle sales since 1990). According to Andrew Watt, the various government estimates of the proportion of their packages that are 'green' should therefore 'be taken with a large pinch of salt' (Watt 2009a: 24).

Mariya Nikolova points out that there are certain criteria that appear in several studies: measures for increasing energy efficiency, renewal of infrastructure (e.g. public transport, railways, etc.), promotion of clean technologies, and renewable energies (Nikolova 2009). Studies have sought to compare the 'green' elements of the different recovery plans (see Figure 8.4).

This chart shows that, proportionally, the European Recovery Plan is one of the greenest, yet in relative and absolute terms its overall size and environmental aspects remain modest.

Figure 8.4 Ratio of green stimulus of national recovery packages, absolute volumes in bn€ (based on Bernard et al. 2009; data from HSBC 2009)



Source : Wuppertal Institute (2009: 5).

8.2 Recovery plans and green jobs

Green jobs and a fair transition

It is impossible to carry out a global evaluation of the impact of green adaptation, since the impact varies depending on the sector of economic activity, the kind of skills that workers possess, and the regions where certain kinds of job are destined to disappear and others be created. Nevertheless, all economic sectors will feel this impact, directly or indirectly (a fact that the expression 'green jobs', meaning those helping to preserve or improve the quality of the environment, tends to ignore — after all it is the whole economy that will have to 'go green').

According to the European Commission, the sectors that are bound to be most affected are those associated with the provision of energy, agriculture, fishing, tourism and construction. These sectors will see jobs lost but also the creation of new kinds of jobs (e.g. in renewable energies) (European Commission 2009e). However, it remains extremely difficult to assess the net impact of these changes: for instance, green energy that is more expensive than conventional energy might contribute to a cut in household purchasing power, which in turn could have an impact on other types of expenditure and hence on other kinds of jobs. According to the various definitions, it is said that the eco-industries could provide the EU with between 2.3 and 21 million jobs (ECORYS 2008: 15) (Figure 8.5).

Moreover, these figures give no indication of the quality of jobs created (pay, training, working conditions, etc.). An ETUC report warns against the creation of poor-quality jobs: 'There is a risk (...) that jobs developed in newly-created companies may be perceived by workers as less well paid and offering less secure working conditions than jobs in well-established branches' (ETUC 2007: 186). This is why the trade union movement asserts the importance of a fair transition. 'The concept of a fair transition means that the costs and advantages of the decisions taken in the public interest – including the decisions necessary to protect the climate and the planet – must be shared fairly. (...) More than the process of job creation or destruction, the transition towards a low-carbon economy will transform existing jobs. This is the reason why the path towards a sustainable world economy and the transition to industrial jobs that are more respectful of the environment are closely tied to an effective social and employment policy' (ETUC 2009a).

Figure 8.5 Employment and total turnover in eco-industries in the EU – various definitions

	Employment	Total turnover
Narrow definition eco-industries (mainly pollution prevention or treatment)	2.3 million	€ 270 billion
+ activities closely dependent on a good quality environment (environment-related tourism, organic agriculture, renewable energy, etc.)	4.4 million	€ 405 billion
+ induced 'knock-on' or 'multiplier' effects	8.6 million	€ 1 trillion
Widest definition includes all activities dependent on the environment (all agriculture, renewable energy, etc.)	21 million	€ 3 trillion

Source: Website of the EC – Environment and employment: http://ec.europa.eu/environment/integration/employment_en.htm

8.3 The Copenhagen Conference (COP15)

Five main topics for negotiation

Following the adoption by the European Union of the 'Energy and Climate' package in 2008 – a series of measures designed to combat climate change – the major international event of 2009 was the 15th Conference of the Parties (COP15) to the United Nations Framework Convention on Climate Change (UNFCCC), held from 7 - 18 December 2009 in Copenhagen (Denmark). The conference was attended by delegates from 192 countries and 119 Heads of State and Government. Its original goal was to draw up a preliminary version of a binding international treaty aiming to control and reduce greenhouse gas emissions. This text would replace the Kyoto Protocol of 1997, which had laid down legally binding targets for the industrialised countries, which made a commitment to reducing their greenhouse gas emissions. However, several of the largest polluters, including the United States, have never ratified this treaty. According to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) published in 2007, a maximum rise in global temperatures of 2 degrees – the limit recommended by the IPCC – would require the developed countries to reduce emissions by between 10 and 40% by 2020 and between 40 and 95% by 2050.

The topics for negotiation at the Copenhagen conference can be divided into five main areas:

— *mitigation*, i.e. reducing the quantity of carbon dioxide emitted into the atmosphere as a result of human activity. The principal challenge here is to find a strategy within which the industrialised countries can reduce their current emissions effectively and the developing countries can limit the rate of growth of their emissions without jeopardising their economic development;

— *adaptation,* i.e. reducing the vulnerability of countries to the impact of climate change. For the developed countries this means contributing financially to the cost of adaptation projects in the developing countries, which are often more vulnerable and have fewer resources available for adaptation (coastal planning, building flood-resistant dwellings, etc.);

— *deforestation*, i.e. reversing the trend of reducing the world's forested areas, since forests remove carbon dioxide from the atmosphere;

— *technology transfer*, i.e. the promotion by the developed countries of more energy-efficient and environmentally responsible ways of achieving economic growth in the developing countries (including the whole issue of intellectual property);

— *financing*, i.e. the historical climate 'debt' of the developed countries (which have had free rein in polluting the atmosphere during periods of industrialisation and economic growth). According to the developing countries, this 'debt' should be paid by the developed countries in the form of assistance to poor countries in meeting the challenges of climate change.

8.3 The Copenhagen Conference (COP15)

Position of the main players and results

The players involved can be divided into four main groups:

— the European Union, which is committed to a reduction target of 20 to 30% by 2020, and which tried in vain to impose its leadership on the negotiations. Its hope was to achieve a binding treaty laying down quantified targets for greenhouse gas reductions;

— the United States, which declared itself willing to set a target for reducing its greenhouse gas emissions (around 17% by 2020 compared with 2005 baseline levels) but refuses any legally binding commitments if emissions from developing countries continue to rise;

— the emerging countries (mainly the BASIC group of Brazil, South Africa, India and China) which emphasise the historical responsibility of the industrialised countries and the fact that they must therefore pay a larger share of the cost of combating CO_2 emissions. These countries are opposed to the setting of quantitative reduction targets for their own emissions and to the notion of international monitoring;

— the developing countries, which focus mainly on the provision of aid for adapting to climate change, and the transfer of finance and technology.

The climate change conference ended by producing a short document entitled 'Copenhagen Accord'. Since, by the end of 2009, this document had not been signed by all of the countries, it does not constitute an official United Nations decision. It is not a legally binding treaty, but the commitments that it contains are expected to lead to the adoption of a global treaty in 2010.

The points in the Accord that are considered as progress are the following:

— the fact that it is the first truly global accord that sets a target for limiting the rise in global temperature to 2 degrees;

— the fact that it recognises the need to provide support for adaptation to the most vulnerable and contains a commitment to securing promises of aid;

— the fact that it contains an agreement on the importance of measures to reduce emissions from deforestation and degradation of forests.

The points in the Accord that are considered as failures are the following:

— the fact that the Accord is not legally binding;

— the lack of quantified commitments on the reduction of greenhouse gas emissions (each country is obliged to establish its own such targets by the end of January 2010), and particularly the absence of a 50% emissions reduction target to be achieved by 2050;

— the postponing until 2010 of the conclusion of a full accord, without a binding timetable;

— the lack of consensus between developed and developing countries on the share-out of contributions and on international monitoring of mitigation efforts.

The European Union takes the view that, even if the document produced by the conference does not meet expectations, it is better to have an Accord than none at all. The Commission believes that the binding commitments of the EU on quantified targets and on aid to developing countries will stimulate the other industrialised countries to follow suit in 2010.

Box 3 Principal dates in international collaboration on climate change

1971	Establishment of the United Nations Environment Programme (UNEP). Issues associated with climate change are now officially part and parcel of UN climate concerns.
1979	First World Climate Conference. The World Meteorological Organisation (WMO) and the International Council for Science launch the World Climate Research Programme.
1988	Establishment of the Intergovernmental Panel on Climate Change (IPCC) by the WMO and UNEP.
1990	First IPCC report. The UN General Assembly calls for the negotiation of an international agreement to mitigate climate change.
1992	First 'Earth Summit' in Rio. Adoption of the United Nations Framework Convention on Climate Change (UNFCCC) ratified by 192 countries.
1997	Adoption of the Kyoto Protocol by COP3.
2007	Fourth IPCC report. 'Unequivocal' scientific conclusions on the sources and dangers of anthropogenic global warming. The IPCC receives the Nobel Peace Prize; the countries adopt the Bali Action Plan at COP13.
2009	Third World Climate Conference. In December, COP15 takes place in Copenhagen.

Source: Department of State of the United States Government.

8.4 Conclusions and future prospects

As we have said, in 2009 it was thought that the economic crisis and the national and European recovery plans would offer a chance to pave the way towards a low-carbon economy. Has this turned out to be the case? Even at this early stage, it must be observed that the recovery plans only go a very short way towards meeting the long-term objectives of creating a low-carbon economy.

In the short term, the priority given to economic recovery in 2009 gave rise to significant state intervention to support the economy and employment (in the automobile, construction, industrial and energy sectors), but at times, hasty action led to the kind of stimulus provided in the past, with little or no questioning of our modes of transport, mobility needs, wasting of resources and energy, and ignoring of the real costs, etc. Moreover, it was due to the economic crisis that the revision of the Eurovignette Directive was postponed, the very purpose of which was to enhance the environmental aspects of the Directive. In such circumstances it was also decided to invest in road infrastructure, and a number of European countries introduced a car scrappage premium as a way of boosting an industry undergoing a serious overproduction crisis.

This crisis situation could have been an opportunity to integrate sustainable development more fully into European policies. With regard to green and social public procurement, it is clear today that a large proportion of its potential remains unexploited. Many recent studies, some in over-optimistic vein, also highlight the potential of eco-industries, including their impact on employment.

However, the need to adapt to new 'growth' imperatives in an endangered biotope comes up against deep-rooted interests. So rather than a genuine *transition*, what we are seeing is a slow and unambitious *adaptation*. A genuine transition would require us to widen the debate and call into question paradigms such as the growth in gross domestic product. Nevertheless, a number of reflections along these lines emerged in 2009, which have something of the nature of this transition. They include:

— the Stiglitz report, which advocates a new measure of wealth besides GDP;

— a Commission Communication entitled 'GDP and beyond: Measuring progress in a changing world', which proposes five actions to supplement GDP with other indicators;

— the publication on 26 June 2009 of a joint report by the WTO and the United Nations Environment Programme (UNEP) on the links between trade and climate change (in particular the idea of a carbon tax);

— statements made at the end of August 2009 by the Chair of the UK Financial Services Authority (FSA) on the introduction of a 'Tobin'-style tax to reduce the size of the banking sector and discourage speculation on the foreign exchange markets;

— a report by the Sustainable Development Commission of the UK Government entitled 'Prosperity without growth?', which reflects on the decoupling of well-being and economic growth and affirms that the latter needs to be terminated;

— the European Council of December 2009, which encourages the IMF 'to consider the full range of options including insurance fees, resolution funds, contingent capital arrangements and a global financial transaction levy in its review' (European Council 2009).

Although today these few examples remain nothing more than declarations of intent, at the very least they demonstrate the speed at which the political debate is moving. Such official questioning of the very concept of economic growth as the ultimate aim of all policies breaks a taboo that has lasted at least three decades, and does so in a way that would have been unthinkable just a short time ago.

Within the European trade union context, there are other themes emerging in this debate: increasing the share of value-added represented by pay, reducing dividends paid out to shareholders so as to increase the proportion of profits reinvested in the firm, the creation of new and high-quality jobs in the green sectors, know-how acquisition by employees, etc. Elements such as these can contribute to a paradigm shift. And we should add to these: an overhaul of production and distribution methods, a change in consumption patterns, fewer mobility needs and changes to modes of transport, and the subordination of commercial policies to environmental and social demands, etc. Overall, this is about questioning the concepts of 'growth', 'development' and 'progress' and reflecting on the alternatives. For as economist Daniel Cohen emphasises, 'We must imagine a world that has not found the means of fleeing headlong, as a planet, into perpetual growth' (Le Monde 2009b).

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