



# TOWARDS A NEW SOCIAL DEAL IN EUROPE



EUROPEAN TRADE UNION CONFEDERATION (ETUC)

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# EXECUTIVE SUMMARY

The dominance of the neoliberal economic model over the past 30 years has caused the economic catastrophe that Europe and the rest of the world are now experiencing. Too many in the overblown, vastly expanded financial services sector indulged in a modern day version of alchemy. Long term prudence was ignored as greed and speculation became the order of the day in Wall Street, London and other major financial centres. The result before the crash was rapidly rising inequality, the growth of precarious jobs and pressure to cut the influence of welfare states, worker rights and collective bargaining. Now to that must be added growing unemployment, cuts in public expenditure and a collapse in demand in many countries.

To ease this situation, the European Trade Union Confederation (ETUC) calls for a New Social Deal as a driver for social justice and more and better jobs.

The ETUC, a key player at European level, is ready to take part in the discussions and implementation of policies affecting social and employment fields, and is **on the offensive for a new social deal in Europe. The ETUC calls for:**

**More and better jobs: Investment in an expanded European recovery plan** to mobilise a new drive for growth and jobs. The ETUC demands the European Council and Commission to draw up a European investment plan totalling an annual 1% of GDP to provide more and better jobs, to promote innovation, research and development, to help employment in key industries, to invest in new, green and sustainable technologies, and to maintain vital public services.

**Stronger welfare systems to provide more security and avoid social exclusion.** The ETUC demands a meaningful and a strong European Social agenda: to maintain people in jobs with robust income and to ensure protection to workers as well as an appropriate training.

**Stronger workers' rights and an end to the dominance of the short-termist market principles.** Stronger rights are necessary to stop the trend of rising inequality. The ETUC demands a Social Progress Protocol giving priority to social rights and collective action and a stronger Posted Workers Directive. The ETUC also calls for efficient workers' participation and industrial democracy. Stronger workers' rights are especially urgently required to stop the rising use of different forms of insecure, non-standard work.

**Better pay: stronger collective bargaining.** Wage freezes and nominal wage cuts are to be rejected. It is vital as demand collapses to protect purchasing power. The ETUC is therefore seeking a strengthening of collective bargaining and wage formation institutions with the European Central Bank (ECB) also committed to more and better jobs. The ECB must be involved in growth and full employment, not just price stability. The ETUC demands an advisory board of European social partners to the ECB.

**European solidarity as a protection against the excesses of financial capitalism:** Effective regulation of financial markets, a fair distribution of wealth, and no return to casino capitalism or to the 'business as usual' of the past 20 years in financial markets is crucial. The ETUC demands a major increase in European social spending enlarging the activities of the European structural funds, notably the European Social Fund and the European Globalisation Adjustment Fund. Tax competition coming from deregulated markets must also be tackled because it threatens Social Europe.

# EUROPE'S WORKERS NEED A NEW SOCIAL DEAL

## Introduction

**W**e are at a crossroads in history. The June elections of the European Parliament will take place against the background of the worst economic downturn since the Great Depression of the 1930s. In the aftermath of this Great Depression, conditions and institutions were created to make sure such a collapse would not happen again and to obtain a long period of economic growth. Collective bargaining, social dialogue and strong trade unions were promoted and unemployment benefit systems were strengthened so that the benefits of economic progress would be shared by all. The European Economic Community was founded to strengthen cooperation in Western Europe.

What will tomorrow's generation remember from today's crisis? Will they remember that governments undertook major action to prevent this recession from turning into a devastating job crisis? That politicians finally took up the responsibility to put a halt to the model of 'casino capitalism' with its excessive risk taking, its corporate greed, and its speculation? Or will they see 2009 as a year in which the opportunity to stop the crisis from amplifying itself was squandered by sticking to orthodox and dated economic beliefs, when Europe could not join forces to invest its way out of the crisis and to strengthen social cohesion and where we failed to restore and strengthen trade union rights and collective bargaining?

The ETUC, representing millions of workers in Europe, calls for a New Social Deal to help get us out of the crisis and to make Europe emerge from it with an economy and a society

that are stronger, more equal, based on social justice and social cohesion, creating more and better jobs, investing in stronger welfare systems and evolving strongly to a low carbon and more sustainable future. Those who try to abuse the crisis as a means to boost their profits and fortunes at the expense of workers will face the resistance of the European trade unions.



# THE NEW SOCIAL DEAL FOR EUROPE: WHAT ARE THE ETUC DEMANDS

## **More and better jobs: Investment in an expanded European recovery plan**

European policy makers are not ambitious enough in addressing the crisis. Many hope the recession is just a temporary 'blip' and that strong growth dynamics will return automatically and quickly. This is a major mistake. We are confronted with a deep crisis of the model of financial capitalism itself. This crisis of casino capitalism is structural. It will not go away on its own.

Since debt loads of households, banks and business in many countries have become excessive, private sector spending and investing is likely to be depressed for several years to come. The logic of 'creative destruction' no longer holds. It is the logic of massive job destruction combined with poor job creation that is on the rise.

To avoid this doomsday scenario from happening, Europe needs to mobilise a new driver for growth and jobs. Investing to fight climate change and in a green and sustainable future for Europe will spur growth and create millions of new jobs.

The ETUC demands the European Council and Commission to draw up a European investment plan totalling an annual 1% of GDP effort for the next three years. Investment possibilities at the European level exist in the areas of renewable energies, clean technologies, energy savings, physical and social infrastructure and networks, materials of the future, modern cars and clean transportation systems need to be identified. These investments are to be the basis of a new European industrial strategy ensuring a rapid and fair transition to a low carbon economy and a more sustainable future.

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 needs to be supported 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 all this needs to be backed up by European central banks buying these debt bonds.

If these investments start to kick in from beginning next year, we can hope to avoid much of the increase in unemployment that is expected to take place over 2010. Moreover, these investments will have a multiplying effect and they will strengthen economic activity and employment further over time, thereby gradually bringing high unemployment rates back down over the next years.

## **More security: Stronger welfare systems**

Europe risks falling into mass unemployment and this will have major consequences.

Workers in 'precarious' employment are taking the first blows. Fixed term work, now accounting for some 15% or even more of all employment contracts, provides business in Europe with the 'easy firing' some employers are so keen to have. At the same time, workers with precarious contracts are very poorly compensated for the flexibility they offer to business. Although they are the first to be fired, workers on fixed term and agency contracts usually suffer reduced or no access to redundancy or unemployment benefits, have no access to additional company pension arrangements and get paid lower wage rates than regular workers.

Moreover, inspired by the slogan of 'making work pay', many member states have reduced over the past decade benefit levels and benefit duration while also making it more difficult to access unemployment benefit systems. The



hypothesis was that the hard core of structurally unemployed had been reached. However, the crisis is now changing this dramatically: skilled workers are now flooding into unemployment benefit systems to find out that the level and the duration of these benefits no longer provide a means to a decent living.

Finally, mass unemployment does not remain limited to workers with precarious contracts; it is affecting the entire the work force. For some, unemployment spells will be short and temporary. For others, unemployment will become a regular or permanent experience. Workers with lower qualifications and workers with a weak foothold in the labour market will be particularly vulnerable.

To face all of these challenges, the ETUC demands a revival of Social Europe. We urgently need a meaningful and strong European Social Agenda covering the following policies:

To maintain existing jobs and to avoid mass redundancies, Europe needs to generalise short-time working schemes, provided a robust income for workers is guaranteed. These schemes should also function as a basis for models of internal flexicurity where job security, working time flexibility, training and upwards transition into better jobs in the same company are combined.

Unemployment benefit systems need to be strengthened and broadened. Replacement rates, eligibility criteria and limits on benefit duration need urgent reconsideration and improvement. Special attention must be given to workers in precarious contracts, among them many young people, women and ethnic minority or migrant workers, making sure that they also have sufficient access to welfare systems.

At the same time, member states need to step up investment in training, retraining and in active labour market programmes. The curse of unemployment needs to be turned around in an opportunity for all workers to upgrade skills and have access to lifelong learning, with particular atten-

tion going to employment policies necessary to accompany labour market transitions to a greener economy.

Provided collectively agreed wages and working conditions are respected, Member states also need to expand investment in public services, in particular in social services of general interest. The ageing of the population, the reduction of the gender employment gap and the need to improve work/life balance requires greater public efforts in many social services such as health care, elderly care and child care. Here as well, unemployment should be turned around in an opportunity to expand employment in these sectors and answer pressing societal needs on a quality basis while avoiding the crisis to become an alibi to turn women away from paid employment into unpaid household work and voluntary activity

With a new generation of young people entering a labour market where the prospect of finding a job is very poor, it is urgent to offer young people a guarantee of a job, further education or training, apprenticeships or useful community services.

## **More security: Stronger workers' rights and an end to the dominance of the 'free market' principle over the right of workers to organise and act**

Workers' rights are not part of the problem; they are part of the solution. Stronger workers' rights are urgent to stop the perverse distribution that has been going on for many years. Reforms to weaken the bargaining position of workers have created massive 'rents' to be captured by vested interests. While the share of wages and salaries in total national income went down, the profit share systematically went up. Income inequalities soared, not only in the Anglo – Saxon world but also in many European continental countries.

Labour market reforms have also contributed to the rising use of different forms of non-standard work. Despite the principles laid down in the European Social Acquis - that non regular contracts should remain the exception and not become the rule - long and exaggerated chains of fixed term contracts continue to exist while agency work is sometimes used to undercut other workers' wages in important parts of Europe. Practices like these have nothing to do with the objective need for labour market adaptation; they risk transforming what are basically stable and productive jobs into insecure contracts paying poor wages.

Stronger rights for workers are necessary to stop these trends of rising inequalities and precariousness and to make our society 'whole'. Stronger workers' rights will substitute 'asset bubble' based demand dynamics with a model of growth based on productive instead of speculative investment.

## The ETUC demands:

- A Social Progress Protocol giving fundamental social rights precedence over the economic freedoms of the single market. This includes the collective right to organise, to undertake collective action and to organise strikes.
- A revision of the Posting of Workers' directive, putting the principles of 'equal treatment' and 'equal pay for equal work' at its core.
- A dispute settlement system and the creation of a specific chamber at the European Court of Justice, with the participation of the social partners, devoted to social and labour problems
- The strengthening of the content of the Tripartite Social Concertation and of the Macro Economic (Social) Dialogue.

■ A proper consultation of the European Social Partners in the framework of Article 138 EC for every (legislative) proposal that might have an impact on and/or concern social policy in general and the rights of workers and their representatives in particular.

■ Stronger workers' participation and industrial democracy to give workers a say in managing the current crisis at company level, to make sure massive lay offs are avoided and to be able to anticipate future restructuring. Participation rights must become an constitutive and integrated part of corporate governance and of European company law. Stronger involvement of workers in company policy avoids a management style focussed on short term objectives with negative repercussions on workers. It contributes instead to the long term sustainability of the enterprise.

■ Addressing the segmentation of labour markets by upgrading the protection of precarious contracts implies a rapid decision on the Temporary Agency Directive. Furthermore, the implementation of the European fixed term work agreement of 1999 at national level needs to be strengthened in several countries. Finally, a European legal instrument to ensure that main contractors can be held liable jointly with their subcontractors for the payment of wages and social security contributions needs to be developed.

## **Better pay: Stronger collective bargaining**

A collapse of wage dynamics would intensify the making of the New Depression. Contrary to the popular myth that wages and collective bargaining in Europe are rigid, the risk is that wage restraint turns into wage cuts, causing low inflation to tip over into deflation. If this happens, then the downwards spiral is complete. A continuous fall in the level of prices will drag down spending and investments while pushing real interest rates upwards in the midst of a

recession and against a background of excessive private sector debt loads. Debt deflation, similar to the 1930's, would then certainly be on the cards.

To prevent Europe's workers from undercutting each others' wages, thereby triggering deflation and depression, the ETUC demands a strengthening of collective bargaining and wage formation institutions. Wage freezes and nominal wage cuts are to be strongly rejected. Instead, real wage increases are to be promoted with the aim of making wages an anchor of price stability in these times of looming deflation.

In the context of the European Employment Strategy a European framework for 'fair and decent' wages needs to be developed. Its objective is to encourage Member states together with the national social partners, to conduct policies and establish collective bargaining practice putting strong downwards floors in wage dynamics. This implies setting wage floors for the lowest wages to make sure there's a the bottom in the labour market under which wages can not fall and avoid a situation in which low wages become poverty wages. On top of this, it also implies respecting and promoting 'going' wage rates and wage increases as agreed to in collective bargaining agreements.

It is also necessary to stop the perverse practice of rewarding bankers and CEOs for failing and putting their company or bank at risk through super dividend pay outs, equity capital buy backs and excessive borrowing. A European wide crackdown on excessive CEO bonuses and remuneration, on stock options and golden parachutes as well as on super dividend pay outs and capital buy-back operations is not only necessary but also urgent.

## **European solidarity** as a protection against the vagaries of financial capitalism

Financial markets and Wall Street rating agencies were wrong when they poured the world's savings into what now turns out to be 'toxic' assets. We should not trust these markets and their bias against socially corrected economies now that they are bidding up interest rate spreads of several members against German bunds. This is burdening public finances and this at a time when governments need increased access to affordable loans in order to manage the social and economic consequences of the crisis.

At the same time, the International Monetary Fund (IMF), in return for emergency loans, is forcing countries to cut wages, public employment and social spending. These structural adjustment programs work to deepen the crisis even further and the IMF's cure can be worse than the disease. The Commission's balance of payment fund is only accessible if countries implement the reforms imposed by the IMF. In this way, the Commission itself is in the business of weakening the European Social Model in several member states.

Another threat to Social Europe is the tax competition coming from deregulated international capital markets. When capital moves freely around, international groups are able to play member states off against each other and orient capital and investment flows to these countries where they get the best conditions. In the past this has led to tax competition between member states trying to attract investment flows and the unfolding crisis may accelerate this kind of 'beggar thy neighbour' policy even further. This, again, threatens to undermine government revenue and to limit the possibilities of governments to face the crisis.

Europe can not sit by and watch all of this happen. We did not create a single currency in order to continue to be at the mercy of the worst features of international financial markets.

To start with, the European Commission's balance of payments fund, now representing 50 billion euro should be operated separately from the IMF. IMF conditionalities need to be replaced by European conditionalities: financial support for member states has to make sure the European Social Model is respected to the fullest extent, with distributive justice, robust workers' rights and fair tax systems taking centre stage.

The game of tax competition in the internal market, undermining the revenue basis of governments, has to stop. We urgently need a European agenda to address tax havens, zero or near zero taxes, flat tax regimes and to coordinate closely on corporate profit tax systems, capital gain taxes and taxes on high fortunes.

Here, Europe needs to take another step forwards. Europe can only face this crisis if it stands together. This implies a major increase in European social spending, enlarging the activities of the European Social Funds and the European Globalisation Adjustment Fund, and making sure all workers in all countries and regions have a social safety net to fall back on. In the same vein, Europe also needs to put in place a 'low carbon economy adaptation' fund to accompany the labour market changes implied by the fight against climate change (supporting mobility and training for green jobs). The European budget, now representing less than 1% of European budget, needs substantial beefing up. The ETUC proposes that this be done by introducing European level taxes, for example a tax on financial speculation or a tax on super dividend pay outs.

Finally, Europe can not limit itself to coordinate national financial markets' regulatory authorities. The European financial market place needs a single European level regulator, along with specific effective regulation for hedge funds and private equity, mandatory registration and supervision of credit rating agencies and a European credit rating agency. On the international level, the Commission should play a leading role in constructing a new global, transparent and accountable financial architecture, involving

the Financial Stability Board, the G 20, the IMF and the World Bank as well as the ILO. On both the European as well as the international level, social partners have to be closely involved.

## **An independent and unbiased European Central Bank also committed to more and better jobs**

The ETUC stands firmly behind the European single currency. The euro has brought Europe many advantages.

However, the way the ECB has been handling the crisis is disappointing. The ECB should have cut interest rates earlier and more vigorously to ward off the economic meltdown. Even now, with the economy in a deep recession and with the spectre of deflation looming, the ECB is resisting the use of all instruments it has to stimulate the economy. Fearing once again that inflation is around the corner, the ECB is reluctant to adopt "quantitative easing" and to bring interest rates on government bonds further down so that more room for fiscal stimulus is created.

The bias in favour of inflation fighting policies can also lead the ECB to the erroneous view that labour market deregulation and a weakening of workers' rights are necessary to create jobs. Over the past years, the ECB has indeed attacked public institutions which promote workers' interests such as minimum wages, wage indexation, public sector wages and job protection legislation.

The euro is too important to leave to central bankers. The ETUC therefore demands an advisory board of European social partners to the European Central Bank. Central bankers can no longer lock themselves up in an ivory tower. They need to confront economic reality and there's no better way to do so than to have regular and systematic contacts and discussions with trade unions and employer organisations.



Finally, the European Central Bank needs to address the worrying trend of high interest rates spreads inside the euro area. Low, almost non existing differences in interest rates have been a main advantage of the creation of the single currency and this advantage has now disappeared. The ECB has the power to restore this benefit of the single currency by buying those bonds showing excessive interest rate spreads with the German bond.







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