Europe and the Social Crisis: in support of a new European Social Contract

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Social Europe faces the Crisis

Some analysts wonder whether "social Europe" or the "European social model" really exist, using the diversity of situation amongst the various countries in Europe as a base to their argument. Without denying that these differences exist they cannot bring into question the historic and political validity of the concept. The comparison of social and labour relations, as well as legal systems which guarantee rights in most European countries, with those in force in the rest of the world, notably in the emerging countries, is the greatest proof of this.

Whatever the various antecedents, social Europe, i.e. the European Welfare States were born of an implicit post-war social pact. To the backdrop of the Cold War, the victorious democratic powers sought to govern according to Keynesian economic ideas and to the primacy of public authority and general interest over policy. This was best part of what was left behind after one of the bloodiest wars in history. The post-war period, which ended in 1973 with the first oil crisis, was one that in Europe and also in the USA and other western countries, led to the highest level and the fairest distribution of wealth ever witnessed in the history of the world. Equality and social cohesion were values that political groups and dominant economic trends accepted out of conviction or because of a simple economic calculation. The intention was to distance workers and their organisations from the influence of communism and models that lay on the other side of the Iron Curtain.

Hence, thanks to progressive, satisfactory tax regimes, which enabled States to enjoy, by means of taxes and social contributions, the necessary resources for the redistribution of the wealth that was generated, western European nations built the most prosperous, fairest, most egalitarian and most democratic societies that Humanity has ever known. The State regulated the markets and intervened in both the economy and society to provide greater security and a maximum level of well-being to its citizens, from birth to death – thanks to a State benefit system (healthcare, insurance, unemployment, retirement pensions, social assistance etc ...) and a universal, free education regime that was open to all until the age of 16 at least. These benefits, acknowledged as subjective rights for everyone, were provided by public services of ever increasing quality. The most emblematic of these were the State education and national health systems.

T. Chopin et al. (eds.), *Schuman Report on Europe*

In the economic and employment spheres, a modern European labour law (with national variations) was established with major progress being made in terms of workers' and union rights. The legal and political guarantee of collective negotiation and the autonomy of the actors involved were of particular importance. In Europe collective negotiation became the leading framework for the distribution of wealth, within the company, between capital and worker. This framework was less confrontational and much less violent than before, notably because the dominant Keynesian theory seemed to convince employers that well-paid workers were a key factor in domestic demand and growth and hence in their own profits. In some countries, as in Germany, Austria and various Nordic countries the model was complemented by the co-management of some major companies. Beyond the business and economic sectors, bipartite or tripartite social dialogue gradually became the norm as a means of participation on the part of organisations that represented workers and employers for the establishment of working and living conditions, as well as social rights. At the same time the nations of Europe – their governments, unions and employers' organisations – provided political support to the International Labour Organisation (ILO) and promoted the development and ratification of its conventions.

The political dimension of the European social pact was managed by democratic actors which lay both on the left and centre-right of the political scale. This also led to the creation of the foundations of European integration. Although the Union is a supranational structure which is pursuing a political goal, i.e. peace between European nations (notably between Germany and France via their mutual work together) it does so with pragmatism, which emerges in the relative weakness of political and social rules in comparison with those governing the economic domain. However we might say that the European social model exists due to the impetus provided by the post-war European social pact.

Even in the 1990's, when the offensive against the European social model and the Welfare State had already started in many countries, the political leaders of Europe again fought the tide and boosted the social model via the social protocol included in the Maastricht Treaty, i.e. the structural and cohesion fund and some social and professional standards which resulted from European social dialogue. Helmut Kohl came to an agreement with François Mitterrand and Jacques Delors to support social Europe and at the same time they created the single market and Monetary Union in exchange for what seemed extremely difficult at the time: the rapid unification of Germany.

In the 80's and 90's, whilst the erosion of the European social model was already underway in countries like the UK and Ireland, alongside similar developments in the USA, other countries in the south of Europe, like Spain, Portugal and Greece followed an opposite path building up their Welfare State – more limited in its services and social rights generally – at a time when they rediscovered democracy and joined the European Union.

But the political leaders of Europe also made some serious mistakes. The biggest one of these is preventing us from settling the present crisis. They created a single currency without forming a Common Treasury, nor a financial policy, nor European economic governance.

The oil crisis and the international monetary system of Bretton Woods together with the ensuing crises of the 1970's led to a sharp response against what was called the "excesses of the Welfare State" whose levels could apparently not be maintained because of the "State financial crisis". This was the concept advocated by those who made tax reductions their watchword. The Chicago School then started to dominate economic thinking. Milton Friedman was crowned; Hayek resuscitated and Keynes buried. The aim was to deregulate markets, particularly in finance and labour and to roll back the State, by reducing taxes on the wealthiest, inversing the progressive nature of the tax regimes, and by privatisation. The reduction of labour costs and the undermining of labour rights demanded the erosion of collective negotiation and the unions, together with the reduction of their influence and their ability to act within the company. In sum this demanded back-pedalling and the rejection of a major part of the progress achieved in the 20th century.

The second major globalisation of capitalism – the fruit of the IT and communications revolutions and the collapse of "real socialism" after the fall of the Berlin Wall served as a lever to the economic powers to strengthen their global offensive against the foundations of the Welfare State and the European social model. It was claimed that these were not fiscally viable in a globalised world which demanded competitiveness in terms of labour costs in the face of emerging countries, notably China. In reality it was about countering the fair distribution of wealth provided by the Welfare State. It was the era of the economic and financial hegemony of financial capital.

Other remarkable episodes and events over the last two decades of the 20th century also aimed to strengthen the power of capital, alongside an increase in inequality and a decline of some of the principles of the post-war social pact. There was a transition of State run economies over to those governed by the market – after the implosion of the Soviet Union and the collapse of the "popular democracies" – under the guidance of the "Chicago boys". The precepts of the Washington Consensus presided over the conditions that the IMF set on countries which had suffered financial crises in Latin America and Asia in the 80's and 90's.

The attacks of financial capitalism and the wealthiest have always employed a blunt tool: – money – which is required to corrupt, to purchase or influence politicians, intellectuals and journalists. With money even lies can become "scientific truths", including in open societies. This was notably the case with the supposed *"leap towards a growth society"* which deregulation, privatisation and tax reductions were supposed to create as of the 1980's. Any economist who consults the statistics can see that the peak of post-war growth until today, in both the USA and Europe, took place between 1945 and 1960. It was when taxes were the highest and regulation the strictest that more wealth was created and that full employment was achieved. Hence the European countries with a better developed social system are resisting best to the crisis.

During the more recent era of the "casino economy", it is easy to find striking examples of the collusion between the interests of financial capital and the public authorities, as for example the abolition of the Glass-Steagall law, by Robert Rubin, the Secretary to the Treasury under Bill Clinton, which since Roosevelt's time separated investment bank activities from those of the commercial banks. The most credible analysts believe this measure to have been the one which facilitated the Wall Street financial bubble the most, the collapse of which was the cause of the present crisis.

In spite of all of this social Europe managed to survive until 2008. This can be seen in the UK and in Ireland or more recently in Germany (Agenda 2010) which had to re-assess their social systems or with the entry of the countries of Central and Eastern Europe into the EU in 2004, - most of whom had labour and social norms well below those in the other Union States, but where the foundations of the Welfare State and the levels of social equality had been maintained in the main.

In support of a new European social contract

The deregulation of the markets, particularly those in the financial and real estate sectors, the predominance of the financial over the real economy, financial and real estate speculation together with the sharp increase in inequality in terms of income distribution are factors that have mainly been the cause of the crisis which has been fomenting over the last few decades.

After the default of Lehman Brothers the G20 responded quickly to save the financial system by injecting enormous quantities of public money. To boost domestic demand in a coordinated manner fiscal incentives were introduced (increase in public spending and tax reductions), but this was not enough and the programmes were not always best advised. Hence the in 2010-2011 recovery, which followed the severe recession of 2008-2009, was limited. Moreover, as of 9th May 2010 the EU relinquished all of its tepid attempts for a Keynesian revival by moving in the opposite direction with austerity policies and structural reforms, which are nothing more than grim cuts to salaries, social services and rights.

The consequences of this way of governing Europe are simple. On the one hand there has been recession and unemployment, with the non-respect of budgetary goals and the "rescued" or indebted States' unable to find financing on the markets at reasonable interest rates. On the other there is greater poverty and inequality, with a serious deterioration in social cohesion and of the Welfare State (public services, labour law; social dialogue and collective negotiation etc ...). Finally the worrying decline of political cohesion – both internal and between the Member States – as well as the loss of legitimacy of national and community political institutions are leading to the rise of national political and social movements, which are separatist, populist and extremist.

By repeating policies similar to those used to overcome the Great Depression of the 1930's the present leaders of Europe, who seem to have forgotten the lessons of history and maths, are reproducing a great number of the economic and political consequences experienced at that time. After having kept the sovereign debt crisis going for nearly three years in a totally irresponsible manner and of having led the European Union into a new recession, the European crisis has now become political. Originally it came about because of political leaders' inability and reticence to take the action required and because of the inadequacies of the mechanisms in the European decision making process. It is also political because of its effects: it is causing the failure of social and political cohesion, vital to the maintenance of a common project; this in turn is threatening the very existence of the latter as well as the European Union, undoubtedly the most important political edifice of the 20th century.

Europe is at an historic crossroads. To a large extent the European trade union movement is aware of this. After witnessing the destruction of the post-war European social pact, which held the well-being and social progress of the past 60 years and the European political project together, the trade unions of Europe are now organising within the European Trade Union Confederation (ETUC) and have not succumbed to the temptation of euroscepticism. In an article published in several European newspapers in December 2011 its leaders spoke in support of a '"new European social contract" which can only mean "more Europe", a more social and more democratic Europe.

On 14th November 2012, the ETUC called for a European day of action and solidarity. For the first time in history general strikes took place at the same time in four countries – Portugal, Spain, Italy and Greece – with mass action in many other Member States. This decision was taken under the political impetus and coordination of the most representative central trade unions in the Iberian Peninsula and the inestimable help of the major European unions. It was a moment chosen by European workers to express, in the most vigorous and unified manner that has ever been seen, their rejection of austerity measures and social cuts. In many countries this action received both political and social support. In Spain the Social Summit, the platform of more than 150 networks and social organisations, supported this action.

When the ETUC speaks of correcting unjust and/or flawed policies, it also suggests short term alternatives, coordinated European and national measures to stimulate growth and create jobs. These are vital for the mid-term settlement of deficit and debt issues, as well as resolution of the sovereign debt crisis via cooperation action in the shape of eurobonds, the ECB's intervention on the secondary debt markets etc. as well as rigorous financial regulation.

The main slogan on 14th November was "For a new European social contract". The ETUC's proposal has to be understood, beyond the real claims that it makes, as a political and social strategy, based on the autonomy of the union movement to save the European political project from the crisis. It is a proposal based on the protection and strengthening of social Europe.

The basis of the new European social contract is fiscal policy. The progressive nature of fiscal policies, undermined in many European countries by a process that began thirty years ago, has to be re-established. On the same basis, harmonised fiscal regime has to be established across the whole Union – which also provides adequate resources to greater European budgets. This would put an end to the present fiscal dumping. Furthermore in both its internal and external policies the European Union should give priority to the fight against fraud and fiscal evasion and the eradication of tax havens.

Another pillar of the new social contract must be the total respect of social dialogue, collective negotiation and of the results of this, – be they general agreements or collective conventions, which must be legally and politically guaranteed on a national and European level. Social partners' autonomy in collective negotiations must also be guaranteed. The third strategic axis should be the establishment of a set of basic European social standards which protect and standardize the main content of European labour law and vital services in the area of pensions, unemployment benefits, healthcare and education etc ….

Apart from what has been approved today by the leading structures of the ETUC, it has to be admitted that to achieve this goal an in-depth change of the key European treaties has to be undertaken. The changes to the treaties should focus on at least three main areas a) the construction of a pillar for the foundation of social Europe; b) economic governance of the eurozone and of the Union; c) the democratisation of the European Union (direct election of the political authorities, greater legislative capabilities and control of the European Parliament, social transparency).

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Without more democracy, without social Europe, European economic government is unacceptable. Without more democracy and without social Europe, the European Union has no future. The European Union has to be recast if we are to overcome the crisis and the European trade union movement is prepared to help to do this constructively.