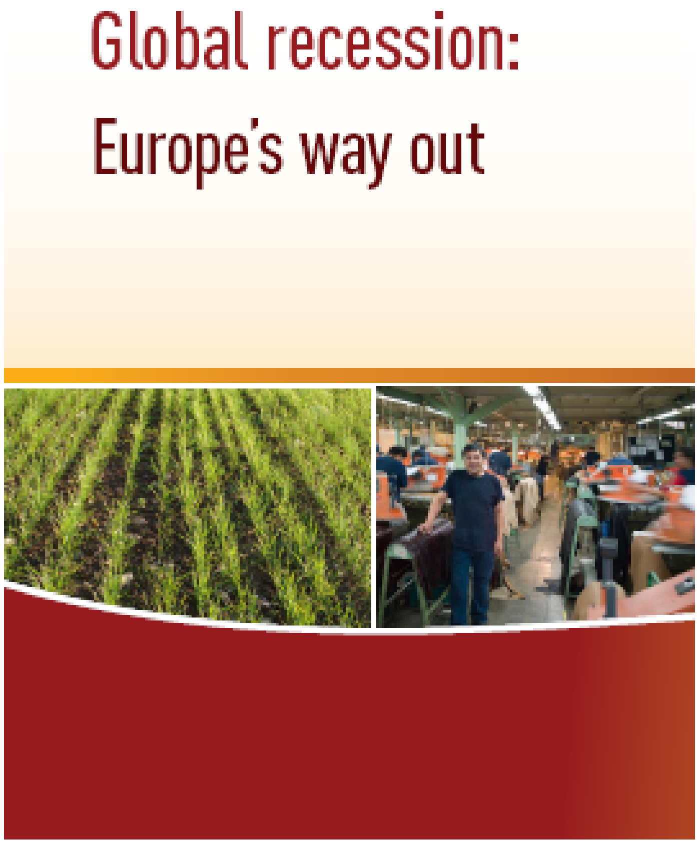
Reflections on the recession



Foundation Forum 2009

Editorial

Recession has been the overarching topic of 2009. It has affected all EU Member States, but not all in the same way: whereas some countries, like Germany and France have so far emerged relatively unscathed, others, like Ireland, Spain and the Baltic States have had to make far-reaching and painful adjustments that will impact generations to come.

The economic data is still difficult to interpret. Financial stability remains an important issue for the EU, as does the threat of unemployment. Typically, unemployment rates continue to rise, even after a country has technically emerged from recession and is predicted to peak in late 2010. Projected GDP growth rates for the EU are modest and again are unevenly spread among Member States.

What does this mean for the European social model? Can we still afford the quality of public services we are used to or will there have to be a radical overhaul? Have the economic realities put social dialogue under pressure or does the recession actually present an opportunity to develop new innovative ideas in social partnership?

Foundation Forum 2009 brought together policymakers, employers, trade unions and academics in Dublin in November 2009, to discuss what measures have been taken to move out of the recession and what policy changes are required to create a more sustainable economic and social European model. It looks at how social dialogue has been functioning in times of economic crisis and talks about the sectors and activities which Europe needs to invest in to create new jobs.

'Reflections on the recession' provides a broad overview of the highlights of what was heard and said at Foundation Forum 2009.

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Programme of the Foundation Forum 2009 with all speakers:

http://www.eurofound.europa.eu/events/2009/forum2009/programme.htm

Speakers’ biographies:

http://www.eurofound.europa.eu/events/2009/forum2009/participants.htm

How did we get into this?

The first signs that the extraordinary long period of global growth that started in the mid 1990s was coming to an end appeared in mid 2007. It was not, however, until the summer of 2008 that it became clear that the downturn would not be slow and temporary. Indeed, the subsequent collapse of many large financial institutions and potential collapse of many others, together with the swift fall in GDP and exceedingly rapid decline in world trade, indicated that something quite exceptional was happening.

There is no lack of explanations for the current recession, but rather a multitude of competing or complementary factors still not fully understood, and analysis of these remarkable times will surely engage economists for decades. The truly distinguishing characteristic of this recession is a globally synchronised banking crisis, which sparked off a remarkably severe global recession. It is highly likely that the preceding, equally remarkable boom, together with significant shifts in the balance of global trade and capital flows that gained speed in these years, constitutes the macroeconomic background to the subsequent bust. That period was characterised by a prolonged period of strong non-inflationary growth, which began in the early 1990s. Global imbalances, expressed as massive current account deficits in some countries (especially the US) and correspondingly high surpluses in others (particularly China, but also the oil-exporting countries), became an increasingly distinguishing feature of the extended global boom. It is also fair to assume that the path to global stability lies in resolving the contradictions of the emerging new global economic and financial order.

Find out more about how Europe got into the recession and its impact on labour markets in the Forum background paper by Donald Storrie, Head of the Employment and Competitiveness Unit at Eurofound:

http://www.eurofound.europa.eu/publications/htmlfiles/ef0998.htm

How to get out of this? What the key players say

The responses vary sharply, depending on the background and national circumstances. An Taoiseach, Brian Cowen, Irish prime minister, advocates large spending cuts in the public sector to stabilise state finances and to make the Irish economy more competitive again. John Monks from the European Trade Union Confederation (ETUC) argues the opposite: in a crisis where no one is investing, only the State can provide stimulus and maintain jobs. Robert Verrue, Head of Unit at DG Employment in the European Commission states that jobs should be maintained as much as possible to protect human capital whilst upskilling those who have lost their jobs.

Brian Cowen, An Taoiseach

Following a long period of very strong economic growth, Ireland now, like many other countries, has to contend with very changed circumstances. The global recession has hit Ireland harder than most. In a relatively short time, we have gone from a thriving economy with budget surpluses to a contracting economy with unsustainable budget deficits. Put simply, we are now spending more than we earn.

Our tax revenues have fallen sharply back to 2003 levels. This means that we will have a deficit in the region of €22 billion in our public finances. To bridge this gap, we are borrowing over €400 million every single week. Clearly, this cannot continue.

Our strategy over the coming years is to bring expenditure back to 2006/07 levels. As the world economy recovers and demand for our exports increases, there will be more people in jobs and our tax revenues will rise. This combination of cutting expenditure and increasing revenue will restore our deficit to a sustainable level.

But in order for this strategy to work, we must take resolute action to increase Ireland's international competitiveness because this is quite simply essential to generating growth and creating jobs. […]

The window of opportunity to take action to stabilise the deficit is now. Inflation was minus 6.5% for the year to end-September. Prices are falling at the fastest rate in 75 years. This means that the real value of take-home pay and welfare payments has increased by that amount in the last year.

The impact of delaying action and increasing debt servicing costs will mean less for public services in the future. For example, every extra €1 billion in interest on the national debt would be the equivalent of the annual salaries of 21,500 new teachers or a 6% reduction in general social welfare rates. Postponing action now would result in additional cuts of this nature in the years ahead.

Delaying action will also cause uncertainty regarding the future. And uncertainty can lead to people holding on to their money rather than spending it, and the same uncertainty could cause corporations to reduce their investment in Ireland – investment which is vital to create jobs and get people back to work.

There are many calling for fairness in the Government's response to the crisis – and fairness is at the heart of our response. An essential part of fairness is protecting jobs in the exposed sectors of our economy, and helping those who do lose their jobs.

Three years ago, Ireland could boast full employment. The Live Register [Unemployment] figures published this week, show there are now 412,000 of our citizens without full-time jobs. We must do everything we can to stop this trend and reverse it. We will continue to support job-retention schemes and we will continue to invest in up-skilling across the training and further education sectors to enhance people's potential for a speedy return to employment.

But the most important thing we can do to protect jobs and create new ones is to move quickly, decisively and effectively to correct and stabilise our public finances. This will restore the domestic and international confidence that will attract investment and increase consumer spending which is a prerequisite for employment.

(A shortened version from the Taoiseach’s speech at Foundation Forum 2009)

John Monks, General Secretary, European Trade Union Confederation

For most countries, this crisis is the worst since World War II. It could have been worse if the banks had gone down. Europe got its act together and prevented the financial system from collapsing. Mostly governments have been doing the right thing. We have not done what governments did in the 1930s. Back then, they cut spending. I believe the Irish government is going down the wrong road, repeating the mistakes of the 1930s. Debt is worrying but we should hold our nerve and keep up public spending. Don't panic. Don't exit public spending. President Sarkozy said France won't get back into the Stability and Growth Pact until 2014. Comparatively, the recession is not being felt in France.

Welfare states are stabilisers. We need to balance market economies and public sectors. Germany and the UK have had similar falls in GDP yet because of Germany's enlightened short-term working subsidies German unemployment hasn't risen much. The Netherlands' unemployment hardly went up at all. Other countries should adopt similar schemes to maintain employment. The ETUC wants to see a European initiative linked to jobs. It's a rotten time to be looking for a job and young people are the biggest victims.

Who pays is the next question. It's already an issue in Ireland. There is a case for progressive taxation initiatives. The old one favoured the wealthy. There are also problems trying to formulate a jobs strategy. Countries tend to focus on themselves rather than offering help to states in particular trouble.

Membership of unions usually goes down during a recession. It collapsed substantially during the 1930s. Unions need to make sure they can maintain their resources. If unions have an involvement in the welfare state they should stick with it. They should get involved in saving jobs, developing social dialogue and looking at how to help people who most need it.

Robert Verrue, Director-General for Employment, Social Affairs and Equal Opportunities, European Commission

The crisis raises the problem of clarity in a situation which is difficult to analyse. There are encouraging statistics. They are also puzzling. One should not change policy in the middle of a river and neither should Member States. We are in the middle of a river!

On a positive note, the crisis has taught us good lessons and good practices. If a survey had been taken during the summer of 2008, most people would not have expected the EU to respond so cohesively to the crisis. We need to continue to exploit the potential of a common reaction. If the EU had not been cohesive, it would have been difficult to make the advances that we have made.

For those who still were sceptical about the euro, imagine how chaotic it would have been without the common currency. Probably it would have killed the EU. The euro creates strength, independence and solidity in international discussion.

Unemployment is an important issue. Recovery means a fall in the rate of unemployment. In a Communication addressed to the EU Council last May regarding job creation, we used the image of a triangle. One corner of the triangle is to give priority to maintaining employment, given the value of human capital. The worst reaction is to let people leave and then have to find workers in the upturn. We should try to maintain workers in firms.

The second corner is to use flexibility to invest in upgrading skills, matching labour to market requirements. We need to address these now or we will run short of labour.

The third corner is to increase access to employment. Germany and France took a promising lead with their policies to support employment. Governments need to stay on track and not be derailed over the next two or three years.

Weathering the storm

Big solutions must be developed to respond to the global crisis. Governments around the world are searching for the right mix of fiscal and monetary policy to stimulate the economy and to prevent a deepening of the recession. Among the most controversial issues is the future of the financial sector. Its malfunctioning is blamed for causing the crisis, rebuilding it is seen as a prerequisite for a return to growth.

But is helping the banks get back on their feet the right way to proceed? Are the spending cuts and tax hikes that finance bank bail-outs justifiable? Is public money not better spent on active labour market policies and job creation measures to prevent the economic crisis developing into an employment crisis? And if banks and investment companies receive support from government coffers, what new global standards must be set to ensure that risks are minimised and longer-term interests are also taken into account?

Ami Domini, Domini Investments

'Current economic predictions say that the world is valued in total at $44trn yet financial sector investments are valued at $660trn,' according to Amy Domini, founder and chief executive officer of Domini Social Investments and a leading proponent of socially responsible investing. 'This shows how important the financial sector is to the world.

'I believe the contract between the fiduciary agent and the beneficiary has been perverted and there needs to be a radical overhaul of the rules for investments. In much fiduciary law and previous practice it is stated that the fiduciary must act in the best interest of the beneficiary, but the interpretation of that phrase has been changed and corrupted.

The role of government is key, vital, but let's recall: government did not create this crisis. The financial services industry created this crisis. An important role for governments going forward is to clip those wings, to make certain that a few people making a lot of money cannot bring down millions of people globally, ever again.

It is essential that we challenge some of the premises upon which we have been allowing the financial system to work. One, we have been allowing perversion, in my opinion, of the relationship between the person managing the money and the beneficiary of that money. We have been saying that making money is enough. I would argue that's a person and not a wallet. And we need to dramatically alter our thinking about what is a successful way of managing financial assets. I would argue that the management of financial assess should be done in a way that meets the goals of financial assets, that is to make life better for more people.

By bringing voices together you have an opportunity hear each other's point of view and maybe come to common ground. Nothing effective happens unless you have the enemy in the room with you. They don't necessarily have to be at odds with you, but you do need to hear somebody who feels violently differently from than the way you feel, in order to get to a resolution to an issue, especially an issue as important as rescuing the economy after this devastating financial blow we had.'

Maria Joao Rodrigues

As well as being a special adviser on the Lisbon Agenda, Ms Rodrigues is also professor of European economic policies at the Université Libre in Brussels. Although she agreed that better regulation was needed she also urged a more international response to the current difficulties such as better co-ordination in the European Union and through the Members of the G20. The European model may be the most balanced in the world, but we completely underestimated the changes driven by short term growth, she admitted.

'The problem then leaves us with a choice and we are facing a dilemma as we to whether we co-ordinate our policies or not. To not to do so I believe would undermine the aquis general. I suggest we need more Europe, a co-ordination of policies, firstly and particularly on industrial policy. We should promote structural change for better growth, a low carbon growth.

This is the first global crisis and it also needs global co-ordination. There is huge amount of turmoil in the system, which has caused a financial crisis, a social crisis. When this crisis will be finally over is difficult to say, but before then we need much more international co-ordination. The G20 is very promising forum, as key players are all joining the global financial system. We should encourage this process and discussions.

Obviously there are implications for social policies, but first the EU must focus on the labour supply, labour demand to create new jobs. We must consider new ideas for labour creation and also give more support to people in jobs. While we are facing this recession many people are afraid of being called protectionist. But if we lose jobs now they will be much more difficult to create in the future.

There should be more encouragement for education and training. The EU needs also to refocus on other social policies such as employment insurance rather than unemployment insurance. We also need to be much more active in protecting the European Social Model forming strategic partnerships encouraging a social climate.

It is also very important that we do not withdraw the fiscal stimulus too early. We should also look at tax policies, designing policies that encourage green taxes.'

The professor also made a call for more European solidarity. Such as investments through the European Investment Bank, social policies, other instruments such as the issuing of Eurobonds to enable businesses and companies to expand and therefore take on more labour, and allowing member states to manage their debt. 'We need to encourage investment in long-term priorities such as education and low carbon growth. Our discussions about the crisis should also be about how we encourage long term growth. We should not lose our focus on the long term.'

Quo vadis Europe: perspectives on employment

Europe is moving into 'terra incognita' as deep economic crisis causes structural and institutional change. To navigate its way through the next 10 to 15 years, Europe needs to draw a map based on the principles of social partnership which will signal the way forward on a coherent journey.

Global recession has had a significant impact on three strands of the fabric of the European model: labour market policies, the sustainability of public services and social security and welfare policies. Economic constraints will impact on active labour market policies; are they sustainable in the current labour market? Public services are also under pressure. In the carers sector, support systems are inadequate but could new thinking could provide needed jobs? Given the extent of the crisis, does Europe need to restructure its welfare and social security policies along with redistribution and active anti-poverty measures?

Investing in human capital rather that restricting spending should be the way forward through the current crisis. European welfare systems could be transformed to see costs not as consumption but as social investment, which can make a reasonable rate of return to the economy and society. Income inequality has been shown to constrain economic growth. Linking per capita spending on active labour market policies with rising unemployment levels has been demonstrated to be very effective in the some countries. Investing in infrastructure for caring for the elderly could provide careers for the young as well as much needed support for the aged, the ill and the disabled and their families.

A full blown social crisis

The starting point of any discussion on labour market policy is that the current recession cannot be allowed to turn into a full blown social crisis, according to Paul Swaim, Head of Employment Outlook at OECD. The issues that need to be addressed to meet that challenge are twofold: support for current labour demand and job creation, on one hand, and, on the other, providing appropriate assistance to the jobless.

Those goals may be self-evident, but deciding how to achieve them is considerably more problematic. It appears that there may be more scope than previously thought in the past by saving jobs through work-sharing schemes. Schemes can be activated by the social partners at the different levels, by shortening work time in exchange for agreement on compensation or training. There could be wider application through government financial support of such schemes.

Are the unemployed being left in the cold?

There is a danger that this approach might increase labour market segmentation, as workers who have more stable careers are more likely to benefit from such schemes and the jobless could be left in a more precarious employment position. Recovery in labour markets may be slow but when it does come, with improved business conditions, companies which have employed these policies won't need to hire. They will simply increase working time to current employees, further excluding the unemployed from an opportunity to work.

In terms of measures to help unemployed people back into work, data from previous recessions shows that spending on active programmes for the unemployed did not increase alongside rising unemployment figures. As it became more difficult for people to get employment, less on a per capita basis was spent to help them. That premises the question as to whether and to what extent do governments need to substantially increase spending.

The sustainability of active labour market policy

The OECD is committed to the idea that social benefit schemes need to be actively managed. As unemployment continues to rise, it becomes increasingly difficult to maintain the notion of 'getting back to work'. Is the activation approach still good policy if unemployment rates go from 5% to 10%?

Swaim highlights the most striking feature of labour market policy over the last year as how effective is has been in several countries (Denmark, Switzerland and Australia). These countries increased their funding for job search assistance, training and other measures. The pressing question is whether this works. To what extent do governments need to substantially increase their funding for job search assistance, training and hiring subsidies? These measures are very expensive and therefore are they sustainable and can capacity increase to cope with demand?

The aftershocks of the crisis

Economic crisis is a driver of deep institutional change so what does the future hold for social security and welfare reform in Europe? Anton Hemerijck, Dean, Faculty of Sciences, Free University of Amsterdam says that we are in 'terra incognita'. Even as Europe slowly moves into recovery, it will experience aftershocks of the crisis due to unemployment, the pensions situation, the ageing European population and systemic debt in our economies. In this context, will the 'hyperactive state' be able to deliver results? The old model of the cosy welfare state has run its course. Despite the uncertainty, however, it will survive the changes as will economic internationalisation. The question is whether Europe will embrace 'embedded globalisation' – a new approach to the welfare state.

Changing priorities – invest in the young

Currently in Europe, social spending on the elderly is greater that on children. If relative poverty levels among children and the elderly are compared, the elderly fare much better – leaving children falling behind. A comprehensive child investment strategy is needed.

Countries that have the highest growth rates and the highest employment rates have the lowest inequality and have the most flexible human capital and are more gender equal. Inequality lowers life chances and opportunities of the young and results in loss of productivity which in turn leads to more passive income support costs.

Europe needs to transform its welfare state by taking social investment out of public finances, where it is defined as consumption, and target it as social investment with a reasonable rate of return to the economy and society. Income inequality has been shown to constrain economic growth. It also worsens life chances and opportunities, resulting in lost productivity and more passive income support costs.

Redistribution should be a core function of the welfare state. This implies a strong focus, in the current crisis, on minimum income protection. An activated anti-poverty strategy is needed but has not been developed.

Drawing a map for Europe

The crisis has fundamentally altered the global architecture, the nature of power and Europe's position in the global economy. It has challenged many of our assumptions about the European economy. Europe needs to develop a map which is capable of generating a feeling that there is a coherent journey on which we can collectively embark. In thinking about social policy, and the ways that we can respond to the current crisis, we need to hold on to two contradictory ideas in our head: the necessity for a map and the impossibility of an accurate map, according to Fintan O'Toole, Irish writer and broadcaster.

Partnership as a driver

At the centre of the creation of that map is partnership – the engagement and the democratic involvement by a wide range of social actors. Partnership will be the driver of European comparative economic advantage over the next 10-15 years; it will provide the flexibility, innovation and imagination to meet the challenges of the changing global architecture. The underlying principles of partnership should engage around three key tenets: security, sustainability and sufficiency.

Security, as a principle of solidarity matters, not simply as part of the welfare state, for those who are insecure, but also for those who are in employment. Job security matters more than wage increases. The opposite of security is fear which is fundamentally corrosive of the enlightenment of democracy. Sustainability as an economic and social concept should be the basis of social partnership which creates a common self-interest. Added to these should be the principle of sufficiency; articulating the idea for civil society the notion of ‘enough’, of not living beyond one’s means.

The future of public services

The global economic downturn is going to have a significant impact on the provision of health and social services systems throughout Europe as economies come under increasing pressure to revive demand at the same time as dealing with growing unemployment and falling tax revenues.

As needs multiply and grow across all member states, resources to fund the requirements of public services such as health, education and care are being targeted as a resource for more urgent spending requirements such as unemployment. At the same time, political pressure from several quarters, is forcing cuts in overall social spending and public sector costs. Less spending on health and education in terms of budgetary allocations are likely to have long-term consequences for European economies and not all will be good.

Andrew Watt of the European Trade Union Institute, John Halloran of the European Social Network, and Gerhard Naegele of the Institute of Gerontology gave their opinions and solutions on the way forward for public services in difficult economic times.

Public sector to lead innovative change?

'In Germany social services is seen as a promoter of economic growth and an innovative sector that can create jobs. We would like to see a greater professionalisation of the service,' said Gerhard Naegele.

The ability of the public service sector to produce new intelligent jobs was supported by Andrew Watt. 'I would argue in particular that the care sector encourages economic growth. However, there has until very recently been an intellectual and political hostility to public services,' he said. 'Fortunately, while the demands will be great due to an ageing population there is still an underlying productivity growth in the economy. There will be perceptible shifts in demand, but these are manageable. The sector also needs to do everything it can to shorten the recession. We need to steer the economy in the direction of consuming more low carbon goods.'

John Halloran was, however, more sceptical, not of the job creation ability of the sector but if the demands being put on the sector could give it a sustainable future.

'Let us ask ourselves, "What is sustainable?" Governments need to meet the demands of the present, but will that allow them to meet the demands of the future? Apply this to the public sector and you find that supplying services to all dependents is not sustainable. And in a recession you have to do more with less and you have to move funds in new directions as more people claim benefits. Since the beginning of the current downturn, case loads in Germany and France have risen by 30%.'

Halloran also suggested that provision could be made more efficient by improving the connection between services.

However, Tim Page, senior policy officer at the TUC was slightly more optimistic. 'The economic crisis provides us with a chance to think what sort of society we want to live in. It will be political decision,' he said. 'There are all sorts of efficiencies that can be made, but it is a question of resources and allocating resources.'

Andrew Watt also said that future provision may not be as expensive as was often thought the case. Healthcare systems in the EU are expected to face huge challenges, with public expenditure on healthcare projected to grow by 1.5 percentage points of GDP up until 2060. Spending on long-term care is equally expected to grow by 1.25% of GDP during the same period. 'These are the projected demands for the next 50 years, but with some economic growth I do not think this heralds the collapse of capitalism,' he said.

Europe's public services do face enormous demands in the near future, but perhaps in the aftermath of the financial crisis there will be less political hostility to them from some quarters as they prove that are a vital part of the economy as well as an important resource.

Caring as a growth sector

One of the areas where Europe faces a challenge is looking after the growing numbers of people who cannot work and require substantial care: the aged, the ill and the disabled. There has been a significant under-investment in the caring sector. The main providers of caring services in Europe are families and friends, who are not provided with proper supports by outside agencies. Over 80% of caring happens in people's homes, given by family and friends. Social care offers an employment opportunity for the 14 million people who will be entering the labour market, according to Imelda Redmond, Chief Executive, Carers UK.

Proper investment in the sector could provide new career paths for the young and for the significant numbers of people aged 45 to 65 years who have fallen out of the jobs market because they have caring responsibilities. Currently, the jobs are low paid, have poor career paths and are mainly taken by women, contributing to the gender gap. By taking a different approach to caring, by viewing it as an infrastructure which we need to come out of recession, and by making proper investment, the sector could provide new career paths and much needed jobs.

All in this together? The role of social dialogue

Social dialogue is an important feature of the European Social Model. Some Members States, notably Ireland, built their modern economies on the basis of national agreements with the social partners. What is their position on social dialogue in recessionary times? Can it deliver the hard decisions? What of Member States where social dialogue is not part of their culture or was considered a luxury they could not previously afford? Will they turn to it now and what are the alternatives? Here are some perspectives.

Companies – flexibility allowed for quick response to crisis in Germany

Wolfgang Goos, Deputy Director of the German Federation of Chemical Employers' Associations, representing 1,900 companies, stressed that in Germany, good social dialogue and flexibility in the chemical industry enabled a quick response to the crisis. The consequences of the crisis were not extreme. Employees and unions are increasingly well represented and they can react well.

The principle of subsidiarity – solving a problem as close as possible to the grass roots – has helped. Negotiations have looked not only at wages but at job security. Social partner agreements are a way of expressing common agreements which perhaps are not suitable for wage negotiations. European works councils help all to realise that the sooner we can react to new developments the better we can deal with them.

If you look at the challenges we're facing now, basically they are about how to manage change, whether it's globalisation, demographic change, or ensuring higher qualifications. Our strength in Europe is knowledge. Every euro spent on training is better than investing in poisonous securities. The European social model is the way forward.

Governments – Bulgaria using social dialogue for economic recovery

Krasimir Popov, Deputy Minister of Labour and Social Policy in Bulgaria noted that a new government was voted in Bulgaria three months ago. Its aim is economic recovery.

'We choose to use social dialogue as a powerful tool to try to change our society and to overcome the crisis. Social dialogue and partnership is our underlying approach. Anti-crisis measures have been discussed by tri-partite parties. Sustainable results have been achieved. Continuous dialogue takes place with the social partners. One of the first steps of the government was to review a new employment grant for 2010.

How do we use social dialogue to solve the crisis? A working group proposes measures to resolve it. Our short-term plan for recovery includes social security and health insurance and the social consequences of restructuring. Vouchers are available for training workers who lose their jobs, covered by the European Social Fund. Huge resources are being made available to stimulate job creation.'

European Union – social dialogue has mitigated consequences throughout EU

Jean Paul Tricart, Head of Unit on European Social Dialogue within the European Commission Directorate-General for Employment, Social Affairs and Equal Opportunities, noted that social dialogue has contributed to resilience in the EU during this crisis, mitigating its consequences.

'The EU social model is a powerful one. Agreements have been reached about maintaining jobs. Social dialogue has been very important. Where there were weaknesses, they were often due to poor social dialogue.

Debate on the causes of the crisis has to continue. Initially, the EU did not come to an agreement on its causes. It was seen as a financial crisis from the US. There was a link between the crisis and income inequalities. The subprime crisis in the US was associated with workers needing to get into the financial market to find home loans. In the EU, we need fair distribution of incomes. We need to explore inequalities, such as bonuses for traders. And we need to get consensus. We must put more emphasis on skills. We cannot separate the short-term response to the crisis to the long-term one: the short-term response shouldn't make long-term challenges more difficult. It was necessary to maintain employment. We need to avoid outsiders in the labour crisis. How are we to avoid alienating the unemployed and the young? In addition, the climate change debate is an important one, such as its consequences for employment.'

Trade unions – social dialogue develops growth and trust between partners

Anna Ekström, President of the Swedish Confederation of Professional Associations, noted that in 1976 the Swedish parliament decided on a codetermination act.

'Companies should always discuss changes with workers. It was opposed by conservatives and communists. The latter feared employees would feel solidarity with their employers. I'm glad to say they were right! It has helped develop growth and trust among the social partners. Today there are marches in Dublin about creating the right conditions for social dialogue. In Sweden, it's not so much tripartite. It is more a dialogue. Nordic countries have a very high trade union density of about 80%. Social dialogue is about a balance of power amid conflicting interests. So far, social dialogue in the Nordic countries is the best I have seen, even though it is not perfect. With true social dialogue, there is give on both sides. We have quite a few local agreements about lower pay, less time working etc.

Thanks to European Works Councils, we know more about workplaces elsewhere in Europe and ideas travel faster. Changes elsewhere in Europe become quickly known. Everyone gives the word flexicurity his or her own interpretation. But it should be seen neither as security nor flexibility but the combination of both. If you want nice growth, then have social security systems that promote growth. Nine years on and I still love the vision of the Lisbon agenda. There are budget deficits all over Europe. There will be big fights all over Europe. The common areas for debate are taxes, social security and investment in education. We should see social security as an investment; a trigger for change; a trigger for growth – we should see it as a springboard and less as a safety net.

Ten years ago I was part of a group that drafted the Lisbon agenda. Europe needed to increase its productivity and its labour supply – everyone works a little more and smarter and more should work. Make it as simple as that. The key issues are labour supply, productivity and trust.'

Member States – Social dialogue led to economic stabilisation in Ireland

Dermot McCarthy, Secretary General to the Department of the Taoiseach, said social dialogue originated in Ireland due to the economic crisis of the 1980s, with falling employment, emigration and the erosion of the economic base.

'We needed alignment of fiscal and income policies and a national level of wage bargaining for stability. National level wage bargaining aligned fiscal and income policy. With courage by the social partners, it led to the stabilisation of the economic situation. This resulted in Ireland's economy performing spectacularly well. We doubled the labour rate, attracted Irish emigrants to return home and non-national immigrants to arrive, leading to the source of our prosperity. Many more people were at work and the institutions of partnership gave rise to strategic reports by social partners, national-level pay agreements and effective problem-solving in managing the unexpected.

We can, with hindsight, see some opportunities missed: we overemphasised national partnership to the neglect of the enterprise level and we failed to apply insights of flexicurity and failed to up-skill the labour force in the face of accelerating change in the workplace. Then came the present crisis. We moved rapidly from fiscal surpluses to fiscal crisis. Through social partnership we sought to understand how it came to be that we were in this situation. We are fortunate to have a framework, a ten-year plan, to 2016. It provides a context. There are agreed principles in places but applying them is difficult. Handling distributional conflict is the essence of social dialogue. Our best interests lie in reaching consensus. With marches around Ireland today, a shared perspective has yet to be found. However, amid continuing controversy and debate there is still commitment to social dialogue. With continued commitment to social dialogue, we shouldn't be unduly pessimistic. The crisis as a catalyst for positive change

Positive change can be achieved through this crisis if it is viewed as an opportunity to support and strengthen the European Social Model and not as means to dismantle social partnership, squeeze the public sector and lower working conditions in Europe. The debate is held in the context of massive unemployment particularly among the young, an ageing population and an inadequacy of pension income and future pension provision.

The crisis is a turning point for Europe and will test the limits of the social model. It should be protected through tighter regulation of the financial sector, innovative social partnership and the strengthening of social dialogue. The positive element of this crisis is that it is a window of opportunity but one which may only be available for the next two to four years. It also heightens the focus on what needs to be done by all the players – sooner rather than later.'

Social partnership in good and bad times

Social partnership has served Europe well in the past recessions and can demonstrate its value again in this crisis if the partners work together on common interests and negotiate and compromise on divided interests. This should be an opportunity for social dialogue and joint responsibility - for strengthening constructive collective bargaining at all levels. Research and development funds should be used to develop new programmes which address and resolve the competing demands of older and young workers through training and re-training and other innovative labour policies.

This recession presents challenges rather than opportunities; the opportunity here is to harness and strengthen the European Social Model so that it can face the challenge of addressing the multifaceted problems and competing claims of its stakeholders to provide improving working and living conditions for the citizens of Europe. Overall, it has proved itself during periods of sustained growth and stability; now it needs to demonstrate that it can sustain Europe on the slow road to recovery ahead.

Approaches to pension reform

Improved health care and the extension of life expectancy can give rise to the proposition that people should be contributing to their pensions for longer. Opinion is divided on pension reform. Is it a financial expedient rather that a solution in difficult times? Is it illusory to expect people to continue to work when they have reached retirement age? And if they continue to work, are they not depriving the young of jobs and a foothold on the job ladder? There is scope to look at ways of offering shorter working time to older people through collective agreements, which will free up jobs for the young. Equally, with an ageing workforce and high rates of youth unemployment, are current and future pension provisions sustainable? In the context of financial turmoil these hard issues need to be addressed.

Governance in the financial sector

A clear thread of the debate is the widespread belief that the financial sector is largely responsible for the crisis, on a global scale. The failure of corporate governance of the sector must be addressed. Reform and proper regulation of the financial institutions is an imperative. There is also a view that financial institutions are no longer playing a productive role in the economy. The future of the economy relies on banks to lend money, if they are no longer lending, they are not fulfilling their role in the economy. In addition, the perception is that the crisis started in the financial sector and, therefore, its pay and structures, not the public sector, need to be examined.

Classical entrepreneurs have been replaced by a new breed of managers who are shifting productive investment to financial speculation. Interventions suggested that regulation of the financial sector has to be tackled as a matter of urgency. All the elements of the financial sector, which is perceived as largely responsible for this crisis, are still in place; banks and hedge funds are still operating and setting their own rates of pay.

The debate opened on whether politicians should lead by example and take pay cuts, which developed into a broader discussion on the public sector cuts. **Marian Harkin**, MEP, said that perception about politicians' pay is hugely important at a time when cuts are being made in vital public services. On that basis, politicians and higher paid members of the public sector should take pay cuts.

Paula Clancy, Director, TASC said, 'there are economic arguments for and against cuts, but there are also democratic issues at stake.' She moved the focus of the debate from cuts in public pay onto the financial sector. National economies are 'being pressurised by bond-holders, avoiding their displeasure and accepting their measures,' according to Clancy. She endorsed financial analyst, Domini's prescription that it is now time 'to rewrite the financial rules'.

According to **Amy Domini**, financial companies are about moving money, not about helping society. However it is 'business as usual on Wall Street'. There has not been debate about this in the US or any serious addressing of the problem. She advocated financial reform rather than legislation as a more effective means of addressing the issue.

Conny Reuter, Secretary General of SOLIDAR said that the question is not what politicians are paid, but what they deliver and it would be a mistake to endorse a populist call for a cut in politicians' pay. This contrasted sharply with the scrutiny under which the public service has been placed. He noted that it is 'workers who always pay' and they pay for the public service. He suggested a new approach is needed, otherwise lowering of working conditions, driven by competition, will cause a downward spiral. 'We need to rethink the dogma and ask ourselves what the value of that service is, whether it is a private or public service? Market mechanisms are not the only effective way of regulating the market.'

Systemic problems or cyclical headaches?

Despite the widespread concern about the financial sector, there was no general agreement that the crisis is systemic. **Jørgen Rønnest**, Chair of the Social Affairs Committee, BusinessEurope, rejected the concept that dealing with the crisis as a systemic problem is the correct approach. He said that many of the problems pre-dated the crisis and solutions should be found at company and sectoral level. He warned against over-regulation of companies.

In the aviation industry there is one common factor in the current climate – no airlines are doing well, they are taking the brunt in a cyclical industry and 'no business as usual on Main Street,' according to **Niamh McCarthy**, Head of EU Competition and Regulatory Law at British Airways.

There are expected to be 35,000 job losses in the industry. What are needed are serious structural changes, according to McCarthy. British Airways has been forced to reduce the number of flights and routes. In doing so, it has found that there was a demand for part-time working which had not previously been met. Her prescription for the crisis is that meeting the challenge is going to be 'around working smarter and negotiating with trade unions.'

Recent statistics on workplace related disease show that the incidence of stress-related and muscle disorders are increasing. In the current crisis, due to major restructuring in companies, the Finnish Institute has researched the 'survivors' of restructuring and the indications are that there is a considerable amount of unreported illness, as workers fight to keep their jobs. This has a knock-on effect on industry, as illness (and indeed death) of workers is an expensive loss.

Judith Kirton-Darling, Policy Advisor, European Metalworkers' Federation, cited the example of the metal sector, which she characterised as being in the eye of a storm in this crisis. Companies in that sector face huge challenges relating to scale and depth. In these circumstances, she suggested that a shift from the shareholder model of industrial companies, which has dictated how they are structured, is needed.

There needs to be further harmonisation of social partnership in European industry to face the current crisis. Recently, from a structural point of view, Ford and General Motors, in Germany, faced the same difficulties. Social dialogue at company level and effective European Works Council action played an important part in coping with changes in Ford in Germany. Meanwhile, General Motors did not react or anticipate change in time and have suffered accordingly. However, jobs in Ford were lost in Spain because short-term working schemes could not be applied there.

What is clear is that the days of rapid growth in traditional industries will not return in the foreseeable future in Europe. China is up-scaling at an incredible rate and the competition Europe faces from emerging markets is likely to intensify. This may point to the need to focus on niche areas and on what Europe does well. It may be an opportunity to build up activity in high value and green products.

Afterword

Current data from the European Restructuring Monitor (ERM) shows that EU Member States will have to deal with the fallout of the recession for quite some time to come. The European Union emerged from recession in the third quarter of 2009 but growth remains weak at +0.3% across all EU27 Member States. All Member States continue to suffer the effects and aftershocks of the recent severe recession. Unemployment notably continues to rise and its pace of increase has accelerated in the most recent quarter to reach the highest levels in over a decade. ‘Though they are, on the whole, more positive than in recent quarters, macroeconomic indicators in the EU continue to send mixed messages,’ says Donald Storrie of Eurofound’s Employment and Competitiveness unit. “On the one hand, there are clear signs of recovery, albeit one that is slow and potentially vulnerable. On the other hand, labour markets continue to suffer and unemployment is unlikely to peak before the second half of 2010.’