

Social developments in the European Union 2009

Eleventh annual report

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Edited by
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Observatoire social européen (OSE)

Acknowledgements

Social developments in the European Union is the product of a collective effort. In addition to the authors of the various contributions (see list at end of volume), we are particularly grateful to the researchers of the European Trade Union Institute (ETUI) for their careful scrutiny of the text and judicious comments. We naturally take full responsibility for the views expressed in this volume.

We should also like to thank Maria Jepsen and Philippe Pochet of the European Trade Union Institute (ETUI).

On the organisational side, we are greatly indebted to Valérie Cotulelli for formatting the text and Françoise Verri for co-ordinating the translation.

Translation from the French and English-language editing by Janet Altman and her team.

Brussels, 2010

© Publisher: ETUI aisbl, Brussels

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Print: ETUI Printshop, Brussels

D/2010/10.574/16

ISBN: 978-2-87452-184-3

Price: 20 €

Report commissioned from the Observatoire social européen, asbl by the European Trade Union Institute and the European Trade Union Confederation.

The ETUI is financially supported by the European Community.

The European Community is not responsible for any use made of the information contained in this publication.

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Preface

In the wake of the financial crisis that erupted in autumn 2008, 2009 began with one of the worst economic crises experienced by Europe since 1929-1930. As the financial system collapsed, it brought down with it the real economy in most of the EU Member States, provoking bankruptcies, redundancies, restructuring schemes and unemployment. The national recovery plans and their European equivalent strove throughout the year to limit the economic and social damage. But this disastrous sequence of events will weigh heavily on the public finances of EU countries for years to come: it has already resulted in fiscal restraint, and such measures will be with us for a long time to come. The fact that the finance industry had already returned to its casino-like practices and excessive bonuses by the end of 2009 is utterly outrageous.

The only 'positive' outcome is that the extreme nature of this situation and the severity of the crisis have prompted many policy-makers to engage in debates which had seemed closed, or at least confined to radical left-wing circles: a global tax on financial transactions and a 'supertax' on bonuses, but also action against tax havens and a tightening of prudential rules, etc. New scope has arisen for discussion of taxation and supervision, unthinkable just a few years ago, and there is ample potential for change. Yet the European Union as such seems to be playing in the second division here: it has barely shown any leadership at all in managing the crisis. And now, at the start of 2010, one has no choice but to acknowledge that the rules of the game for this neoliberal brand of financial capitalism have not changed significantly.

This state of affairs, combined with the global fight against climate change, calls for a fundamental rethink of the model of 'growth' pursued in developed countries over the past few decades. Social groups and trade unions have long been seeking an expansion and reinforcement of the European social model (trade union rights, social protection, social dialogue and public services). These issues are now compounded by a new challenge on an altogether different scale: to define a new model of development which will, at one and the same

time, put an end to the madcap accumulation and concentration of capital, re-establish social cohesion and justice, and bring about a society based on 'zero-carbon prosperity'. That would mean adopting a wholly new approach to economic prosperity compared with what we understand the term to mean today.

Public authorities, first and foremost the European institutions, have a key role to play in these endeavours. But so have social groups and trade unions at both national, European and international level. It is with this in mind that the European Trade Union Institute has once again teamed up with the Observatoire social européen to produce this 2009 edition of Social Developments in the EU. We hope that the analyses it sets out will assist a wide readership in reflecting on the future of the European model.

Christophe Degryse, Maria Jepsen and Philippe Pochet

Foreword

Christophe Degryse

Just ten years ago, in March 2000, the Heads of State and Government decided at the European Council meeting in Lisbon (Portugal) to set the strategic goal of making the European Union (EU) ‘the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion’ by 2010. The Lisbon Strategy has in actual fact had two lives during this ten-year period. The first, from 2000 to 2005, enjoyed relatively broad – albeit critical – support from Europe’s social groups and trade unions. Built on three pillars – economic, social and environmental –, Lisbon seemed capable of rallying the stakeholders and achieving a consensus.

The second life, in the wake of the 2004 Kok Report, ran from 2005 to 2010. It broke with the equilibrium of the early days, in that the economic objective of competitiveness became the sole priority. Everything else was expected to flow ‘naturally’ from economic growth: the Kok Report maintained that ‘improved economic growth and increased employment provide the means to sustain social cohesion and environmental sustainability’¹. On 2 February 2005, the European Commission put forward proposals for a relaunch of the Lisbon Strategy based on the recommendations of the Kok report: ‘We need a dynamic economy to fuel our wider social and environmental ambitions’².

Ten years on, instead of being the most dynamic and competitive knowledge-based economy in the world, the EU and its Member States are struggling to get over the worst financial, economic, social and

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1. ‘Facing the challenge: The Lisbon strategy for growth and employment’, Report from the High Level Group chaired by Wim Kok, November 2004.
 2. Communication to the Spring European Council ‘Working together for growth and jobs – A new start for the Lisbon Strategy – Communication from President Barroso in agreement with Vice-President Verheugen’, COM (2005) 24 final of 2 February 2005.

budgetary crisis they have ever experienced. The Lisbon ‘dream’ – whose practical achievements were already looking rather meagre prior to 2009 (see chapter by Ramón Peña-Casas in this volume) – was shattered by the crisis unleashed by a financial sector which cared little about the need (spelled out by the Heads of State and Government in 2000) to ensure sustainability, or about improving employment, or indeed about social cohesion.

Although the Lisbon Strategy is not responsible for the financial crisis, it has spared no efforts, in the name of growth at all costs, in adhering to the same logic as that which triggered and so vastly inflated the crisis, namely a logic of deregulation (the ‘better – i.e. less – regulation’ mantra)³ and flexibility. Indeed, one lever of the Strategy was integration of financial markets, in which some members of the Commission had blind faith: ‘Financial integration will lead to social benefits: better pensions, higher returns for individual investors, more venture capital available for innovation. These are vital to making the economic gains we want from the Lisbon agenda sustainable’, declared former European Commissioner Frits Bolkestein in 2002⁴. The financial strand of the Lisbon Strategy – via the Financial Services Action Plan, and in particular its aim of improving the rules on prudential supervision – utterly failed to avert systemic risk. Moreover, the Commission points out in a staff working document that ‘with the benefit of hindsight, it is clear that the strategy should have been organised better to focus more on critical elements which played a key role in the origin of the crisis, such as robust supervision and systemic risk in financial markets, speculative bubbles (e.g. in housing markets), and credit-driven consumerism (...)’⁵. The desire to create a single market in financial services met with the refusal to introduce a European regulatory and supervisory system: such a system could, or should, have monitored the major banks’ exposure to risk. The result is

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3. See on this point Éric Van den Abeele, ‘L’agenda Mieux légiférer de l’Union européenne’, CRISP, *Courrier hebdomadaire* N. 2028-2029/2009. According to the author, ‘even though it cannot be held responsible, the Better Regulation agenda failed to anticipate the eruption of the economic and financial crisis. This is due, in part, to a lack of regulation of financial services’ (p. 76).
 4. Frits Bolkestein, Member of the European Commission in charge of the Internal Market and Taxation, ‘European economic and financial integration: State of play before Barcelona’, Address to the International Centre for Monetary and Banking Studies, Geneva, 7 March 2002.
 5. Commission Staff Working Document, ‘Lisbon Strategy evaluation document’, SEC (2010) 114 final, 2 February 2010 (pages 4-5).

that, rather than being a year of competitiveness, full employment and 'better pensions', 2010 is one of recession, bankruptcies, burgeoning unemployment, public deficits and debt, while a dark shadow looms over the future funding of old-age pensions.

The lessons to be learned from the ten-year lifespan of the Lisbon Strategy therefore seem clear: firstly, the ideology according to which economic growth should be boosted at any cost through deregulation and flexibility, in order to fuel social and environmental ambitions, is pure eyewash. Secondly, those countries with the best labour relations and social protection systems were the ones best able to withstand the crisis⁶. The contribution by Sherle R. Schwenninger to this edition of *Social Developments in the EU* is enlightening in this respect. Social regulation, social protection and public services, widely regarded as outmoded or even as obstacles to wealth creation, were what saved Europe from depression and social unrest in 2009. Does the European Union's new political agenda learn these lessons (see chapter by Pierre Jonckheer)? Has the crisis helped to 'overhaul' capitalism? Has it set the economy on a sustainable course?

An overhaul of capitalism?

The reason why it is so important to bear in mind the European context surrounding this crisis is that we cannot afford to waste it⁷. And yet... Just as the first half of 2009 aroused hopes of seeing the rules of this casino capitalism game rewritten, so the second half plunged us back into business as usual. This relapse had several causes, ranging from the formidable pressure and blackmail tactics used by the major players in the banking and finance industry – with every proposal for regulation of the sector leading to (threats of) business being transferred to New York⁸, Geneva or Singapore – to the immense difficulty that the Member

6. See in particular Glassner V. and Keune M. (2010), 'Collective bargaining responses to the economic crisis in Europe', *Policy Brief*, Issue No.1, ETUI, Brussels.

7. To paraphrase Rahm Emanuel, White House Chief of Staff: 'You never want a serious crisis to go to waste' (February 2009).

8. At least until US President Barack Obama himself threatened in January 2010 to impose new levies on the banks, on account of the plans announced by the biggest among them to distribute 'obscene bonuses'.

States' governments seemingly had in agreeing common rules on taxation, in particular, but also on the supervision and tightening of prudential rules.

Despite all of this pressure and these deep political divisions, the EU did adopt certain measures in 2009. They consist of a new financial supervision mechanism (based on the de Larosière Report), amendments to the Capital Adequacy Directive and the Deposit Guarantee Schemes Directive, and (non-binding) recommendations on remuneration policies in the financial services sector so as to prevent excessive risk-taking. Some Member States were preparing to take selective national measures – apparently very easy to circumvent – imposing a 'supertax' on bonuses (the UK, France) or capping them (Germany). The European Council of December 2009 made a somewhat unprecedented appeal to the IMF asking it to investigate the possibility of introducing a global tax on financial transactions. Is this the overhaul of capitalism that French President Nicolas Sarkozy called for in late 2008?

In actual fact, as Financial Times columnist Martin Wolf puts it, 'policymakers have made a Faustian bargain' with the financial sector⁹. He states: 'Policymakers hardly want to declare that, thanks to their efforts, the surviving bankers will be buying palaces, while humbler folk worry about their jobs and homes, and face decades of fiscal austerity. Watching financiers – beneficiaries of the most generous public rescue in history – returning to their old ways is the cause not so much of envy as sullen resentment. Why, many wonder, should the rigours of the market apply most brutally to those innocent of causing the catastrophe?'

Yet countless economists spent the entire year discussing possible safeguards: creating separate retail banks and investment banks, radically tightening up capital requirements, reducing traders' scale of operations, averting systemic risk by drawing up plans to dismantle banks considered 'too big to fail', making it plain to these large banks that financial risk-taking will result in bankruptcy and not in government bail-outs, taxing speculation, introducing a *malus* system, taxing profits, and so the list goes on. But immense pressure has been exerted against the adoption of such measures. The economist Charles

9. Financial Times, 20 October 2009.

Wyplosz fired off the following lines in late 2009: ‘Not surprisingly, then, the banks began lobbying hard: they busied themselves everywhere, in New York, London, Paris and Berlin. They used their technical know-how to intimidate governments, beginning with the regulatory and supervisory authorities that did not see anything coming in 2006-2007. They subjected governments and members of parliament to a heavyweight charm offensive, skilfully handling the carrot of deficit financing (and even substantial loans) and the stick of a credit freeze. They are poised to succeed’¹⁰. The fact that financial institutions can hold elected governments and parliaments to ransom in this way surely represents a huge threat to democracy

All hopes of seeing capitalism become a moral, well-regulated, disciplined and civilised force appeared at the end of 2009 to have vanished, therefore, and a new risk arose: namely the onset of further crises, both more numerous and more serious. What was emerging from the crisis was not a more responsible financial sector, but one which was more concentrated and benefited from explicit public guarantees. As Martin Wolf says euphemistically, ‘this is not progress’¹¹. In his contribution to this edition of *Social Developments in the EU*, Pierre Defraigne describes in detail the principles which ought to underpin proper prudential and fiscal regulation in Europe. But if this is to happen, policy-makers must now ‘think the unthinkable’; the stakes are high indeed.

Plans for a ‘green’ recovery?

Politicians and economists were asserting throughout 2009 that the financial and economic crisis would boost ‘green growth’, clean technologies and renewable energy for a low-carbon economy. For instance, in July 2009 the Swedish Minister of Enterprise and Energy, Maud Olofsson, described the crisis as ‘a golden opportunity to redirect our economy towards eco-efficiency’.

10. *Le Monde*, 6 November 2009.

11. *Financial Times*, 29 September 2009.

Has this happened? A cynical response might be yes: in 2009 global CO₂ emissions were expected to fall by 2.8%, worldwide electricity and gas consumption looked likely to decline for the first time since the Second World War (down by 3.5% and 3% respectively), air traffic shrank by 8.3% between May 2008 and May 2009, new car sales in Europe dropped by 12.3% in April 2009 which was thus the twelfth successive month of the downward trend, and so the list goes on. But these figures are indicative not so much of a low-carbon economy as of a recession that caused intolerable job losses.

Once Europe went into recession, all the major EU economies adopted recovery plans. These plans, put in place between November 2008 and January 2009, were estimated by HSBC in late February to be worth a global sum of \$325.5 billion (compared with almost \$1,000 billion in North America, and more than \$1,150 billion in the Asia-Pacific region)¹². The recovery plans provided for several types of measures on both the revenue and expenditure sides: reductions in corporate taxation (temporarily lowering rates or deferring the collection of taxes) and cuts in social security contributions; adjustments in VAT rates in certain sectors or for certain types of product, etc. This kind of temporary support for employers was aimed at limiting bankruptcies and redundancies – even though the effectiveness of such measures may be doubtful in some cases¹³.

On the expenditure side, the principal decision taken by most governments was to boost public investment (on energy efficiency, research and development, railway infrastructure, etc.). This increase in infrastructure investment has been coupled with support for certain types of businesses (especially SMEs), specific sectoral measures and direct aid to households, particularly the most vulnerable ones (additional social benefits, etc.).

Each of the national plans had its own characteristics, responding to that country's specific circumstances and reflecting the room for

12. A Climate for Recovery. The Colour of Stimulus Goes Green, HSBC Global Research, 25 February 2009.

13. See Watt A. (2009), 'A quantum of solace? An assessment of the fiscal stimulus packages by EU Member States in response to the economic crisis', *Working Paper* No.2009.05, ETUI, Brussels.

manoeuvre available to its public authorities. In an effort to bring these national plans together and lend a European dimension to some of their initiatives, the EU likewise adopted a 'European' economic recovery plan. This plan was put forward by the Commission on 26 November 2008. It provides for a range of national and European measures costing a total of €200 billion (1.5% of EU GDP), although of that amount only 30 billion (0.3% of GDP) can be regarded as a direct contribution from the EU budget and the European Investment Bank (EIB). Officially, the aim was to preserve jobs during the recession and prepare for the transition to a 'low-carbon' economy.

As far as employment is concerned, the recovery measures were mainly targeted at the automotive industry and the construction sector. These have been the hardest-hit sectors and are the most important ones in terms of the structure of the economy, as well as being major providers of both direct and indirect jobs. The main goals were to keep the number of job losses to a minimum, encourage employers to retain their workers, and help redundant workers to rejoin the labour market as rapidly as possible. To this end, the Commission also redirected European Social Fund expenditure towards a number of anti-crisis measures, while the rules of the European Globalisation Adjustment Fund were altered so as to improve and accelerate its procedures. These measures, over and above all of those taken by national governments (temporary lay-offs, reduced working time and other arrangements geared to cushioning the blow), enabled the Commission in late November 2009 to speak of 'European labour markets deeply hit by crisis, but more resilient than expected'. And, as pointed out above, the countries with the best social regulations are the ones that have held up best.

Be that as it may, approximately five million jobs were lost in the space of one year. And the profound unfairness of the price paid by workers cannot be repeated often enough. The state of affairs before the crisis, when there was already criticism of growing inequality and the decline in wages as a share of added value (see in particular 'Social Developments in the EU' 2008), is now being exacerbated by millions of workers losing their jobs; these are the very same people who one way or another, as taxpayers, will have to help refill the government coffers emptied by the crisis.

In terms of combating climate change, the recovery plans appear to have had very mixed results. Officially, whether it be at European or national level, these plans were linked to the fight against climate change according to the following logic: speeding up investment in energy efficiency and green technologies, creating long-term green jobs, and promoting economic growth that is more sustainable from an energy and environmental perspective.

From a methodological point of view, however, it has proved very difficult to establish a strict definition of what constitutes 'green' investment. For instance, do the car scrappage schemes introduced in France, Germany, the UK, Austria, Italy and Luxembourg really represent a green investment? One might of course consider that these schemes lead to the oldest (and most polluting) part of the vehicle fleet being replaced by cleaner cars. But surely we must bear in mind at the same time that future strategy should not be about creating 'green traffic jams' but about shifting to other modes of transport and, above all, reducing transport needs. France saw higher vehicle sales in 2009 than in any other year since 1990 owing to the scrappage discount: such measures can be counterproductive in both environmental and an economic terms.

The analysis made by governments of the 'green' part of their recovery plans should therefore be viewed with considerable circumspection¹⁴, even though there is a fairly broad consensus around certain criteria: measures to boost energy efficiency, infrastructure improvements (e.g. public transport, railways, etc.), support for clean technologies and renewable energy. From this perspective, the most positive aspects of the European recovery plans have been the energy efficiency measures, which quite rightly focus on energy and climate change. Yet other environmental issues have been overlooked, such as waste treatment, water management, 'green cohesion', eco-industry, etc.¹⁵. We are thus a long way from a real European Green New Deal laying the foundations of a low-carbon economy. Europe's public authorities do nonetheless

14. See in particular Andrew Watt (2009), 'A quantum of solace? An assessment of the fiscal stimulus packages by EU member states in response to the economic crisis', *Working Paper* No.2009.05, ETUI, Brussels.

15. See in particular Mariya Nikolova (2009), 'Climate friendly policies in times of crisis, An overview of the 'green' character of national recovery plans in Europe', ETUI, Brussels.

have some significant, under-exploited levers at their disposal. Let us take the example of public procurement, which accounts for 16% of EU GDP. Making all tendering procedures environmentally and socially friendly would help develop the potential of eco-industries and high-quality green jobs.

This mixed assessment on two counts – jobs and sustainable development – confirms that we now need to think through, construct and implement the concept of a ‘fair transition’. In the view of the European trade union movement, this concept ‘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 (...)’¹⁶.

In conclusion

In 2009, so we were told, the economic crisis and the national and European recovery plans would provide an opportunity to overhaul capitalism and lay the foundations for a sustainable economy. Has that happened? Even though we lack the benefit of hindsight, our answer to this question at the start of 2010 would have to be highly ambivalent, if not downright negative (on the clean-up of the finance industry).

In the short term, the consequence of prioritising economic revival in 2009 was substantial state intervention in support of the economy and employment (automotive sector, construction, industry, energy), but sometimes in the heat of the moment it has been tempting to return to the previous state of play: there has been an inadequate reappraisal – or none at all – of our modes of transport, mobility needs, wastage of resources and energy, while the external costs of a whole range of

16. ETUC, Resolution of the Executive Committee of the European Trade Union Confederation (ETUC) on ‘The climate change, the new industrial policies and the ways out of the crisis’, 21 October 2009.

industrial, service and other activities have not been taken into account. Vested interests continue to stand in the way of adjusting to the new requirements of 'development' in a world whose ecosystem is under threat. For this reason, what we seem to be witnessing is not so much a fully-fledged transition as a slow, unambitious adjustment.

Be that as it may, some new debates and promising ideas came to the fore in 2009. These include the 'Stiglitz Report', which advocates a new gauge of wealth other than GDP; the Commission's Communication on 'GDP and beyond: Measuring progress in a changing world', which proposes supplementing GDP with other indicators; and the 'Prosperity without growth' Report published by an official UK government agency, which reflects on a decoupling of well-being from economic growth (and asserts that the latter must be ended). In addition, the chairman of the UK Financial Services Authority (FSA) spoke out in late August 2009 about the introduction of a 'Tobin' tax to cut the banking sector down to size and discourage speculation on the exchange markets; meanwhile on 26 June 2009 the World Trade Organisation (WTO) and the United Nations Environment Programme (UNEP) published a joint report on the links between trade and climate change (including in particular the idea of a carbon tax).

This random list of examples demonstrates that the political debate has moved on. It would seem that some of the injunctions of standard economic thinking are now being called into question: namely GDP as the ultimate policy objective, unfettered international free trade, financial self-regulation as a guarantee of efficiency, stability and equity, and so on and so forth. This broadening of the debate goes hand-in-hand with other issues, in the view of Europe's trade unions: an increase in wages as a share of added value, shareholder restraint, improved quality of work, a fair transition, etc. Such elements could contribute to a paradigm shift. And to those factors we should add a review of manufacturing and distribution methods, a change in consumer behaviour, a scaling-back of mobility needs, a wholesale change in modes of transport, etc. After all, as the economist Daniel Cohen points out: 'We must imagine a world that has not found the means of fleeing headlong, as a planet, into perpetual growth'¹⁷. But

17. Interview in *Le Monde*, 8 December 2009.

that calls for a vast amount of intellectual, political and strategic effort to examine models, alliances and power relations.

This eleventh edition of *Social Developments in the European Union* has been devised in two major sections. The first explores the role and place of the EU on the international scene in the midst of these new economic, social and environmental debates. To do so, and given the election of Barack Obama as President of the United States, we asked Sherle R. Schwenninger of the New American Foundation to investigate relations between the United States and the European Union, particularly the way in which these two major regions of the world are facing up to the economic and social crisis. We asked Pierre Defraigne to examine multilateral financial governance and the role that the EU could or should play in it. Lastly, we asked Rudy Delarue to describe the way in which the International Labour Organization views its responsibilities amidst the global employment crisis.

The second part of this edition is devoted more specifically to the European Union's internal affairs. Pierre Jonckheer introduces this section with an analysis of the main social and environmental policy issues which, in 2009-2014, will confront the new European Commission, the new Parliament resulting from the June 2009 elections and also, more generally, the European institutions as redesigned by the Treaty of Lisbon following its entry into force on 1 December 2009. The remaining contributions are devoted specifically to European social dialogue (Stefan Clauwaert); the OMC on employment and social inclusion (Ramón Peña-Casas); pensions funding and the future of the multi-pillar model (David Natali); healthcare, and in particular the social implications of the 'pharmaceutical package' (Rita Baeten); and finally the case law of the European Court of Justice (Dalila Ghailani). Readers will of course note that 'the crisis' serves as a backdrop to almost all of these chapters, thus demonstrating – as if it were necessary to do so – the gravity of the havoc wreaked by the finance industry on all aspects of social affairs.

January 2010