

EPSU Discussion Document

The Financial and Economic Crisis *Consequences for the public sector and economy at large, an EPSU response*

Introduction

The current crisis of the real economy affects working men and women and their communities. Poverty increases and millions worldwide have lost their jobs.ⁱ The crisis proves that capitalism is unstable. Liberalisation and deregulation of formerly regulated public services contribute to this instability, which creates havoc and misery for ordinary workers and citizens. Public services under public ownership and control provided stability to the economy. This pillar has been seriously weakened in the last 30 years by commercialising and privatising these services.

Public services play a key role in protecting people from the worst effects of an economic downturn. Key answers to the crisis are therefore investment in public services and public infrastructure which will benefit all, stabilise the economy, maintain demand and employment; and contribute to future environmentally sustainable economic growth.ⁱⁱ Public authorities and the public employment agencies should promote active labour market policies.

EPSU wants real change leading to economic, social and environmental progress. We do not need actions that merely serve to protect past practices and failed institutions. A substantial social and environmental agenda should be part of the measures that address the financial and economic crisis so that finance, economic, social and environmental policy reinforce each other.

The challenge is to prevent a financial crisis of this magnitude happening again. The irresponsible ideologically driven neo-liberal model has thrown many of the world's economies into the worst recession since World War II. Re-regulating financial markets is now important with a return from short-term risk taking to long-term investment. Markets (including financial ones) must be managed by governments and social institutions. The involvement of the social partners is crucial. Governments are needed to ensure leadership to combat poverty, to ensure health, to address climate change and to invest in public infrastructure.

EPSU advocates action around the following three areas:

- Regulation of the financial markets including the banning of risky financial products, focusing on financial stability, building public saving banks, nationalising banks in difficulties and exploring new European financial institutions such as a European savings bank for public bodies to deposit their funds or a European Sovereign Fund which can issue Euro-bonds and more powers for the European Central Bank (ECB) to ensure oversight of the multinational banks. There should be coordination at global level to assist in economic recovery focusing on fairer and "greener" economic and social growth
- A massive fiscal expansion plan focusing on investment in public infrastructure and public services, and a new Economic Policy
- Restoring a balance of power between workers, families and the communities they live in with the interests of corporations and their lobbyists in all spheres of economic activity through a new social agenda including legislative proposals. The European Union should ensure that trade unions participate in all EU activity on an equal footing with business and allow for greater access to such activities for environmental and anti-poverty campaigning groups in particular.

A. Regulating the financial markets

Many hundreds of billions of Euros have been invested in Europe's banks. The financial rescue of banks has been carried out with limited consideration for the long-term consequences, crowding out effects for investment in public infrastructure and public services. Around 6% of EU GDP is used to re-capitalise the banks, this is more than what is allocated to boost economic growth. The guarantees for the financial sector are estimated to represent 19% of the EU GDP, and this is not yet the end. This increases the public debts of states and there is limited transparency as to how governments and the ECB will recuperate these funds from the financial institutions. EPSU wants clear plans on how these funds will be recovered.

A.1 Nationalisation of the banks

It has also become evident that banks are not spending the money that has been invested in them. The banks still do not trust each other and park the funds with the ECB. Governments, national central banks and the ECB should enforce more transparency and accountability about bad loans and risks the banks have entered into. Swift and more decisive action is needed to get the banking system going again.

- The nationalisation of banks in difficulty is our preferred solution so not only the losses but also the profits are socialised. Governments should use their influence to make sure that banks offer credits to business and citizens, passing on the lower interest rates to lenders.ⁱⁱⁱ

A.2 Fundamental change: increase transparency and democratic governance

EPSU demands that governments use the public money invested in the financial system to seek fundamental changes to the financial system, increasing control, transparency and democratic governance with a focus on long-term investment especially in public infrastructure, public services and an environmentally and socially sustainable economy. State shareholdings as well as putting government members on the board of the financial companies are one way of realising this. EPSU supports the recent calls by the European Parliament and ECB for giving a wider policing role towards the transnational banks operating in different countries in the Euro-Zone to the ECB. This control can be exercised with national central banks^{iv} Risky financial instruments and financial products that mix bad and good loans (to obtain higher credit ratings) should be banned.

The government owned banks should use their influence in European and international banking associations to argue for control and regulation or otherwise withdraw from them. An end should be put to the lobby activities of banks and insurance companies that have been taken over by government or in which government participates. The banking lobby has been instrumental in opposing tighter control and regulation of their risky financial products.

A.3 Oversight and regulation, closing tax-havens and introducing financial transfer tax

No financial institution, no market segment and no jurisdiction must escape regulation and oversight. This applies to hedge and private equity funds as well as to so-called tax-havens. Hedge and private equity funds are to be subject to transparency, disclosure and accountability rules, just like any company. New capital requirement rules for financial actors and restrictions on excessive borrowing are needed. All risks must be on the balance sheets of the companies and high risk exposure should lead to higher capital requirements (own capital); ETUC proposed a much tighter control of financial institutions' ability to leverage their operations, by strengthening the ratios of solid assets to liabilities^v Banks that lend money to a hedge fund that speculates on commodity and oil prices are to deposit 50% or more of the credit as a non-interest bearing deposit with the central bank; the ratio of solid assets to liabilities is to be improved by hedge and private equity funds and other financial institutions. The EU should encourage governments to place limits on hedge fund and private equity 'gearing' whereby they extract profits by loading massive debt on the companies which they purchase

Tax-havens undermine public services and social security policies in particular as they allow corporations and the wealthy to escape taxation.^{vi} A fair and progressive tax system will help in tackling poverty and ensure a more equitable society. The tax system needs to be resourced and administered properly with sufficient and qualified staff to prevent fraud and tax evasion. The EU should take measures so corporations operating in Europe are forbidden to use tax-havens and tax-evasion schemes. A first and immediate step is for banks with government involvement to close their accounts in these tax-havens. The EU should start a process whereby national governments shut their tax havens. The European Council has stated that the international system is to be protected from uncooperative (financial) centres and we expect measures to be proposed. Common standards between financial centres will contribute to transparency and accountability with prudent rules to prevent speculative bubbles.

Addressing Tax havens and tax evasion

Avoiding to pay taxes by companies and wealth individual through tax havens and tax evasion schemes cost governments billions of Euros. This money is then not available to fund public services, social security or measures to address the economic crisis. Public deficits are larger then they need to be with low and middle income earners being asked to pick up the bill.

Simple steps are possible:

- The European Commission and Council of Ministers have promoted Corporate Social Responsibility. It should be made clear that socially responsible companies pay their fair share of taxes also in developing countries. The G20 also referred to the importance of respecting CSR.
- It should become illegal to assist companies in evading taxes often through inventive financial engineering schemes. The Commission can make proposals to this end.
- The EU can make addressing tax evasion a key priority as part of its policies to reach the Millennium Development Goals. This requires working with the UN, IMF and other institutions. Such discussions also need to be part of setting up new international global finance governance. Assisting developing countries with training and other forms of assistance to establish tax administrations that can collect and administer taxes will help fund public services and measures to address poverty.

The time is ripe to introduce a tax on speculative capital movements^{vii}, this requires the joint political will of the world's major governments.

Hedge Funds: Direct and Indirect Regulation – ETUC proposals

The ETUC reacted to the European Commission consultation on Hedge Funds with the following proposals:

Direct Regulation:

- Register hedge funds with the competent national authorities
- Hedge funds to be subject to capital requirements and prudential oversight.
- Stress test should be applied: regulators should make an inventory of hedge funds' financial positions at regular intervals. This will allow an overall view and assessment of total risks involved
- Independent rating agencies are to provide information to the public on the situation and risk management strategy of a fund (and could ultimately lead to diversification of capital requirements)
- Limits to the access of hedge funds to European retail market to protect

small investors and capital owners. Hedge funds based outside of Europe and especially when based in tax havens should have no access to European retail markets at all.

- Re-hypothecation (a strategy to pump up credit and leverage) should be regulated
- Short selling if the hedge fund does not own the shares should be prohibited.

Indirect regulation

As the number of credit institutions that lend to hedge fund is small (15-20) tighter rules on these when lending would be indirect but important.

- Capital requirements for banks that lend to hedge funds should be strengthened (as part of Basle II) Hedge funds specialized in speculation on commodities and oil, or when based in tax havens should have even higher capital requirements reflecting policy preferences.
- Similar higher capital requirements can be imagined when banks lend to hedge funds that
 - Have high illiquid positions
 - Do not provide information on total portfolio investments
 - Do not apply lock up provisions for their investors
 - Do not have additional credit lines in times of crisis at their disposal.

A.4 A European rating agency

Rating agencies need improved accountability with transparency regarding registration, surveillance and the rules of governance. Such rating agencies should also include corporate social responsibility criteria, and trade unions should be involved in the surveillance and oversight. The European Commission should consider establishing a European credit rating agency. The unhealthy circle which rating agencies collect their fees from the very corporations that they rate is to be broken.

A.5 Addressing risk taking and excessive pay and bonuses

We expect the Council of Ministers to propose policies against excessive risk taking by financial institutions, and not just words. Such policies should also have a bearing on the pay policy of these financial institutions. A revision of the bonuses system of financial institutions is needed to ensure bonuses are focused on the long-term growth, investment, environmental sustainability and employment of companies. EPSU expects proposals from the Commission and EcoFin Council allowing for a coordinated approach, for a cap to pay and compensation for CEOs and other top level officers of companies and an end to “golden” handshakes.

A.6 Recreate public saving banks

EPSU advocates a return of public (savings) banks that do not engage in risky and speculative activities and that companies and citizens can trust. In many countries, the privatisation of these public banks has removed a stabilising pillar for the financial system and this needs to be re-created. The financial crisis has also underlined that several public bodies and companies (at municipal, regional, national level) have been exposed to risks, first by placing funds in risky institutions (such as a number of Icelandic banks) promising unrealistic returns; second by engaging in financial engineering schemes such as cross-border leasing contracts with US investors that now pose large risks to municipalities and public companies. This exemplifies that the differences between countries' and global regions' taxation systems have been exploited. The European Commission, ECB and Member States should together consider the constraints public bodies should be under regarding financial operations, ensuring that prudence, transparency (and democratic accountability) as well as stability are key principles for public services. The European

Commission and Member States should consider the establishment of a European public savings bank where municipal and other public bodies can deposit their funds and which can provide access to global capital markets at affordable interest rates. ETUC has called for a European Sovereign Investment Fund with the possibility to issue European bonds that can be invested in strategic industries to bring Europe on a path to sustainable development.

A.7 Decisive action to change policies of the European Banks

EPSU supports that the European Bank for Reconstruction and Development (EBRD) increases its lending to New Member States and beyond. The EBRD should re-consider stopping its lending to several New Member States in 2010, in order to continue its activities for a longer period. EPSU welcomes that the lending of the European Investment Bank (EIB) will be increased, including to small and medium sized companies. The limits of the private sector become apparent in these cases, and the importance of public funding demonstrates the added value of a strong public role. We do note that both Banks were part of the financial system that has collapsed and that they also require change and more oversight. The European Court of Justice ruled that the European Parliament should be more involved in how the EIB carries out its policies and lending practices, reflecting the democratic principle *“that the people should participate in the exercise of power (...)”*. EIB lending, in particular through intermediary (commercial) banks, should be reconsidered as these banks have proved not to be accountable and transparent on how they use the funding and to what extent the projects they select, support European Union social and environmental objectives. Without this, it will not be possible to understand and evaluate how tax-payers money is used.

The additional lending by European Banks should go to public infrastructure (such as schools, transport, hospitals, water and sanitation, electricity and gas networks) and sustainable energies. EPSU does not support that this funding is used for Public-Private Partnerships (PPPs). PPPs are criticised for their lack of transparency and for being a way to channel money to the private sector through over-priced projects which will unnecessarily increase debt burdens. Both Banks should support the change to more environmentally friendly technologies and this support should be in line with the EU social and environmental objectives. We are aware that this will include tough choices and shifts between sectors of economic activity. The EIB should hence support programmes to allow for Just Employment Transition, for example in the energy and other CO₂ emission prone sectors.^{viii}

A.8 Reform of the international finance system

EPSU will work with PSI to influence reform the global financial system. Public service workers and their unions should have a voice in the development of the new financial system. Workers, business and governments need a stable financial system to protect employment, wages and savings. Public service workers look for stable and reliable public finance to ensure investments in and funding of public infrastructure and services as well as decent wages and public pensions. Public service workers' pension funds belong to the largest institutional investors. They affect the financial system. Public service and other workers' savings should not contribute to casino capitalism and instead be used for productive and environmentally sustainable investment.^{ix}

Trade union representatives on pension funds boards have trustee responsibility and hence a stake in legal rules and investor codes that prevent exposing workers' pension savings to global risk. With PSI, EPSU will explore facilitating the bringing together of trade union representatives and others involved in pension funds to consider the appropriate financial architecture that is needed to reform the global financial system and prevent pension funds being exposed to large risks and prevent risky investments.

B. The economy - coming out of recession

For EPSU, the causes of the economic crisis also are found in the dismantling of public services and deregulation of labour markets. Yet, there are still those that argue deregulation and privatisation has not gone far enough. We say that this crisis could have been prevented if the casino capitalism with its greed, financial irresponsibility and ever higher targets for maximum profits had been addressed. Conservative politicians, corporations and their lobbies chose not to do so. A return to a financial and economic system based on a **long-term perspective**, fair rates of return, allowing costs to be recovered and funding for investment rather than contributing to ever higher dividends is needed. We want a massive fiscal expansion plan focusing on investment in public infrastructure and public services, green jobs, innovation and people, coordinated at the European level.

EPSU will oppose attempts to use the economic crisis to pressurise workers and their unions into more flexibility, more competition, wage freezes, weakening of rights and other concessions on pensions, minimum wages and social protection. We want the same swift, rapid and massive assistance that has been given to banks for workers, for pensioners and other households threatened with poverty as well as for small and medium sized companies seeking investment capital.

EPSU EWC representatives comment:

EPSU trade union representatives in European Works Councils (EWCs) note the following consequences:

- Companies find it more difficult to get money to invest, as banks are very restrictive; or demand high rates and risk premiums^x
- Companies are terrified of having to refinance their debts at this moment. This is especially an issue for companies with high debts.
- Companies postpone or reduce investments to weather the storm. They use the opportunity to sharpen cost saving measures. New recruitment is reduced and jobs are cut.
- Companies have committed to certain investments in deals they concluded and following a strict time table. They have to honour these financial obligations first and otherwise face penalties. This results in reduced investments otherwise foreseen as it is less easy to obtain loans.
- Companies that have deals that allow partners to exert an option to leave a company by selling their shares at an agreed (with the idea that they could easily draw on a credit line) find this now more difficult or very costly.
- But most companies still keep their high profit targets and still seek to pay out promised dividends
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The problem of re-financing corporate debt, noticed in the autumn by EWC representatives is now coming to the fore.^{xi} Corporate debt stands at 11 trillion Euros in the Euro zone.

B.1 A larger European Recovery Plan needed

The European Commission proposed a European Economic Recovery Plan in November 2008. This was approved by the Council on 11-12 December 2008. It was a first and welcome step in economic policy coordination to address the economic crisis in the EU. As European economic recovery can neither rely on banks nor on households that are seeking to reduce debts, government initiative is the way forward.

EPSU is in favour of expansionary fiscal policy and massive public investment in new industries, knowledge centres, modernising public infrastructure, social housing, inner city renovation, education and sustainable development, clean technologies, rational and efficient use of fuels^{xii},

renewables and public services like health and education as well as increased social spending to counter the recession. Municipalities and regions (and especially those in already weak areas) should be strengthened to play their roles as investors in local infrastructure and social services and be provided with appropriate funding.

EPSU stands behind calls to use the investment to obtain a double dividend or green deal. This needs to be a massive effort and requires the combined power of the Member States acting together. The foreseen 1,5 % of GDP will provide substantial resources for this, but it becomes clear this is not enough given the magnitude of the economic downturn. The ETUC has called for a 2% target of GDP to be invested in people, innovation and the environment^{xiii}; and this also will not be enough. Major economies such as of the US and China are spending far larger amounts to get their economies going again.

B.2 Stop privatisation of public services and scrutinise public-private partnership deals

EPSU calls for a stop to the privatisation of public services. Europe's financial and economic house is in large disorder and the last thing European citizens, public service workers and the economy need are selling of public assets to a private sector that provides no long term guarantees for public infrastructure and services. Existing public-private partnerships, public finance initiatives and other forms of cooperation between the public and the private sector to provide public services should be investigated to ensure the private sector can live up to its side of the contracts to deliver investments and quality services. Affiliated unions are encouraged to seek clarification from their public authorities on the impact of the financial crisis on these arrangements

B.3 Full involvement of the trade unions

Trade unions are ready to play a role in tackling the crisis when the unions are part and parcel of the efforts to find solutions to the crisis. ETUC has called for a European crisis committee with involvement of the trade unions. EPSU rejects one-sided policies such as the calls by the ECB and Euro zone Finance Ministers for wage moderation in the public sector.

B.4 Governments should stop singling out public services workers

Several governments have singled out public workers to pay a price for the crisis with proposals for wage freezes and even wage reduction, and cutting public service jobs. Such proposals are also part of the International Monetary Fund (IMF) conditions packages for lending money to Hungary and other European countries. These are pro-cyclical policies, and contribute to deflation and depression.

EPSU strongly disagrees with those who now argue that government and social spending should be curtailed to keep government deficits to a minimum; events have proven this is a dead end street. The world has entered a recession and such restrictive fiscal policies would push economies into further contraction and prolong the crisis.

B.5 Use the automatic stabilisers and social spending

EPSU demands that the automatic stabilisers (increased expenditure for unemployment, welfare programmes, and funds for local and regional government...) should be allowed to work and are extended –these can be strengthened and increased, especially where unemployment benefits are low and of short duration. This will also ensure that money arrives directly to those who will be hit hardest by the crisis. Indiscriminate tax-cuts are not the best way to achieve this, as this money will be most often saved. The Stand-By agreements to countries hit hard by the economic crisis curtail social spending, making matters worse for those already badly off. Such spending should now be exempt from any fiscal consolidation required.

B.6 Interest rate cuts and not tax cuts

Although interest rates have been lowered since the crisis broke out, this was not done swiftly. It is important that the ECB reacts quickly to ensure *interest rate cuts* have effect and stimulate investment, preventing that Europe enters a situation of further deflation. This should be combined with measures to prevent speculative lending by banks. Public investment in infrastructure will contribute towards stimulating demand, creating jobs and building the infrastructure needed for long-term development. Such investment will be more effective than tax cuts.

B.7 IMF and EU conditionalities create social unrest

Some governments facing important financial crises have had to ask the EU and the IMF for support. The IMF has reacted in its customary way demanding the usual conditionalities when lending money to countries in distress. These include government spending restraint, public sector cuts, minimum wage freezes and social deregulation. These policies need to be questioned in these times of economic crisis.^{xiv} They are pro-cyclical and throw a country deeper into recession. As argued before, government spending to stabilise and encourage demand is now crucial. The proposed cut in spending for Hungary for example is 2% of GDP, when the suggested stimulus in the EU recovery plan is of around 1.5% of GDP. These IMF/EU plans for financial assistance also target the most vulnerable. The Hungarian agreement targets pensioners and contractual workers in health care. The IMF loan to Ukraine includes freezing the minimum wage. EPSU supports the Ukrainian public service and other unions in their demands for transparency regarding the economic concessions which have been demanded. The draconian cuts in Irish public sector wages (to finance pensions) are imposed on public service workers and their unions, violating the EU model of social dialogue and free collective bargaining. They will also have a negative effect on the economic crisis by reducing demand in the economy. As many women work in public services and many women rely on public services, reducing pay and cutting in social spending will affect women and possibly impact negatively on gender equality.

The arrangements to finance loans to Latvia are particularly interesting as they involve not only the Banks but also the European Commission and 7 governments (Czech Republic, Denmark, Estonia, Finland, Norway, Poland and Sweden) who all support the conditionalities imposed, including the serious interference in the autonomy of the social partners.

Latvia

The *Memorandum of Understanding between the EC and Latvia* states that the EU financial assistance is provided in support of a Latvian program which includes addressing inflationary pressures by reductions in public sector wages costs as a centre piece of a much tighter fiscal stance.

The EU will make support dependent on “*progress in public sector nominal wage and employment cuts, including in local governments, state agencies and other public institutions.*” Also, the publicly owned companies must deliver reductions in compensation levels, similar to those in public administration. Additional public expenditure savings should be made by the state and local government budgets.

The conditionalities also seek improvements in the wage payment system for public administration employees through unified principles in setting and planning wages. Payment determination should be streamlined and under strict conditions. There should be a single human resource planning and management system for public administration institutions. And a single system of annual official and employee assessment based on competences is to be developed and implemented. A law on Public Private Partnerships should be adopted in line with EU and IMF recommendations.

Latvia is to review the economy-wide wage setting mechanisms to foster the

development of employee compensation in line with the constraints imposed by a fixed exchange rate. The European Commission shall be informed of the activities of the Tri-partite Committee to Promote Wage Restraint.

Loan contributors:

- the IMF
- the Nordic countries (Norway, Sweden, Finland, Denmark and Estonia)
- the World Bank
- the European Bank for Reconstruction and Development, the Czech Republic and Poland
- the EU itself; the European Commission will borrow the funds on the financial market on behalf of the European Community

The Latvian confederation (LBAS) disagrees with many of the measures. They are implemented in such a way as to have most impact on low-paid workers in public administration. The measures dealing with the minimum wage are unacceptable to the unions. Minimum wage per month before taxation is of 256 Euros (175 Euros after tax, with the recognized subsistence minimum being 240 Euros). About a fifth of the workers receive wages around this subsistence level. Collective agreements are massively broken. The unions have worked with the Latvian Association of Local and Regional Governments and the Employers Confederation to propose a series of actions to improve economic activities and ensure work places are kept.

This is the first time the EU and the IMF cooperate, which can be welcomed in principle to ensure that EU and IMF measures are not contradictory and are mutually supportive. But the IMF is taking the lead and the cooperation rules do not take account of other EU policy objectives, such as reducing poverty or promoting sustainable development. The European Union should not link its loans automatically with those of the IMF. EU conditionalities should be linked with the European Union social acquis and European Social Model including social dialogue and involvement of the trade unions in the economic measures to be taken. Such consultation procedures should be included in the way the EU and IMF reach agreement with governments in distress.

EPSU also notes that the IMF introduces a system of benchmarking between EU countries based on an assumption that less public is better, thus stimulating a downward spiral of government spending in public services.^{xv} EPSU rejects such arbitrary benchmarking which indirectly questions democratic decisions of the people concerned. The ETUC has argued to ban the IMF and its structural (mis)adjustment programs from Europe and link instead financial support of member states with European Social Model principles including the principle of distributive justice with robust workers' rights and fair tax systems in which the 'strongest shoulders carry the strongest burden'.^{xvi}

Budget measures for the IMF - Stand-by Arrangement for Iceland

Iceland has been hit hard by the financial crisis with several of its banks going under. As the Icelandic economy boom was largely because of the financial sector, this affected the Icelandic economy severely. Iceland is restructuring its financial sector and most of the IMF programme focuses on this, There are a number of other budgetary measures. Iceland needs to reduce its transfer payments and this includes:

- ✓ Reform of the indexation of benefits to elderly and people without an income
- ✓ Reduction of transfer to the student lending fund
- ✓ Maternity leave benefits will be limited (after means testing)
- ✓ Government contribution to a rehabilitation fund for the disabled will be eliminated
- ✓ Development assistance will be cut
- ✓ Payments to religious communities will be reduced

- ✓ Co-pay on contracts with private health care practitioners is increased
- ✓ Non-wage operational expenditures will be reduced (touching government agencies, police, health and education) and investment spending will be cut. Public wages are budgeted to increase by 3% from 1 March 2009.

The IMF has had contacts with trade unions in Iceland

Request for Stand-By Arrangement between IMF and Hungary, November 2008

The following paragraphs are part of the agreement and deal directly with public sector wages.

17. To achieve these fiscal objectives, the authorities put emphasis on expenditure measures, consistent with their commitment to reduce the country's large public sector

The program aims at a reduction of primary government expenditure by 2 percentage points of GDP, compared to 2008. All expenditures categories are affected,

except interest payments. Measures included in the LOI are:

- (i) a nominal wage freeze and the elimination of the 13th monthly salary for all public sector employees (1 percent of GDP);
- (ii) the elimination of the 13th monthly pension for all early retirees and a cap of the 13th monthly pension to HUF 80,000 for other pensioners (0.2 percent of GDP);
- (iii) postponement or elimination of indexation of selected social benefits (0.2 percent of GDP); and
- (iv) across-the-board cuts in other spending allocations to ministries (0.5 percent of GDP).

Within the capital expenditure envelope, priority will be given to investment projects co-financed by EU structural funds (0.1 percent of GDP). On the revenue side, the authorities have already announced that tax cuts previously envisaged for 2009 will be postponed until sufficient fiscal space has been created through expenditure restraint. Under the program, the authorities will also not make any changes in the tax code that could lead to a net revenue loss.

B.8 Use EU funds to assist countries in difficulty

EPSU welcomes the funds made available by the European Union to assist Member States facing financial problems which underpins the *solidarity mechanisms in the EU*. Use of the EU's structural funds to address the economic crisis is equally welcome. The social partners are to be involved in the development of the programmes and projects to use these funds. These instruments should be autonomous, promote the EU's environmental and social objectives including the development of the EU social model and social dialogue and not be linked to IMF conditionalities. And while these actions are national, the European Globalisation Fund should see its resources increased as suggested by the ETUC and be used to help all workers who might suffer job loss.

Developing countries are also hard hit by the economic recession. They can be directly affected due to increased costs of obtaining finance, partly caused by a crowding out effect when governments and corporations increase borrowing. It can be expected that developed economies concentrate government expenditure on their domestic economies. And finally, the flow of remittances (the money sent home by migrant workers) can diminish when these workers, often the most vulnerable, are fired from jobs or return home. This also affects countries in Europe like Moldova.^{xvii} EPSU demands that governments and the EU keep their budgets for development aid at a high level. It is disturbing to notice that governments act quickly to protect banks and financial

interests but, have difficulty finding sufficient funds to assist in achieving the Millenium Development Goals.

A new economic policy for Europe

EPSU **promotes** a New Economic Policy for Europe^{xviii} which includes:

1. A change in the role of the European Central Bank
2. A revised Stability and Growth Pact (SGP)
3. Strengthened European Economic governance

The ECB, SGP and the strengthed European Economic Governance are related to the Euro-zone. They will have broader implications as their measures affect other countries. An example is the SGPs 3% budget deficit norm. It is also used in non-Euro-zone countries and especially those that strive towards EU membership.

1. A change in the role of the European Central Bank

The ECB has been too narrowly focused on combating inflation and has wrongly advocated wage restraint in the public sector, which was intended to give an example to the private sector. Reducing wages at a time of a contracting economy will make matters worse. Demand needs to be restored and the ECB should contribute by ensuring reduced interest rates quickly. The ECB will thus assist the European Economic Recovery Plan. The ECB should pursue goals of economic growth, full employment and monetary stability. ECB policy can then be coordinated with fiscal and wage policy. There is a role for the ECB to monitor transnational banks. The ECB will also need to be underpinned by agreement that Member States will recapitalise the Bank if it becomes insolvent.

2. Revised Stability and Growth Pact

The European Stability and Growth Pact has been criticized by the European trade union movement for not recognising that public spending is appropriate as an instrument of economic policy, for employment, and social and economic development. Investment in people and the environment should be regarded as structural reform investment and not a deviation. The SGP does not sufficiently take the possibilities for anti-cyclical policies into account.^{xix} The European Economic Recovery Plan and the measures in many countries to increase public spending should not be regarded as violating the strict rules of the SGP.^{xx} Also, countries that would not have fiscal room to increase public spending according to the SGP should participate in the recovery plan; otherwise, the re-launch of the European economy is to be carried out by a limited number of Member States. The SGP therefore needs an overhaul and should integrate anti-cyclical policies and the positive character of public spending and borrowing for long-term investments that push an economy on a path to social, economic and environmentally sustainable growth.

The implication of fiscal stimulus measures is an increase in state debts. But debts will also increase when recession deepens further, tax revenue dwindles and government would be forced to borrow more for unemployment, social security etc. We therefore advocate short-term investment that will contribute to long-term growth. When the economic recovery kicks in, revenue surpluses should be used to reduce the deficit in the period of expansive economic growth. Closing tax havens and preventing tax evasion will contribute to finance public deficits. EPSU underlines that government borrowing should be possible, even in such periods, in order to finance long-term investments. Governments should also explore higher taxes for high income earners, large fortunes, and high corporate profits.

EPSU has noticed that there is already much discussion about ensuring that budget deficits remain within the target of 3% of GDP or ensuring that they are brought back to this level quickly. This could give rise to austerity measures that will undermine the stimulus packages governments are proposing and prolong the crisis.

3. Strengthened European Economic governance

This crisis and the reactions in different countries underline the importance of strengthening European Economic governance, implying reinforcing economic decision-making powers at the EU level especially in the Euro-zone. The EU would then have a stronger fiscal policy role next to the ECB which goes further than the current Euro-zone Council of Ministers of Finance. It would allow for better coordination and a more effective European economic policy. This type of policy coordination should aim for environmentally sustainable development and job creation. There would be clear responsibility for EU-wide projects like cross-border infrastructure. A next step would be to consider that the EU level has the power to raise taxes and thus a budget. This will also require a further strengthening of democracy in the EU, for example through a composition of the EU Commission that reflects the political majority in the European Parliament.

European economic governance should be accompanied by a stronger role for the trade unions. The **macro-economic policy dialogue** (that includes an ETUC delegation) should be strengthened and meet more regularly.

B.9 Use EU funds to assist countries in difficulty while recognising differences, there is much in common to strengthen union cooperation

While it is important to acknowledge that each country is different, membership in the EU and especially the Euro-zone imposes similarities and constraints. The economic crisis puts much stress on the Euro-zone to prevent countries defaulting on their debt. Already Greece, Portugal, Italy, Ireland and Spain find it more expensive to lend money.^{xxi} In non-Euro-zone countries the strength of the currency has come under pressure. There is a structural point that Germany was running excess savings (current account surpluses: the German export machine), while countries like Spain and Greece had current account deficits (counting on foreign capital). Solving such internal Euro-zone imbalances would require stronger Euro-zone level government, and an even stricter and more binding monitoring of Member States' budgets. While the single currency rules forbid the bail-out of a country, it seems likely that in the case that Euro-zone country defaults (and would remain in the Euro-zone), the other countries that pick up the tab would demand more structural reforms. A comparison would be the conditions that are attached to IMF loans and that go further in terms of policy prescriptions than the SGP rules.^{xxii} As Euro-zone governance would focus on public budgets, deficits and spending (all under the heading of striving towards sustainable public debt and quality public finance), cooperation is imperative for public service trade unions. EPSU is to demand a permanent presence in the ETUC delegation in the macro-economic dialogue underpinned possibly by an EPSU network of economists as proposed in the Congress resolution on Coordination of Collective Bargaining.

B.10 More action needed of G20 and international institutions

The crisis is global. It is important that governments cooperate and coordinate their actions. The G20 summit in London provided a platform for that (2 April 2009) The global union movement presented the government leaders with a detailed action plan and asked the G20 to implement the '5 point plan' as a clear roadmap to improved global governance and a guarantee that a crisis of this magnitude cannot happen again. The G20 put jobs and growth high on its agenda. It encouraged the continuation of work by the OECD and others to bring together international economic and social standards such as those of the

ILO in a so-called Charter. There is also agreement of involving the ILO in its work. This has been underlined by the G8 Social Summit in Rome.^{xxiii}

We expect the EU institutions (Council, European Commission and European Parliament) to play a leading role in realizing this roadmap.

Global trade union action plan to fight the Crisis

The International Trade Union Confederation has developed a 5 step action plan. The plan calls for

- a coordinated international recovery and sustainable growth plan;
- rules for the global financial system;
- fighting the risk of wage deflation and reversing income inequalities through extending the coverage of collective bargaining and strengthening wage setting institutions so as to establish a decent floor in labour markets;
- a far-reaching international agreement on climate change at the COP15 in Copenhagen in December 2009; and
- a reform of the global institutions to ensure accountable global economic governance.

http://www.ituc-csi.org/IMG/pdf/No_16_-_G20_London_Declaration_FINAL.pdf

C. On collective bargaining and social policy: a new balance of power

Wage policy constitutes another pillar of economic policy measures. Through neglect as well as intent (ECB proposals for wage moderation in the public sector, and abolishment of automatic indexation), the underlying assumption is that wages should be used as an instrument to adjust for economic shocks. The ECB has refused to promote wage increases even if these would be called for (such as in Germany in past years). If too much downward pressure is now put on wages (and this is clearly already happening in the case of public sector wages)^{xxiv}, demand will weaken thus prolonging the recession. Also, if countries seek to achieve wage moderation in a competitive battle with each other, countries push each other downward, reducing demand further and therewith lengthening the recession.^{xxv}

Such downward pressure comes at a moment when institutions for central or sector collective bargaining have been weakened as part of the same policies that sought to privatise public companies and deregulate public services (less coverage, more decentralised bargaining, challenges to solidarity strikes...). The rulings of the European Court of Justice in the Laval, Viking, Ruffert and Luxembourg cases challenge workers and their unions when defending equal wages at the place of work allowing workers' mobility to undercut wages. This has been a prime reason for the recent conflicts in the building and engineering sector in the UK (early February 2009)^{xxvi}. The UK unions, EPSU and the ETUC have demanded a Recast of the Posted Workers Directive as well as a Social Progress Protocol to be part of the Treaty.^{xxvii} Both would ensure that fundamental trade union rights such as the right to strike and the right to collective bargaining to defend equal pay at the place of work would be upheld and given priority over the freedom of movement of capital, services, goods and workers. A new balance of power is needed in favour of workers, their families and their communities.

C.1 Europe's labour markets are flexible – precarious workers affected by economic crisis

The crisis makes clear that Europe's labour markets are highly flexible with economic downturn resulting in significant and rapid job losses. This has significantly affected those with precarious contracts, such as agency workers and workers on fixed-term contracts. These workers do not benefit from full scale social security protection or a broad range of training options. ETUC calls for a one-off payment to these workers to assist them in seeking a new job. Temporary agencies also have a responsibility not to dismiss their employees. Temporary workers should have access to shorter working time arrangements and training opportunities. The European Commission and Member States should stimulate and support such initiatives and further increase programmes for training and improving the unemployed qualifications and skills. The trade unions should be fully involved.

C.2 Choices are possible: a substantial social agenda needed

The crisis does allow for new choices and strengthening the social agenda of the EU and Member States. Basically, Europe's workers and public service workers among them are asked to pay the price for the financial mess. Those that helped us into this mess such as the financial wizards, bankers, brokers and other financial types are going largely unscathed. If workers, their families and the communities in which they live are paying a price, EPSU wants to see a quid pro quo in improved social measures including legal initiatives by the European Commission^{xxviii}, strengthening of collective bargaining, pro-union measures, reducing inequalities starting with a decrease of the salaries (including bonus schemes, share options and other perks) of CEOs and other board members in companies with public shareholdings and receiving public support. EPSU will explore this in its sectors (energy, waste, water, health...) with the unions involved in the companies.

Short term measures are to encourage companies in hard-hit sectors to refrain from mass redundancies and to encourage reducing working time; with possibilities for increasing qualifications and skills using leave arrangements, sabbaticals etc. Working time reductions and reducing overtime are other ways to lessen the impact.

C.3 Wage increases are key

ETUC warns that unit wage costs are sharply falling, dragging inflation (which is already low) with it and leading to deflation for the Euro-zone. Wage increases are therefore necessary as a complementary measure to the economic stimulus package and lower interest rates. Wage increases will contribute to demand, prevent deflation, stabilise tax revenues and protect pensions. The ECB should refrain from its one-sided approach to wage formation criticising governments (and social partners) in countries with inflation and competitiveness problems. It has never pleaded for wage increases, encouraging governments and social partners to ensure that wage developments are in line with productivity increases. Wage developments should reflect inflation and productivity increases in the long-run. This will order to reduce income inequalities and bolster the demand side of the economy.

C.4 Resisting governments and employers that use crisis to attack trade union rights

EPSU affiliates inform that the economic crisis is used by business and governments to weaken and reduce trade unions rights. Governments impose unilateral measures on public service workers, and suspend collective bargaining and social dialogue. EPSU will support affiliated unions who confront employers and governments that show no respect for the voice of public services workers and their unions. We demand forceful action by the European Commission against governments and employers that violate collective bargaining, trade union rights and social dialogue.

The 8th European Regional Conference of the International Labour Organisation (ILO)^{xxix}, in which governments, employers and trade unions participated, underlined that coordinated stimulus

packages are designed to expand aggregate demand, avoid deflationary spirals and maintain employment and decent work opportunities. The most vulnerable members of society should be protected to prevent that they are disconnected from the labour market or become working poor. The ILO Conference stressed the urgent need for effective social dialogue and collective bargaining. Governments, employers and trade unions stressed that fundamental principles and rights at work should be safeguarded. They are *“an important defense against the risks that recession might lead to an increase in worker exploitation.”* The tri-partite body further argued that international labour standards should be promoted, skills development and training increased and institutions for social dialogue fully utilised.

C.5 Addressing wage arrears

Affiliated unions also inform EPSU that *wage arrears* are increasing in Central and Eastern European countries like Russia and Moldova and the EPSU Executive pledges support to the trade unions to recover such wages. Non-payment of wages to public service workers is inexcusable given the hard and often dangerous work they do to provide services and this has a pro-cyclical effect.

Fight racism and xenophobia says ILO – especially in times of crisis

The tripartite ILO European regional conference stated: *“That they (the governments, employers and trade unions) will remain “extremely vigilant of the risks of a resurgence of political reactions to rising unemployment and social exclusion in the form of race and religious hatred, discrimination against immigrants or ethnic minorities, victimization of union representatives and protectionist economic policies that would aggravate the crisis”*

C.6 And protecting low-income earners

EPSU insists that people should not be cut off from essential services if they can not afford to pay. Low income families should not be forced to choose between heating and eating. Governments should support the call of the European Parliament and many social action groups including EPSU and the European Anti-Poverty Network to address energy poverty through national action plans. People should not be evicted from their homes and governments should provide sufficient funds, including to municipalities, to assist low income families, drive local recovery and maintain basic services (such as water, heating and including police, fire-fighting, education and many care-services). EPSU wants energy bills to be addressed in a more structured manner to prevent that market-driven prices are set which are unrelated to the real costs of energy. More controlled and regulated prices will allow for stability, encourage investment and tackle energy poverty. EPSU further recommends that windfall taxes on energy profits be levied, particularly on oil companies. This will allow for the massive public investment in renewable and low-carbon technologies to create a double dividend. It will also free up funding for energy poverty programmes.

EPSU reiterates its demand that legal minimum wages be increased (where existing) to reach 60% of national median earnings in each country, which is the recognised low income threshold. The time line for achieving this should be part of Member States' National Action Plans to address poverty, low-income and the economic crisis.

EPSU actions

The EPSU Executive Committee asks affiliated unions:

- To use this document in policy discussions with their confederations and public authorities and thus to shape the future course of Europe together;

- To inform the EPSU secretariat of attacks on collective bargaining, trade union rights and social dialogue, where governments and employers seek to impose unilateral measures as a consequence of the crisis.

The EPSU Executive Committee decides:

- To monitor the economic crisis and its impact on public service workers. EPSU does not support that government measures unilaterally single out public service workers, many of whom are in the low or middle income bracket, while the rich, the bankers and others escape painful measures. The crisis underlines the importance of public services; EPSU will seek to prevent that the economic crisis is used to diminish the role of government and public services. Addressing tax havens and tax fraud, ensuring fair and progressive taxation are key elements for economic, social and environmental progress. Such measures contribute to the long-term sustainability of public finance. As the crisis is worldwide, EPSU will work closely with PSI, the global union federation for public service workers, to defend public service workers, promote quality public services and participate in reforming and shaping the global financial institutions. The role of the International Monetary Fund and the harsh conditions it imposes on public service workers, often without consultation and negotiations, need particular attention. This is now important as the G-20 will reinforce its role and finance. The EU and the European Banks (ECB, EIB, EBRD) should be capable of supporting economies in trouble, linking assistance to the requirement of a Social and Green deal and the EU Social model rather than to the austerity policies of the IMF.
- To report on collective bargaining developments comparing public and private sector pay developments, working time, and measures taken on training, skills and qualifications
- To regularly address the specific contribution EPSU can make to addressing the economic crisis and ensuring that the interests of public service workers are taken into account. Trade unions need to have a voice when considering economic measures at national and European levels. EPSU should seek a place in the ETUC delegation in the macro-economic policy dialogue with the ECB, European Commission and EU Presidency. If Congress Resolution R2: Collective Bargaining and Social Dialogue is adopted, the proposed network of EPSU affiliates' experts involved in economic policy can assist EPSU in influencing European Union economic and public finance policy.
- That the economic crisis, the reaction and involvement of the European institutions (such as the European Commission, the ECB, the Council of Ministers, Euro-zone Ministers and European Parliament) and Member States requires strong coordination. As EPSU should be in a position to play a role in defending the interests of public service workers, the EPSU Secretariat should prepare proposals on this for discussion and approval, which can be taken into account in the 2010 and longer term planning of priorities.
- To support the shift towards environmentally and socially sustainable development. The economic crisis allows for choices to be made regarding public investment. EPSU should contribute towards the development of proposals for this transition by exploring the contents of a Green Deal, green budgets, a more green and social Gross Domestic Product (GDP) and the development of Just Transition Employment Principles. Such proposals will necessarily include reflection on global redistribution of wealth and growth.

EPSU calls on affiliated unions to mobilise against employers and governments that use the crisis to cut employment, reduce wages and break collective agreements.

EPSU call on the affiliated unions to participate massively in the ETUC demonstrations on 14-15-16 May 2009

APPENDIX

From the request for stand-by arrangement between International Monetary fund and Hungary, November 4, 2008, p.7

Box 1: Hungary: Cooperation with the European Union

Article 119 of the Treaty Establishing the European Community requires that a non-euro area member country consult with the European Commission and the European Union's economic and financial committee (EFC) on its balance of payments needs before seeking assistance from other sources. Prior to the recent events in Hungary, no operating procedures had been developed for such interaction between the EU and the IMF. The process as developed in the case of Hungary could, however, become a reference on how to proceed should further cases of a similar nature arise—i.e., EU member states that are not participating in the ERM II mechanism. Key principles would include:

1. Early consultation and ongoing information exchange during program negotiations: Fund

and Commission staff consulted each other as soon as Hungary reported difficult financial market conditions and the potential need for balance of payments support. In view of the severity and urgency of Hungary's situation, the EU agreed that consultation with the EU and IMF could be in parallel, and ensured a highly accelerated implementation of normal consultation procedures (e.g. through conference calls). An EU mission overlapped with the IMF mission in Budapest for the first few days. During the remainder of the mission both teams cooperated, and coordinated efforts to proceed at the same pace. When discussions had well advanced but before final agreement had been reached both IMF and the Presidency of the Ecofin Council and the Commission made coordinated announcements to the press on their readiness to provide support to Hungary.

2. Contribution of both institutions to financing needs.

The final program package (€20 billion) contains sizeable contributions from the IMF (€12.5 billion) and the EU (€6.5 billion), as well as a contribution from the World Bank (€1 billion).

3. Staff level agreement on the programming

Staff level agreement on the programming package and the EU agreement to participate in the support package were announced in coordinated press releases by the IMF and the EU before financial markets opened on October 29. Both institutions attended a press conference later that day organized by the authorities. The IMF and EU support will be front loaded to address the urgent balance of payments needs early under the programme.

4. Consistency of program design and conditionality.

Both institutions will rely on policy conditionality to support program implementation. As agreed during the initial discussions among the institutions on procedures, it is expected that the EU conditionality to be included in the EU Council decision and Memorandum of Understanding will be consistent with IMF conditionality. In addition, EC surveillance mechanisms will incorporate policy commitments made by the authorities.

5. Consultation during the program monitoring process.

With staff level links firmly established, there will be regular consultation during the program period. In cases where deviations from the program trigger consultation under the IMF program, the authorities will in parallel inform the EU and both institutions will coordinate closely during the related discussions.

Notes

ⁱ 600.000 jobs in January 2009 in the US alone. Unrest is reported in China where millions have lost their jobs.

ⁱⁱ A dollar spent on infrastructure would typically add 1,59 dollars to the gross domestic product according to Mark Zandi, Moody's Economy.com (Scientific American, February 2009, p22. Compare that to the increase from a corporate tax cut which is estimated to be only \$0.30. Based on Zandi's study, some of the most efficient ways to spend government money are temporarily increasing food stamps (a \$1.73 GDP increase per dollar), extending unemployment benefits (\$1.63), increasing infrastructure spending (\$1.59) and upping direct aid to financially strapped states (\$1.38)." (Fortune Magazine http://money.cnn.com/2009/01/16/news/economy/stimulus_howto.fortune/). Note that the estimates are for the USA economy, they may not be universally valid. Zandi has a complete table, based on Moody's macroeconomic model, of the effect of most forms of tax cuts, benefit increases, and spending. Corporate tax cuts are easily the worst thing to do, while it is argued that payroll tax cuts (i.e. social insurance) are the best kind of tax cuts. (This is Zandi's analysis.)

Hooray. See Zandi's work at: http://www.economy.com/mark-zandi/default.asp?src=economy_homepage
The most recent report with his table of effects is in http://www.economy.com/mark-zandi/documents/Economic_Stimulus_House_Plan_012109.pdf). Experience demonstrates that only a small % of tax-cuts re-enter the economy in a time of recession. The benefits of investment in public infrastructure and services return benefits in excess of 120% to the economy. An economist at the New York Fed, Gauti Eggertsson, estimates that tax cuts actually reduce output, whereas public spending has a multiplier effect of 1.95. He also claims that it is really important to 'sustain the spending spree' until the recession is over: "*The general equilibrium effect of the tax cut is therefore an output contraction...[whereas] it's easy to show that the effect of government spending is always positive and always greater than one. i.e. one dollar of government spending, according to the model, has to increase output by more than one. In our numerical example the multiplier is 1.95, i.e., each dollar of government spending increases aggregate output by 1.95 dollars. Why is the multiplier so large? The main cause of the decline in output and prices was the expectation of a future slump and deflation. Thus, expectation about future policy play a key role in explaining the power of government spending, and key element of making it work is to commit to sustain the spending spree until the recession is over.*"
(<http://www.newyorkfed.org/research/economists/eggertsson/ContractionaryTaxes.pdf>)

ⁱⁱⁱ Nationalising the banks also implies that the governments will not support (and bail out) the shareholders. And importantly these banks do not have the capital to cover their losses and hence do not have the means to provide credits on the scale needed; and as they are tainted private investors will not give them more capital, Other solutions such as guarantees against losses on bad activa or the public-private partnership solutions by which the governments lends money to investors to buy bad activa, shift public funds to shareholders which will win if the price of shares go up while if these would go down the government loses.

^{iv} <http://www.wiwo.de/finanzen/ezb-fordert-verantwortung-fuer-europaeische-bankenaufsicht-382648/>

^v ETUC London Declaration for fairness and tough action <http://www.etuc.org/a/5367>

^{vi} A TUC publication The missing billions – Close the UK Tax gap reveals that many companies and wealthy individuals manipulate the tax system to avoid paying taxes.

^{vii} Also called Financial Transaction Tax (for stock trading by Keynes) or Tobin tax (for currency trading)

^{viii} Some of the increased EIB funding will go to support the European automobile industry for example. However this industry has been opposing tougher environmental standards.

^{ix} The June 2004 EPSU Stockholm Congress adopted a resolution on pensions which addressed this point (see www.epsu.org/a/638).

^x The credit crunch is apparently hitting US power companies hard now equity investors abandon the sector, which will lead to mergers and possibly bankruptcy. This is reminiscent of the reactions after the collapse of Enron and possibly could lead to an increase in private capital (through equity funds and infrastructure funds)

^{xi} Europe's New Wave of Toxic Debt - Business Week Feb 5th 2009

^{xii} e.g. When a school is to be renovated or built, energy efficiency and energy savings are to be fully integrated. Funds for energy efficiency programmes (insulation etc) can be increased and used so as to benefit low-income households. EPSU participates in the campaign to get the EU and Member States to address energy poverty.

^{xiii} 1% in emergency action in short term – massive labour market support action; 1% by investment in public infrastructures etc.

^{xiv} The reasoning of the IMF to demand fiscal restraint is based on the reasoning that *“In emerging market countries with debt overhangs, the “Keynesian” effect of fiscal adjustment is likely to be outweighed by “non-Keynesian” effects related to expectations and credibility. Non- Keynesian effects have to do with the offsetting response of private saving to policy-related changes in public saving. In particular, if fiscal adjustment credibly signals improved public sector solvency, a fiscal contraction could turn out to be expansionary, as private consumption rises based on the view that future tax hikes will be smaller than previously envisaged.”* (Quote from the Hungarian-IMF agreement.)

^{xv} *“The decision not only to contain overall spending but to uphold the goal of reducing the (comparatively large) size of the government sector in Hungary is important in this regard. Adjustment therefore includes a broad set of expenditure cuts, including in wages and pensions. These measures are unavoidably painful, yet—by bringing Hungary closer to wage and pension levels in neighboring countries, and by allowing for a more growth oriented and sustainable level of total spending—will have important longer term benefits.”*

^{xvi} ETUC resolution March 2009 <http://www.etuc.org/a/5985>

^{xvii} Moldova was seriously affected by the financial and then economic crisis in Russia (1998). 75% of the population lived below the poverty line and an estimated 600.000 people left the country with many becoming illegal workers. Remittances from Moldovans abroad account for almost 38% of GDP (2nd highest in the world). Moldova is Europe’s poorest country with a GDP per capita of 2.500 USD (2006) and over 20% of the population living under the absolute poverty line with an income of lower than 2,15 USD (2005) per day.

^{xviii} Strictly speaking the ECB, SGP and the Economic Government would be restricted to the Euro-zone.

^{xix} The European Council Presidency Conclusions emphasise that the SGP is the corner stone of the EU's budgetary framework and allows for flexibility of the recovery measures to be implemented. It does recognise that budgets can be temporarily deepened. The Council calls on Member States to commit to sustainable public deficits and return as soon as possible (in accordance with the Pact and in line with economic recovery) to medium term budgetary targets.

^{xx} The SGP reform in 2005 allowed for exceptional circumstances so countries could increase public deficits. Deviation from the discipline mechanisms was also allowed for structural reform investment. Member States should now use these rules.

^{xxi} The so-called 10-year government bond spreads over German bonds (the difference between the interest rate at which Germany borrows money and other countries do) has gone up from being around 0.1-0.4% (early 2008) to close to 2.5% for Greece and 2% for Ireland (early February 2009). The credit rating agencies have downgraded or issued warnings about public debt from these countries, making borrowing more expensive. And with the banking crisis now hitting banks with major investments in New Member States these spreads have widened so even the Dutch and Austrian bonds are more expensive for governments concerned.

^{xxii} See the reference to Latvia where EU countries and the Commission are demanding a stringent control of government spending

^{xxiii} The evaluations of the G8 Social Summit and the G20 are available on the TUAC and ITUC websites

^{xxiv} A recent example of pressure on public sector wages is the adoption of the Romanian 2009 budget. The government will raise pensions and wages in the public sector by 5 percent in 2009, matching its expected average inflation rate (others expect inflation to increase much more). But the government has also pledged to cap public sector wages and cut other spending by 1.5 percent. The government plans to replace overtime

pay with time off and decrease manpower spending on public sector personnel by 0.9 percent of GDP or by 20 percent. Pensioners, many thousands of whom have less than 100 Euros a month, are concerned about the measures. The Romanian currency has weakened by 20 percent against the Euro in the last three months and two major rating agencies say Romania is the only "junk"-level country in the European Union. Protests have started as the government has cut spending for the health care sector.

^{xxv} ETUC briefing: Wage Dynamics in Europe: In Danger of Collapsing ? ETUC Collective Bargaining Information Bulletin 2009/1.

^{xxvi} For more information on the UK conflicts see <http://www.epsu.org/a/4558>

^{xxvii} Another suggestion, made by FGTE -CFDT, is to fix in the Treaty criteria for social progress of the same nature as the Maastricht Treaty criteria

^{xxviii} These can be a wide range of actions: recast of the posted workers directive, social progress protocol, trade union / workplace learning representatives, environmental representatives, legal instruments for corporate social responsibility and production chain responsibility etc. etc. Many of such initiatives have been blocked by business and conservative politicians in the past.

^{xxix} ILO press release 13 February 2009 This regional conference brings together representatives of European and Central Asian ILO Member states