

**Social Developments  
in the European Union 2005**

**Seventh annual report**

edited by  
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for Research, Education and Health and Safety (ETUI-REHS)  
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## **Preface**

Rarely has the European project been reassessed to the extent that it was in 2005. The rejection of the draft constitutional Treaty in France and the Netherlands prompted a whole raft of questions and controversies about the political, economic and social model being pursued. What model - but also what project - should that be, and what are its future prospects? Is the Europe of the founding fathers a thing of the past now, or will enlargement and the debate about the constitution force our political leaders to go back to basics?

The main issues under debate in 2005 – the constitution, accession negotiations with Turkey and Croatia, the 2007-2013 financial perspectives, the European social model, the future of the CAP – probe the very identity of the Union, and likewise the capacity of political, economic and social stakeholders to carry forward a coherent project for this political entity suddenly plunged into globalisation. In this new context, is Europe a fortress besieged from all sides, or is it the prototype of a different form of globalisation which seeks to expand and strengthen a specific social model?

There is no ready answer to this question; the answer will come from those responsible for the project. But expectations and hopes are running high among Europe's citizens. And many people in the wider world are vesting their hopes in the success of the European project. Thus there is a need to create European and transnational forums for debate, to encourage dialogue, disseminate information and engage in analysis so as to influence political decision-making.

To this end, the European Trade Union Institute and the Swedish trade union research programme SALTSA have once again joined forces with the *Observatoire social européen* to produce an assessment of European social policy for the year 2005. This volume, published in French and English, is aimed at a wide readership and seeks to promote reflection and debate about the state of social Europe and its future prospects. We hope you will enjoy reading it.

Maria Jepsen (ETUI-REHS), Lars Magnusson (SALTSA),  
Philippe Pochet (OSE) and Christophe Degryse.

Christophe Degryse and Philippe Pochet

## **Foreword**

The previous year, 2004, had been particularly eventful. European Union (EU) enlargement finally came about, and the draft constitutional Treaty was adopted by the Heads of State and Government. These two major events, it was thought, were set to relaunch European integration in both senses of the term: geographical widening and political deepening.

In complete contrast, 2005 was a year of setbacks and reappraisals. Everything appeared to be under control at the start of the year, when the highly experienced Prime Minister of Luxembourg, Jean-Claude Juncker, began his presidency by addressing three major issues: amending the Stability and Growth Pact, reviewing the Lisbon strategy and seeking a political agreement on the financial perspectives for 2007-2013. All three of these topics were supposed to build on the headway made in 2004 but were thrown off course by current events. Two national referendums, in late May (France) and early June (Netherlands), on the draft European constitutional Treaty disrupted discussion and sent an icy blast through the European edifice, slamming doors and windows behind it. The United Kingdom took over the EU presidency on 1 July, following an especially tense European Council meeting at which profound differences over the budget became still further entrenched, reflecting divergent views on Union policies and their level of ambition, as well as on how to share out the costs of enlargement. The European credentials of British Prime Minister Tony Blair, accused of being responsible for the unsuccessful outcome of the European Council meeting in June, were on the line. Mr Blair attempted to make amends with a profession of faith to the European Parliament at the beginning of his presidency, and by holding an informal summit in October, devoted to the future of the “European social model”. In political terms, the significance of that summit was far from clear then

and will become even less clear as time goes by. The UK presidency managed to clinch a last-minute success as it drew to a close in December, when the European Council approved the financial perspectives for 2007-2013. Some observers believe that this agreement will breathe new life into a Europe which is in very poor shape; it does at the very least prevent the EU from plunging into a spiral of setbacks and crises.

At national level, 2005 saw important elections take place in several countries. In May, the British Prime Minister won a third term in office, while in September Chancellor Schröder of Germany suffered a relative defeat at the hands of Angela Merkel, who was appointed Chancellor in November at the head of a CDU-SPD grand coalition. Voting likewise took place in Poland, Denmark, Portugal and Bulgaria. Regional elections held in Italy served to weaken Prime Minister Silvio Berlusconi one year ahead of the 2006 parliamentary elections: Italy is described in various quarters as the sick country of Europe. There were no elections in France, but the referendum on the draft constitutional Treaty considerably weakened President Jacques Chirac, who decided to carry out an extensive ministerial reshuffle. Furthermore, the prospect of the 2007 presidential election constantly looms large in French political circles. Spain was the only “large” EU country to experience a stable year politically. In February, a sizeable majority of the Spanish people came out in favour of the draft constitutional Treaty. In addition, Spain’s rate of economic growth throughout the year was exceptional (around 3.5%), and its unemployment rate fell dramatically, dipping below the European average at the end of the year after having been above 22% ten years ago. With the exception of the United Kingdom and Spain, it could be said that most of the “large” countries of the Union – Germany, France, Italy and Poland – experienced a period of uncertainty in 2005.

In this introduction we intend to recall the most significant events which took place on the political scene in 2005: the rejection of the draft constitutional Treaty in France and the Netherlands, the eleventh-hour agreement on the 2007-2013 budget, discussion of the European social model, the reform of the Stability and Growth Pact, the review of the Lisbon strategy and the question of further enlargement (Turkey, Croatia). Then, turning to social policy matters, we shall look at three

issues which we believe are symptomatic of the changes underway at European level: the “better regulation” initiative of the Commission President, Mr Barroso, developments in the European social dialogue, and the open method of coordination as applied to pensions.

### **1. The European constitution**

The ink used by the Heads of State and Government to sign the draft constitutional Treaty was barely dry when it became evident that the process of ratifying the new text would be a lengthy obstacle course, particularly in countries having opted to hold referendums. In France, political debate was intense in the run-up to 29 May and, unlike the discussions prior to the Maastricht Treaty, revolved not so much around the real or presumed progress inherent in the new text as around the nature of the European Union itself – its foundations, political aspirations and borders. Very briefly, two extreme positions can be detected in this debate: one, on the left, rejecting the liberal economic foundations underpinning the European edifice; the other, on the right, taking issue with the supranational nature of this edifice and with a preference for national sovereignty. The debate in France and the ensuing referendum result indicate that part of the French population challenges – or at least has grave doubts about – these two historical components of the European bedrock: economic liberalism and a certain form of supranationalism.

As concerns the Netherlands, the possibility that the draft constitutional Treaty might be rejected by the people came to light relatively late in the day (only really in April, with the referendum scheduled for 1 June). On the one hand, the political debate – in the broad sense of the term – was less wide-ranging than in France; on the other, according to many observers, the French “no” campaign had a knock-on effect on Dutch public opinion, especially in the last few weeks and days. Some of the “no” arguments in the Netherlands were of course similar to those of the French campaign, such as the country’s loss of influence in an enlarged Europe, the prospect of Turkey’s accession, red-tape and the absence of a social Europe. Mainly, however, other more specific elements came to the fore: the fact that the guilder was undervalued when it entered the euro, the country’s excessive contribution to the

Community budget, the impression that immigration was out of control, etc. The deciding factor seems to have been not so much the constitution as such, about which there was relatively little debate, as a general feeling of disenchantment among large segments of the population. Moreover, economic liberalism as the bedrock of Europe was not contested in anything like the same way as in France: whilst the “Bolkestein” directive for example figured prominently in the debate in France, it was totally absent from discussions in the Netherlands where it was on the whole unproblematical. It seems that the malaise in both countries also had to do with national politics and with the growing divide between the political elite and the electorate. But it would be over-simplistic to dismiss on these grounds the mounting and sometimes contradictory lack of comprehension about the purpose of European integration. The victory of the “no” camp was in the main a defeat of the “yes” camp, in that the champions of the constitutional Treaty were incapable of putting across coherent arguments in its favour.

Be that as it may, the dual rejection of the draft Treaty ushered in a period of great uncertainty throughout the EU, as shown by the huge amount of confusion over whether to press ahead with the ratification procedures in the other Member States or whether to call a halt. Was the constitution dead or not? If so, should it be replaced and by what? In the absence of an answer, the Heads of State and Government decreed a pause for reflection in all countries. A wide variety of scenarios was still being aired at the beginning of 2006: bringing into force certain aspects of the draft constitutional Treaty, renegotiating it in full, adding to it a declaration on the social dimension of the Union, purely and simply abandoning it, launching an enhanced “mini-Europe” consisting of just a few countries, etc. This proliferation of scenarios raised fears of a collective torpor rather than a pause, especially in the absence of leadership among the Member States and at the Commission – so much so that, after the German elections in September, many people felt it would be advisable to await the French presidential

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election of 2007 for matters to become clearer. (To follow these debates in more detail, see the *Tomorrow Europe* newsletter <sup>(1)</sup>).

## **2. The financial perspectives**

It was in this highly charged atmosphere that the Union suffered a second major setback, at the European Council on 16-17 June, concerning the budget for 2007-2013. Even though the Luxembourg presidency had put several compromise formulas before the Heads of State and Government, no agreement was reached. The two major stumbling-blocks were the “British rebate” and agricultural expenditure. UK Prime Minister Blair, who rejected proposals to freeze the rebate obtained by Mrs Thatcher in 1984, demanded that the very structure of the European budget be overhauled from top to bottom. He argued that the existing structure attaches excessive importance to agriculture, to the detriment of research, innovation and education. The French President, Jacques Chirac, for his part defended the agreement reached by the European Council in October 2002, whereby farm spending was set in stone until 2013. Beyond this very public “duel”, other countries were waiting in the wings, determined to reduce their own contributions to the European budget (Germany, Netherlands, Sweden); others still were afraid that the Community’s cohesion policy would pay the price for the skirmish between France and Britain (the central and eastern European countries). Drawing on all the tricks of the negotiating trade, the UK presidency put forward a fresh compromise on the financial perspectives in December. Although it was unanimously rejected, the compromise served as a basis for delicate tactical negotiations at the December European Council meeting. A political agreement was finally reached as a result of numerous compromises (see chapter by Cécile Barbier in this volume).

## **3. Debate about the “European social model”**

At the very beginning of its six-month presidency of the EU, the United Kingdom announced its intention to hold an informal European Council devoted mainly to the future of the European social model.

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<sup>1</sup> <http://www.ciginfo.net/demain/en/default.htm>.

This “social summit” took place on 27 October. The British Prime Minister’s plan, following the French and the Dutch rejection of the draft constitutional Treaty, was to attempt to lay down some general principles by pooling the strengths of each national social model. The UK initiative received a muted reception at first, especially in France and Germany. Indeed, there were various reasons to be suspicious about the true intentions of the British presidency. First of all the timetable, considered by several Member States to be too tight to permit any serious reflection about such a sensitive issue as the European social model. Secondly, Mr Blair let slip some provocative remarks concerning a social model “*that does not have 20 million unemployed*”, in a fairly obvious allusion to France and Germany. Thirdly, there was also the fact that the initiative was launched by the United Kingdom, better known as an obstruction to the development of the European social dimension than as its promoter (on issues such as reducing working time in the Union, protecting temporary workers, strengthening European works councils, taking account of social dialogue, etc.). But the main point for London was to “adapt” the European model to the new circumstances of globalisation and competitive pressure. Europe’s capitals are deeply divided on this matter. The chapter by Philippe Pochet tells us what is at stake.

#### **4. Reform of the Stability and Growth Pact**

The reform of the Stability and Growth Pact went virtually unnoticed in this gloomy climate. Yet the anti-Europe liberal credo had turned the 1997 version of the Pact into the hate-figure of a monetary Europe dominated by high financiers and their allies in national central banks and the European Central Bank (ECB). The initial version of the Pact had the major shortcoming of focusing on cyclical economic factors – the level of budget deficit in a given year – rather than on structural data – overall debt. The latter indicator gives a clearer picture of a country’s medium and long-term strategy. For instance, a deficit of more than 3% does not have the same significance in Germany or France, where total debt is almost 60%, as it does in Belgium or Italy, where it is 100% or even more. This is why many economists believe that a country’s total government debt should become the most important criterion – even though that could cause a political problem

for countries such as Greece, Italy and, to a lesser extent, Belgium. The reform of the Stability Pact does not fundamentally alter the choice of criteria used for addressing recommendations to a country not complying with the requirements of monetary union, but it does lend added flexibility to the interpretation of these criteria. Andrew Watt's contribution sets out his analysis.

### **5. Will the “social model” expand or shrink?**

As far as enlargement is concerned, one might have expected the debate to die down in 2005, in that the Europe of 25 had become a reality in May 2004. However, there has been no shortage of discussion – not to say controversy – both about the 2004 enlargement and also about those still to come (Romania, Bulgaria, Croatia, Turkey...). Thus the “Polish plumber” was catapulted into the French referendum campaign on the draft constitutional Treaty, while the Latvian employees of the company *Laval un partneri* were catapulted into the Swedish political debate, placing a question mark over the scope of that country's collective agreements. At the same time, the “threat” in social policy terms posed by Turkey's accession was an issue in several Member States. And so on. All of these elements are tending to give Europe, or at least some of its “old” Member States, the appearance of a social model under threat. If we add to this equation the restructuring and job losses related to existing or future decisions of the World Trade Organisation (Chinese textiles, Brazilian sugar, the forthcoming end of agricultural export subsidies), one cannot fail to question the viability of the European model in this era of globalisation, as well as its capacity to serve as a reference point for emerging countries. Pierre Defraigne describes a Europe which is finding it difficult to maintain this social dimension both internally and externally.

### **6. Ongoing debates**

Three further topics covered in the following pages are ones which we consider symptomatic of the debates underway in 2005. The “better regulation” initiative launched by the President of the European Commission, Mr Barroso, is analysed and put into its political context by Éric Van den Abeele. Christophe Degryse examines the European

cross-industry social dialogue, which seemed at the end of 2005 to be grinding to a halt, while David Natali looks at discussions around the future of pensions in the context of the open method of coordination.

We trust that the various contributions to Social Developments in the European Union 2005 will make for interesting reading.

Brussels, January 2006.

