Europe’s Dilemma

in Crisis Exit

[New Final]

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Background document to the ETUCE Conference 2012
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Preface

This text is a background document to the ETUCE Conference in Budapest on 26 – 28 November 2012. The document may not necessarily reflect official ETUCE policy and is not a document for adoption.

The purpose of this document is:

- To contribute to the thematic debate on the financial and economic crisis at the Conference;
- To provide a macro-economic view on the crisis and to explain why austerity measures do not bring an end to the crisis in Europe but lead to an erosion of democracy and increased inequality;
- To inspire ETUCE Member Organisations to take part in the debate at the macro-economic level, which in many ways sets the space, possibilities and parameters for the public sector and the education sector;
- To explain how the economic crisis in Europe has developed from a financial crisis into a sovereign debt crisis and is now turning into a social crisis;
- To explain the different measures already taken especially by the Euro Area Member States;
- To show and explain how the current debate on an exit strategy from the crisis is resulting in increased European integration in the area of economic and financial governance;
- To suggest elements for discussion on a new policy on sustainable economy;
- To shed light on the dilemma in sharing sovereign debt, or a part of it, as it leads to an even stronger political integration and a possible European Federation of States.

It is generally recognised that to bring an end to the crisis in Europe it will somehow be necessary to share the burden in solidarity. However, the dilemma seems to be that a solution based on solidarity will also push for a stronger integration in Europe. This text includes links to original documents and a list of works cited.

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Europe’s Dilemma in Crisis Exit

Introduction

The global political and economic order was never going to be the same after 8:46 a.m. EST on 11 September 2001, and neither was its financial infrastructure going to be gauged from the same viewpoint after 1:45 a.m. EST on 15 September 2008 with the fall of Lehman Brothers and an unprecedented financial and economic crisis.

These events dislodged ingrained beliefs about the world and our civilisation’s established assumptions about the financial markets and economic governance. Some argue that after 80 years since the crisis of the 1930s, there is still no shared interpretation of its causes (Fitoussi). This time around, however, in spite of the daunting complexity of the crisis since 2008, there is no doubt that a reigning paradigm has been dethroned and that the neoliberal market fundamentalism can no longer take the lead. This crisis, above all, “destroyed the confidence in expertise in the economics profession.” As a result, the world of today is an era “when people can begin to question the reigning paradigm,” says the Nobel prize-winning economist Joseph Stiglitz (“An Introduction”).

With young, angry, and unemployed people protesting from Athens to Madrid to Lisbon, and education budgets under siege, there was never a time more urgent to sound the alarm bell on quality public education and training.

1. The positive role of education in times of crisis

In spite of past collusion of the World Bank in structural adjustment programmes, the institution has recently recognised the importance of the education sector in times of economic crisis. Policy options from the World Bank’s Human Development Network conclude that “demand-side programmes in education can cushion the worst effects of the economic crisis” (World Bank vii). Prioritizing investment in education will ensure that knowledge and skills gained in education provision will act as the means to reverse an economic downturn. This however, needs to be put in perspective with other World Bank policies which are unfavourable to the education sector, often stressing lending conditions, assessment and merit pay, push for class sizes of up to 60 students per class, among others.

By 2020, Europe will need an estimated 16 million more highly skilled people and 12 million fewer low-skilled people. This is impossible to achieve without urgent and sustained investment in education and in teachers. During a downturn, household members face increased pressure to earn income, the effect of which is reduced school attendance, lower student performance and higher drop-out rate. Therefore, prioritized education investment in times of crisis helps to ensure that “the poor and vulnerable are able to stay in school,” and that teachers are paid on time and in full (World Bank 11). The World Bank refers to evidence that delays in teacher pay increase their likelihood to seek supplementary sources of income. This adversely affects education provision. Students need to acquire knowledge and learn skills to succeed in contributing to society and enhancing the knowledge-based economy. Investment in teachers thus acts as a vehicle for enhancing economic growth and mitigates the adverse social effects of the crisis.

Furthermore, better educated workers have a higher probability of sustained income during an economic slowdown. Education’s positive role in protecting vulnerable groups cannot be overstated. The World Bank report has called for the provision of “supplementary financial grants to supporting schools at risk in the areas hardest hit by the crisis” (World Bank 14).
This policy can stabilise enrolment at schools, especially in poorer communities, which would otherwise opt to introduce tuition fees.

Since 2007, recruitment of new teachers has not been commensurate with increased enrolment levels and enrolment needs (ILO, *Impact* 7; *Update* 3). Reversing this trend through increased investment in teacher recruitment, training and retention, would have a positive impact on the sustainability of a knowledge-based economy. Globally, UNESCO’s 2011 EFA Global Monitoring Report estimates that “another 1.9 million teachers will be needed by 2015” to achieve universal primary education (UNESCO 1). Approximately 15m secondary educators would be needed to achieve universal secondary education (Nordstrum 32).

The 2012 Key Data on Education – a flagship publication by Eurydice1 – draws attention to a serious shortage of qualified teachers for core subjects. Up to 15 % of all 15-year-old students in Europe attended schools where teaching is hindered by a lack of qualified science and mathematics teachers. More than 40 % of 15-year-olds in Belgium (French Community), Germany, Luxembourg and Turkey attended schools with teacher shortages. The percentages were nearly 80 % in the case of mathematics teachers in Luxembourg (Eurydice 113). Between 20 and 40 % of students in Belgium (German-speaking and Flemish Communities), the Netherlands, the United Kingdom (England, Wales and Northern Ireland), Iceland and Liechtenstein attended school with a reported lack of qualified science, mathematics or language of instruction teachers (see fig. 1).

Education policy, however, cannot be narrowed down to serve the changing demands in the labour market, and neither should it aim to sculpt labour only for particular industries. The United Nations Economic Commission for Europe (UNECE) agrees that education must be viewed through a “holistic approach and a lifelong perspective” (UNECE 38). In times of crisis, the positive role of education thus comes into sharp relief.

The joint declaration of 18 January 2011 between ETUCE and EFEE – the European Social Partners in Education – asserted that the way forward for the European Union (EU) is through an innovation-driven and knowledge- and competence-based economy. It recognised

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1 Eurydice is a network providing information and analysis of European education systems and policies. It is coordinated and managed by the Education, Audiovisual and Culture Executive Agency.
that investment in education, training and research is a prerequisite for sustainable growth and social well-being, and is, therefore, an investment in the future. “Upgrading and adapting the knowledge and skills of all citizens is crucial to paving the way out of the crisis, as well as to meeting the long-term challenges of global economic competitiveness, employment, and social inclusion” (Investing 1-2).

Investment in education is in fact an official policy of the European Union. The European Council’s agreement to the Commission’s proposal to launch Europe 2020 on 26 March 2010 – a new strategy for jobs and growth – emphasises education as one of its five headline targets. Investment in education is therefore an official policy of the European Union, which recognises its positive role in encouraging economic growth. Key areas where EU action is needed list education in first place: “knowledge and innovation, a more sustainable economy, high employment and social inclusion” (European Council 2).

Another institution of the EU, the Council of the European Union, also recognised the role of education in times of crisis: “It is precisely in times of economic difficulty that the key strategic importance of sustaining open and efficient, high-quality education and training systems - as a means of enhancing future competitiveness while fostering social cohesion and active citizenship – must continue to be emphasised” (Council 1). Although investment in education is an official policy of the European Union, why has it been so hard for it to trickle down to specific policy initiatives at national level?

Education and the public sector more generally, must act as key pillars in a coordinated strategy to build more sustainable and equitable growth. Without the macro-economic foundation in place, education and training can only do so much. Large numbers of highly educated young people are out of work – their skills and talents are going to waste because of the lack of decent jobs. One of the obstacles to a greater role of the education sector as a key element in this co-ordinated strategy has been the undemocratic and counter-productive fiscal diktats of three international lenders in the context of the Euro Area sovereign debt crisis combined with the unwillingness from national ministers to live up to their pledges in Brussels.

2. Crisis of democracy: the Troika

An alliance of international lenders represented by the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) have become referred to as the Troika. This group has been widely criticised by trade unions for dismantling core labour rights and dictating fiscal austerity measures (“ITUC tells IMF”). The European Trade Union Confederation (ETUC), has deplored the Troika’s “authoritarian unilateralism that renders national social partners redundant,” and criticised it for bringing social despair wherever it sets foot. In Greece, “with more than one million unemployed, nearly 30 per cent of the population has shifted below the poverty line.” The minimum wage was slashed by 22 per cent and young workers’ pay by 32 per cent (ETUC, Declaration on Greece).

In Portugal, the Troika evaluated progress on fiscal adjustment measures five times within 16 months of agreeing to disburse a three-year €78bn rescue loan. The Troika’s involvement in national policies has been socially destructive and contributed to a democratic deficit across the EU.

Tight fiscal adjustment policies imposed by the Troika are clearly counter-productive. Real GDP in Greece hit -6.9 per cent in 2011, with an unemployment level of 17.3 per cent. Its GDP is expected to remain negative in 2012 and 2013, -6.0 and -4.0 per cent respectively, and unemployment will surge to 23.8 and 25.4 per cent in the same period. Spain, another country undergoing a fiscal adjustment programme, will have negative growth in both 2012 and 2013 at -1.5 and -1.3 per cent respectively, and its unemployment will reach 24.9 and 25.1 per cent over the same period (IMF, World Economic Outlook 66).
There is no sign that present austerity-based policies bring any other result than an economic contraction, social fragmentation and surging differences between actual and potential output within the Euro Area. In 2012, Greece and Spain’s output gap will reach -11.9 and -8.4 per cent while Germany will not be far from efficiency at -1.0 per cent (OECD 200).

With potential real GDP growth in Greece expected to reach only 0.6 per cent between 2012 and 2017 and in Spain 1.5 per cent over the same period, drastic budget cuts in public services, including education, have no justification. Long-term forecasts show that present fiscal adjustment measures – which are stoking social unrest across Europe – will not bring about significant economic growth.

**IMF was wrong**

One of the Troika’s members, however, has recently recognised that its austerity argument has been based on unsound forecasting. In a stark about-face, IMF analysis in World Economic Outlook published in October 2012 shows that the forecasting process has clearly been wrong when it comes to the relationship between austerity and economic growth. IMF admits that the fiscal multiplier – measuring the impact of fiscal policy on growth – of 0.5 has in fact been in the 0.9 to 1.7 range since the Great Recession of 2009 (IMF 41). This means that for each €1 in budget cuts, the economy contracts by up to €1.7, proving the “deficit hawks” dead wrong.

In its latest report the IMF recognised that “sharp expenditure cutbacks or tax increases can set off vicious cycles of falling activity and rising debt ratios, ultimately undercutting political support for adjustment” (IMF 21). It remains to be seen whether other members of the Troika will own up to the fact that austerity policies have been based on the wrong argument. The IMF backs its admission that multipliers may be “well above 1” by citing a number of studies.²

Separately, IMF researchers found that fiscal consolidation has an adverse effect on incomes and unemployment. “A consolidation of 1 percent of GDP reduces inflation-adjusted incomes by about 0.6 percent and raises the unemployment rate by almost 0.5 percentage point” (Ball, et al. 22). It draws upon 173 episodes of fiscal tightening in 17 advanced economies over the past 30 years. “Fiscal consolidations are contractionary, not expansionary” (22).

**Erosion of democracy**

There is a thin line between crisis-fighting global coordination and an erosion of national sovereignty. Voters in Europe have less power at the ballot box and are increasingly becoming passive recipients of a supra-national political agenda or, on the other hand, a counter-productive demagoguery of nationalist right-wing parties. The window of opportunity for political leaders to make sense of the present situation and articulating a legitimate argument is closing rather quickly.

In Europe, the Troika has amassed unprecedented political capital by assuming the role of a taskmaster for national governments. It has become commonplace to hear that it is up to the Troika to decide “whether to disburse a €31.2bn loan tranche due in June [2012] but delayed because of missed targets” (Hope).

Financial assistance has come hand in hand with calls for uncompromising cuts in public expenditure. Joseph Stiglitz is highly critical of European policymakers who “seem unable to come up with any remedies besides fiscal austerity” (“The euro crisis”). Mariano Rajoy, the Spanish premier, took up four “tranches” of austerity measures within the first seven months in office. A number of economists, including Martin Wolf of the Financial Times, have sounded the alarm bell for some time by arguing that austerity cannot precede recovery (Wolf,

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² See Auerbach and Gorodnichenko; Batini, et al.; IMF 2012 Spillover Report; Woodford.
“We still have”). Spain and Italy’s maturing €672bn in debt and deficits – forecast by Citigroup – for 2013 and 2014 are a daunting challenge, however, it cannot be tackled by slashing public services (Unmack).

Austerity measures have had a serious adverse effect on the education sector. According to data provided by national teacher trade unions, Spain closed down 1,500 schools and dismissed ten times as many teachers while Italy merged 750 and closed 450 schools between September 2008 and March 2012 (ETUCE).

3. **European economic governance and the emergence of a new European Treaty.**

**Tightening the grip on national fiscal polices**

Diverse economic governance initiatives and remarks made by policymakers point to the possibility of a new European Treaty to replace the Treaty of Lisbon, which came into force on 1 December 2009. Amid present economic turmoil and social upheaval, discourse on a new European Treaty calls for close scrutiny from civil society groups and trade union representatives.

On 26 March 2010, the European Council agreed the elements of the Europe 2020 strategy – formally adopted on 17 June 2010 – which established a 6-month period named “European Semester” coordinating EU Member States’ structural, macro-economic and budgetary policy. The Broad Economic Policy Guidelines (BEPGs), on the basis of Article 121(2) TFEU, and the Employment Guidelines – provided for by Article 148(2) TFEU – implement the Europe 2020 strategy and its five headline targets. The present second cycle of the European semester is a complex and synchronised multilateral surveillance mechanism.

In addition to the guidelines, economic policy is coordinated via the Euro Plus Pact, a political agreement reached at the March 2011 European Council among 23 EU Member States, including non-Euro Area countries (Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania). Although its goals are the fostering of competitiveness, employment, sustainability of public finances and reinforced financial stability, its means – including the “review of wage setting arrangements” – have been strongly opposed by ETUC (ETUC, *Strategy and Action Plan* 13).

Five new regulations and one directive came into force on 13 December 2011, and boosted EU economic and fiscal governance (Six Pack). They are intended to run in parallel with the Treaty on Stability, Coordination and Governance (TSCG), a controversial intergovernmental agreement signed by 25 EU member states except the Czech Republic and the UK. An ETUC declaration condemned this treaty for pursuing “damaging pro-cyclical fiscal policies, giving absolute priority to rigid economic rules at a time when most economies are still weak and unemployment intolerably high” (ETUC, *Declaration on the Treaty* 2).

This treaty provides that Member States can bring one another before the European Court of Justice (Art.8) to impose financial sanctions for failing to enshrine strict debt and deficit rules in permanent and binding national (“preferably constitutional”) provisions. Article 5 TSCG paves the way towards the emergence of a new European Treaty and its provisions: “the content and format of such programmes shall be defined in European Union law.” These programmes, however, relate to “detailed description of the structural reforms” which ensures the correction of its excessive deficit.

Sanctions will certainly not lift Europe out of an economic downturn. A new European Treaty is prefigured more tangibly in Article 16 TSCG: within five years, “at most”, of the TSCG’s
entry into force, “necessary steps shall be taken ... with the aim of incorporating the substance of this Treaty [TSCG] into the legal framework of the European Union.”

For most sanctions, the Six Pack introduces a reverse qualified majority voting (RQMV) in which a proposal of the Commission is considered adopted in the Council unless a qualified majority of Member States votes against it. This measure impacts on democratic legitimacy and shifts power closer towards the European Commission. For Member States concerned about loss of space for policy manoeuvre, Commissioner Barnier’s words are far from reassuring: “sovereignty transfers should not be a taboo subject” (Simon).

On 16 November 2011, two regulations (Two Pack) were adopted to strengthen macroeconomic surveillance. Regulation on the effective enforcement of budgetary surveillance in the euro area and the Regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area reinforce fines and sanctions. It is evident that every new addition to the European economic and fiscal policy package has come with a reference to sanctions for non-compliance. This has not proved to be a growth-enhancing approach in the midst of an economic downturn, in spite of the European Commission’s vision of “smart, sustainable and inclusive growth” slogans of the Europe 2020 strategy (European Council 2). The Euro Plus Pact, the Six Pack, the Two Pack and the TSCG bear witness to a major push against, and not for, growth. Furthermore, they presage enhanced and strict economic governance in the context of a new European Treaty.

Brussels has found ways to crack down on non-Euro Area Member States as well, and proved it can come up with biting fines for non-compliance. In March 2012, the Council of the European Union activated Article 4 of Council Regulation 1084/2006 and moved to suspend Cohesion Fund commitments worth 0.5 per cent of Hungary’s GDP for failing to correct its excessive deficit. This set a precedent for other non-EMU countries which are subject to excessive deficit.

Towards a political union

Overall, Europe is undeniably moving towards the increased pooling of sovereignty. "My vision is political union, because Europe has to follow its own path," said German Chancellor Angela Merkel in January 2012. She voiced a desire to “transfer more powers to the Commission which will then work as a European government.” She also expressed a vision of a strong parliament. Importantly, “the Council, which brings together heads of government, will form the second chamber. Finally, we have the European Court of Justice as the supreme court. This could be the future shape of the European political union in a while and, as I said, after many steps,” she said (“Merkel”).

Taken together with remarks by Olli Rehn, EU economic and monetary affairs Commissioner, who said that the upcoming December 2012 report on the deepening of the EMU “will also examine what can be done within the current Treaty framework and which measures would require Treaty changes” (Rehn), it is clear that in less than three years after Lisbon, Europe is bracing itself for a new treaty.

4. A social catastrophe in the context of closer integration

José Manuel Barroso, the President of the European Commission, used his 2012 State of the Union address to declare that “more than ever our citizens and the new world order need an active and influential Europe” (Barroso). This speech chose to call for a political union in times of uncertainty, and to refer to an idea which solidifies the reigning paradigm in a global context. Other European leaders have joined the momentum. “Ms Merkel has again signalled that Germany is willing to go very far in pooling national liabilities – including common
The push for closer integration coincides with an emerging social catastrophe in Europe. Dorothee Bohle and Béla Greskovits, researchers from Central European University, ask: “How can a minimum of social coherence (without which no society can exist) be secured if public expenditures on social programmes and job creation are being radically curtailed?” (155). This question resonates with magnified urgency in the context of severe fiscal consolidation across the European Union, the underlying assumptions of which appear to go beyond the neoliberal slant of the Washington Consensus. The crisis and the response has been seized upon as an opportunity for some, and it has created conditions in which extremists ideologies have begun to re-emerge within the context of Europe. In France, the dominant politics of anti-immigration opened up the political space for the Far Right National Front to gain around one fifth of votes cast. In Greece, Norway, Finland, Hungary and Austria fascist parties threaten to hold the balance of power.

The authors of the reform agenda – who visibly act on an ideological basis – are perhaps dimly aware that their project will produce neither economic growth nor end the crisis.

European policymakers are confusing a symptom with the causes of the crisis: they fail to differentiate public sector deficits and debts from a general lack in aggregate demand caused by the financial crisis. Partisan academic literature on “expansionary austerity” has tried to justify public sector cuts on the grounds that this will improve private sector confidence and lead to increased investment. This argument, however, falls down in face of the fact that private sector investment is down because of weak demand, not “crowding out” by government spending.

There were strikes amongst teachers in 18 European countries over the course of the 15 months before September 2012. The reform agenda pushed against the will of the population is creating a social catastrophe across the continent with no apparent respite. The sound-bite argument that severe austerity measures are necessary to put the economy on a sound footing and help revive growth is not only illogical. It is utterly ludicrous. Paul Krugman, the Noble Prize Laureate in economics, says that “countries with the biggest budget cuts have experienced the biggest falls in output” (Krugman and Layard). In the context of a major push for a political union as the completion of the European integration process, as signalled by Mr Barroso, stoking social upheaval appears to be designed to support the argument for overcoming national-level opposition to the erosion of sovereignty. The ILO estimates that total employment in the Euro Area remains 3.5m lower than before the crisis and a further 4.5m jobs will be lost over the next four years, “eroding citizens’ confidence in national governments, the financial system and European institutions” (ILO, Eurozone job crisis 2012 11). The dismantling of nation states has already begun and a monetary union in a context of growing macroeconomic imbalances is not sustainable without deeper policy coordination and integration. Thus, a top-down approach to regional governance is slowly gaining momentum by the back door, eschewing democratic legitimacy in the name of policy coordination.

EU officials are becoming increasingly vocal about a new form of the European Union. On 12 July 2012 – two months to the day before Mr Barroso’s State of the Union address – Michel Barnier, the EU internal markets commissioner, called for the creation of a new EU finance minister and one overall EU president while outlining the building blocks of a fully-fledged European integration and noting that a banking union is only “part of a more fundamental project” (Barnier).

Mr. Barnier’s remarks at the Peterson Institute in Washington were important because they spelled out the steps that the EU will have been taking towards a new form of the union: analysis of each country’s imbalances, the country specific-recommendations and a “collective right to review the annual budget of each member state before it is finalised” – the so-called European Semester – are the existing vehicle for an economic union. Fiscal union, the second
step of deeper integration, received a boost through the inter-governmental fiscal compact – the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union – by introducing common targets for public debt and deficits.

The narrative on crisis-fighting measures in Europe has recently shifted to the next step in an ever-deeper integration process: a “pan-European supervision with real teeth,” according to Mr Barnier. On 12 September 2012, the European Commission proposed the creation of the Single Supervisory Mechanism (SSM) for the Euro Area. A deposit guarantee scheme – an important part of the banking union designed to cover €5tn in 6,000 Euro-Area bank deposits and to calm the markets – was dropped after pressure from Germany shortly before the SSM was unveiled (Barker). Bringing about closer integration of EU Member States is not without opposition, nevertheless, the political momentum towards a new form of the EU is undeniable.

How can recovery take place in a context of severe fiscal austerity, an erosion of national sovereignty and significant current account imbalances? The people of Europe will be challenged to cooperate in new ways – perhaps more than ever before – in ways which they are not used to, and in structures which have yet to emerge.

5. A global shift: “Statesmen stand or fall on their perception of trends”

The current world is undergoing a profound shift in its intellectual and political infrastructures, and is beginning to transition from an unsustainable model of development to sustainable demand. With old jobs being lost and new governance structures and innovations emerging, this transition is leaving many people marginalised, unemployed and perplexed about the direction this civilization is headed. Confusion and anger escalate in many parts of the world and misguided policy initiatives – fiscal austerity measures especially – are aggravating an already tense situation.

If today’s policymakers, bleary-eyed from twenty crisis-fighting summits between September 2008 and June 2012, fail to articulate the contours of this transition to a people in hardship, and choose to hold on to rigid structures through coercion or manipulation, they will have failed to meet their responsibilities. A protest slogan in Madrid captures the mood succinctly: “No jobs, no houses, no pension, no fear” (Daley).

Policymakers, as well as “the markets”, should realise that people have not yet lost their power to say a collective ‘no’ to the austerity agenda. Across Europe, trade unions, civil society organisations and ordinary citizens have mobilised against austerity as an expression of democracy. Frustration and tension within societies and among cultures are growing. And although “angry people are not always wise,” sometimes “no way back is the best reason to fight for survival” (Austen; Liqun and Jin). On purpose or not, austerity measures across Europe have summoned exactly this spirit.

In spite of these worrying trends and in the face of uncertainty or fear of unexplored alternatives, people – as always – possess aspirations for a better, cooperative, equitable and sustainable society. “Man’s reach should exceed his grasp,” and this civilization – at the summit of technological development, testing the limits of human ingenuity – is seeing the reigning paradigm pushed to its limit.

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6. What got us here and what will see us through?

The subprime mortgage meltdown and the collapse of credit derivatives revealed that too-big-to-fail financial institutions abused the market economy to trade in complex or “virtual” financial products – using other people’s money – to get rich at the expense of everyone else in a hubristic and socially irresponsible manner. The present paradigm is enhancing a structure where people are encouraged to buy products that they cannot afford or do not want, to accept jobs which do not create sustainable value, to serve a system which obscures its true ends, enhances uncertainty and insecurity, and creates dependency. Now is the time to realise that the existing global financial infrastructure is inherently unsustainable, and its alternative is either too complex to grasp, or too intimidating to consider.

Extreme trade imbalances, the accumulation of huge dollar savings in surplus countries (China) with a subsequent purchase of US Treasuries – which kept interest rates low – caused a ballooning of asset prices and provided cheap finance for speculation, the securitisation of mortgage debt and an ensuing asset price bubble in the US (Habbard 128). Financial institutions were allowed to bundle asset-backed securities to create Collateralised Debt Obligations (CDOs) with an AAA rating, which in the end proved highly toxic and discredited the ratings agencies. Some prospective homeowners in the US were tricked as mortgage providers sold them adjustable-rate mortgage with a fixed-rate story wrapped around it (“Behind the Bailout”).

Light banking regulation, highly leveraged institutions, predatory lending practices and a lack of diversified risk helped create an atmosphere of magnified distrust among lenders when the music stopped. Actors in the financial industry brought the global financial infrastructure to the brink of collapse. One might assess this situation with help from Shakespeare: “If we imagine no worse of them than them of themselves, they may pass for excellent men” (A Midsummer Night's Dream 5.1.2059).

In September 2008, suddenly, nobody was guilty and nobody was safe. Banks did not want to lend. Finally, the governments stepped in and rescued the banks with taxpayers’ money.

Due to a “credit freeze” following the collapse of Lehman Brothers, banks were too nervous to lend to each other or to industry, which brought the machinery of the global economy to a grinding halt. Governments needed to act in order to prevent a 1930s-style run on the banks, but how they should have responded is a matter for debate. Arguments for outright nationalization, as was the course pursued in Sweden in the 1990s, gave way to the favoured policy of liquidity injections into banks to cover “toxic” assets. This required massive infusions of public cash and guarantees, inevitably pushing up public debt. But this was necessary to grease the wheels of finance without which industry would have collapsed. However, what was also needed was a more ambitious stimulus package focused on jobs to get the “real” economy moving as well. Policymakers erred in under-estimating the extent of the crisis, thinking that once the financial sector was working again, all would be back to normal. They over-focused on the financial sector and largely ignored the rest of the economy.

By bailing out Wall Street, the Emergency Economic Stabilisation Act enacted on 3 October 2008, the largest peacetime expenditure in US history, earned swift condemnation from trade unions. “It’s not just that it’s immoral, it’s bad economics,” says Damon Silvers, the associate general counsel for the AFL-CIO. “The way in which you get the economy moving is to try to infuse liquidity and aid into where the economy actually functions as opposed to finance people who are above the economy” (“Behind the Bailout”). Between October 2008 and October 2011, €4.5tn in public support and guarantees went to European banks and contributed to the sovereign debt crisis (Barnier). It is evident that bank bailouts across the EU made future generations pay for the policy blunder of today’s leaders. The Financial Times agrees that “two rescues were designed to bail out German investors in Spanish and Irish banks at the expense of those nations’ taxpayers” (“France makes its bid”).
The sovereign debt crisis is also a result of the growth in unemployment which has led to lower tax returns and higher spending on social protection programmes. Long-term deficit and debt reduction needs to come through sustained employment and real economic growth. Even without bank bailouts, many countries would still be in a difficult fiscal position.

In the early 21st century, the world is leveraged beyond reason as much as it is in debt. European banks’ loans exceeded deposits by €1.3tn in 2011 (Thomas). The scandal-shrouded London Interbank Offered Rate (Libor), the global rate-setting benchmark, “governs $350tn in contracts worldwide” while the size of the entire global economy is around $50-60tn (Masters). The notional value of the worldwide derivatives market is a mind-boggling 1,000 times $1.2tn, in other words $1.2 quadrillion, roughly 20 times the size of the world economy (Cohan, “Big Risk”). The world is evidently exposed to unregulated and unsustainable risk-taking of gigantic proportions.

If policymakers fail to shed light on shadow banking with the introduction of tight regulatory and supervisory framework, the fall of 2008 may be accorded a re-play. It has been argued that hedge funds pulling their money out of banks whose stocks they were shorting caused the immediate downfall of “systemically important” Bearn Stearns and Lehman Brothers (Cohan, “SEC should ban”). Who is to say that the financial industry has either learned its lessons or redeemed its conscience after 2008?

7. **A Quantum of Debt: pushing the limits of the ruling paradigm**

Policymakers have not called the financial industry to account by harmonizing crisis-fighting measures with fair and redistributive taxation of, for instance, financial transactions. Thus, the recapitalisation of the banking system through large bailouts and the counter-cyclical stimulus packages with quantitative easing and unorthodox policies, expanded government liabilities to unprecedented size and precipitated the sovereign debt crisis. In some countries, the private sector is not doing much better. Out of the €323bn in real estate assets accumulated by financial institutions, €175bn were labelled “problematic” by the Bank of Spain in 2011 (Castle). Spain’s government debt as a percentage of GDP at 70 per cent seems relatively low, but put in the perspective of both bank and household debt, this figure reaches 363 per cent of GDP.

In parallel, Greece’s “debt” is cited at 165 and Italy’s at 120 per cent (Eurostat, 2012). A report by McKinsey Global Institute, however, reveals that total debt in Greece in fact reaches 267 per cent and in Italy 314 per cent of GDP. Total debt – including households, nonfinancial corporations, financial institutions and government debt – was at unbelievable 663 per cent of GDP (Q1 2011) in Ireland, more than Japan or the UK’s, at 512 and 507 per cent respectively (Roxburgh 5).

The report rightly states that “no country has all the conditions in place to revive growth” (Roxburgh 2). In spite of this fact, and under the prodding of the IMF, ECB and the European Commission (the Troika), governments across the EU have embarked on a relentless austerity push without fixing current account imbalances or establishing a clear path for reviving growth. In this context, education budgets are imperilled beyond doubt, regardless of assurances by policymakers or window-dressing initiatives by the European Commission, the EU’s executive arm.

8. **Hedging education’s future: uneven income distribution and besieged budgets**
In spite of a regulatory framework and a liquidity standards reform deal to be phased in gradually by 2019 (Basel III), the adoption of the Dodd-Frank act in the US, or the Single Supervisory Mechanism (SSM) for the Euro Area, shadow actors in the financial industry might not be easily deterred. The result of the financial crisis proved that Mervyn A. King, the governor of the Bank of England, was right when he said that “global banks are global in life and national in death” (Castle).

Government bailouts of the financial industry have been followed by tight consolidation of fiscal positions. Since education is on government “payroll”, its life is dependent on public policy. It is therefore of paramount importance that education employees and their trade union representatives stay ahead of the curve in relation to global and regional economic issues and gauge the close relationship between the state of the economy and education policy.

Public expenditure on education decreased in 19 out of 32 OECD countries between 2005 and 2009 and the number of 15-29 year-olds who are neither in employment nor in education or training “spiked to nearly 16 per cent in 2010 after several years of decline” (OECD, Education at a Glance 15). This does not even take into account the full extent of the on-going recession and the fiscal tightening which governments engaged in after a brief affair with Keynesian economics. In spite of its size, the $1.98tn in global stimulus spending in 2009 has been judged relatively inadequate as it accounted for approximately 1.4% of world GDP, while close to 90 per cent of the global economic stimulus has come from the G20 countries (Khatiwada 1). Nevertheless, the ILO estimates that stimulus policies saved 7-11 million jobs in 2009 (ILO, Policy Coherence 3).

Still, this amount must be put in perspective. 45 million young people enter the workforce annually and 300 million new jobs will need to be created between 2009 and 2015. The Global Jobs Pact, adopted unanimously on 19 June 2009 at the International Labour Conference, warned against the “damaging consequences of deflationary wage spirals and worsening working conditions,” a situation which has materialised since the onset of the crisis (ILO, Global Jobs Pact iv, 7). The Economist has also argued against austerity: “German policymakers who urge only austerity and wage restraint on the rest of Europe forget that the goal of growth is to raise personal incomes and spending” (“The lessons”).

One of the underlying causes of the crisis was the increasing growth in inequality as a result of anaemic wage gains for the majority of working people compared with the rapacious greed of a tiny minority (see fig. 2). In the US, income of the top 1 per cent of earners has surged exponentially while wages of other earners stagnated in relation to productivity (see fig. 3). Rising inequality fundamentally alters savings and consumption flows. In effect, the bottom 80% or so of households has become increasingly indebted. This does not affect aggregate demand as long as credit remains cheap and readily available and the value of assets rise. However, as the imbalance grows, so too does instability and the possibility of financial crises. Tackling inequality, including ensuring a greater balance of the share of income earned by capital and labour, must be a priority.
Figure 2. Income gains at the top dwarf those of low- and middle-income households. Percentage change in after-tax income since 1979 (Sherman and Stone).

Figure 3. Relationship between productivity, average income of top 1 per cent and average overall wages (Gilson and Perot).

The burden of responsibility is being passed since the onset of the crisis: systemically important financial institutions (SIFIs) passed the buck to the governments and got bailed out. The governments went looking for a lender of last resort and found ready-hand contributions from the IMF, but, as always, it came with a catch. This raises a puzzling question: if governments bailed out the banks and the IMF bailed out the governments, who will “bail out” the IMF? By extending a lifeline to nation states in need, the International Monetary Fund – along with other international lenders – has essentially taken hostage national fiscal positions and caused an economic contraction (see fig. 4).
Education budgets have been squeezed since they are considered to be subject to the health of public finances. Subsequent cuts in public services as a reaction to market pressure prove the lack of boldness, and not its abundance, by politicians to come up with lasting solutions – ones that go beyond their next election. The slashing of education budgets enhances the impression that crisis-fighting strategies are short-sighted at best (see fig. 5).

This policy, along with school closures, mergers and privatisation as well as commodification of education show a disregard for the future generation at a time when attention to educating students and young people is most needed (see fig. 6). There is a pressing need to inculcate 21st century knowledge and skills through education, training, skills upgrading and re-skilling.
“Health and education should not be subject to big cuts even in hard times,” writes a New York Times editorial, joining the long line of critics of present EU-wide economic policy. It calls on European leaders to “recognise that returning the euro zone to solvency will require renewed efforts to encourage economic growth through less rigid budget targets, not continued austerity imposed on desperate governments by Berlin and Brussels” (“Spanish Protests”). Even Paul Samuelson’s fundamental economics text views education as a key investment: “Every time we invest – building a new factory or road, increasing the years or quality of education, or increasing the stock of useful technical knowledge – we are enhancing the future productivity of our economy and increasing future consumption” (Samuelson 41). Yet, in times of crisis, democratically elected representatives have turned their back on teachers and education. It is either that politicians have forgotten the idea of what brought them to understand something of the world at large in the first place, or they are subject to vested interests and ideological prejudice, neither of which bodes well for the future of Europe.

The OECD review of the 1994 Jobs Strategy showed that cutting benefit levels “beyond a certain threshold” compromises social objectives. It concluded that “targeted tax cuts for some under-represented groups, which are found to have a powerful effect on whether they work, can also be financed by imposing higher taxes on the income of other groups – in which case stronger work incentives for some go hand-in-hand with less rewards for work effort for others” (OECD, Boosting Jobs 10, 11). This might be considered a strong case not only for progressive taxation, but also for taxing financial transactions or assets.

To safeguard the future of Europe, or the future of any nation, its leaders must create a structure for distributing these proceeds to the provision of quality education. With surging youth unemployment and anti-austerity protests spreading from city to city, politicians should turn to the education sector and seek an exit from the crisis. However, since this crisis was made primarily in the private sector, it is both immoral and ineffective to seek solutions by cutting investment in public services. The privatisation and commercialisation of education services must be opposed.

It has been proven that the return on investment in education is worth it: “taxpayers are increasingly aware of the economic and social returns on the public funds that are used to help
people pursue higher education. On average, OECD countries receive a net return of over $100,000 in increased income tax payments and other savings for each man they support in higher education – four times the amount of public investment. (OECD, *Education at a Glance* 14). Europe’s surging youth unemployment should alarm any sensible policymaker (see fig. 7).

**Figure 7.** Youth unemployment rates, EU-27 and EA-17, seasonally adjusted, January 2000 – August 2012 (Eurostat, “Unemployment statistics”).

Those with lower levels of education have been proven to be severely affected (see fig. 8). OECD agrees that the “downturn certainly had a sweeping impact – especially for people with lower levels of education” (12).

**Figure 8:** Unemployment rates among persons aged 25-64 years by level of educational attainment, 2011 (Eurostat, “Unemployment statistics”).

9. **Approaching alternatives:** “Let us never negotiate out of fear, but let us never fear to negotiate”

A new post-crisis growth model must be more sustainable and globally balanced, and shift focus to a wage-led growth strategy and a more equal development of incomes (Schulten 101). Senior researchers at the European Trade Union Institute think along the same lines as they note that “production and consumption must respect the limitations set by the ‘categorical imperative’ of ensuring that our lifestyles do not compromise the ability of future generations to lead a decent life” (Watt and Botsch 12). This echoes Immanuel Kant’s idea of acting only in such a way in which one’s act may at the same time become a universal law and proves to be the opposite of the irrational greed exhibited by the financial industry at the turn of the 21st century. In a wider context, the declining share of labour in national incomes over the last thirty years (see fig. 9) has contributed to the devastating effects this crisis has had on ordinary people (Guscina). As Christina Anselmann and Hagen M. Krämer explain, the income share of the tenth decile in the US had declined from 46.3 per cent in 1932 to 32.7 per cent in 1943 and remained at this relatively low level in subsequent decades, it increased again from 32.7 per cent in 1981 to 46.3 per cent in 2010 (Anselmann and Krämer).6

![Figure 9](image_url)

**Figure 9.** Cross-country average labour's share in national income. Ratio of labour income to national income (Guscina).

The distributive role of the state, which “narrowed the income gap between workers and owners of capital” in the post-WWII European model of social market economy based on a broad consensus for social cohesion, has been steadily reversed since the mid-1970s (Hishow 1). Now is the time to reverse the reverse.

Furthermore, trade unions have played a key role in promoting greater equality and stability. In the 1930s, this was recognised as labour laws were reformed to provide more power to trade unions. The result was rising unionization and greater collective bargaining power that translated into real gains in household incomes and consumer spending, enhancing social cohesion and equity. Today, we are in danger of going in precisely the opposite direction by weakening trade unions, restricting collective bargaining, and depressing wage gains.

Schulten’s post-crisis growth strategy serves as a viable counterpoint to the imbalances-creating export-led growth model based on household borrowing, which preceded the crisis. In

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6 cf. Alvaredo et al.
a world of rising income inequality, “a reinforcement of the institutions of social protection” and a shift in relations between labour and capital share of national income must be developed hand in hand (Amable 152). This must, however, fall into an overarching strategy for tighter regulatory standards, as it is evident that deregulation has gone too far and proved to be socially as well as economically unsustainable. The International Trade Union Confederation (ITUC) Congress in June 2010 deplored “labour market flexibility, privatisation, deregulation and market liberalisation” and called for a “sustainable and just development model for the 21st century” (“Resolution”).

The markets cannot be allowed to set policy, as has been the case in the present crisis by forcing the hands of politicians to press for specific reforms. “Governments seem to have been panicked by the need to maintain the confidence of the markets and are responding immediately to any threat (however small) to their credit ratings” (Coats 89). Politicians should not shrink before the markets, rather, they should seek to tame them.

Reviving substantive domestic demand, which is not based on economic growth springing from private debt, is one of the keys to unlocking the path out of recession. Before the crisis, expansion in domestic demand had been based on an accumulation of private debt in the US and other advanced economies (Torres 38). This model cannot be sustained. Thomas Palley encourages a shift to domestic demand-led growth, which will cure current account imbalances with a growth model that “rebuilds the income and demand generating process” (Palley, “A new approach” 60; “USA” 85). In many places, globalisation has already wiped out the prospects for domestic self-sufficiency and created dependency on imports. A balanced trade policy should be encouraged.

According to Esther Busser, the present paradigm shift must involve an active (vertical) industrial policy and an approach to foreign direct investment which rules out export processing zones as a safe haven for international businesses seeking to avoid sharing their gains with wider society (108).

Success of a business cannot be measured only by shareholder value. Now is the time for business leaders to claim the moral high ground by making a decisive volte-face in their corporate strategy and governance. The dismantling of social security to enhance foreign direct investment is a myopic policy with socially destructive long-term effects.

**Reclaim democracy and regulate the financial sector**

To be relevant to citizens, now, more than ever before, public policy must urgently reclaim a decisive role in regulating unfettered greed so that a looming social catastrophe, precipitated by the global financial and economic crisis and present policy agendas, does not take place.

Governments must put an end to unregulated financial intermediaries or unregulated activities by regulated institutions (shadow banking) and enact strong oversight measures. Financial transaction tax and a tax on “unproductive or speculative assets” must be considered as an unavoidable fiscal contribution (Habbard 132). If financial actors – and especially those engaged in the derivatives markets – do not wake up to the idea of giving something back to the community, they must be constrained and pressured by government regulation and targeted taxation to encourage household demand and provide quality public services, including education.

According to Bruno Amable, the state must indeed play a strategic role in activities crucial for the future. “This is particularly the case for research and scientific activity” (153). Global recovery must involve education as a key public investment and the protection of its provision with redistributive tax systems narrowing the income gap and enhancing social cohesion.
10. Measures for a new economy

Within seven months of the collapse of Lehman Brothers – and a closing of the latest chapter in economic history – the global trade union movement issued a statement to the London G20 summit. The representatives of workers from around the world laid out a five-point strategy for recovery and a sustainable world economy. The Global Unions’ London Declaration, among other measures, called on the G20 leaders to:

1. Implement a coordinated international recovery and sustainable growth plan with maximum impact on job creation focusing on public investment, active labour market policies, protecting the most vulnerable through extended social safety nets, and ‘green economy’ investments that can shift the world economy onto a low-carbon growth path. Developing and emerging economies must be given the resources and the policy space to undertake counter-cyclical policies.
2. Nationalise insolvent banks immediately so as to restore confidence and lending in the financial system and beyond this establish the new rules and mechanisms to control global finance with full stakeholder engagement under an eight-point action plan.
3. Combat the risk of wage deflation and reverse the growth of income inequality by extending the coverage of collective bargaining and strengthening wage setting institutions so as to establish a decent floor in labour markets;
4. Prepare the ground for a far-reaching and ambitious international agreement on climate change.
5. Establish a legal benchmark of norms and instruments of the international economic and social institutions: the ILO, IMF, World Bank, WTO and the OECD. The trade union movement has called for reform of these institutions and to build effective and accountable global economic governance (Global Unions).

The financial and economic crisis has had a profound and ongoing effect on teachers, education employees, and students in Europe and around the world. The EI European Region (ETUCE) – a voice for 12.8m teachers and education employees affiliated to its 135 member organisations – believes that sovereign debt and deficit reduction through austerity measures is not a viable path towards economic growth in the present situation across Europe. In its draft resolution on the financial and economic crisis, the ETUCE points to alternative measures:

1. Policymakers and national governments shall recognise that it is their moral imperative to seek an exit from the crisis for the sake of present social cohesion and for future generations, and to advance strong growth and employment initiatives – which necessitate increased investment in education – to boost the European economy.
2. National governments shall immediately reverse the policy of deflationary wage cuts as an instrument of fiscal adjustment. The Troika must cease to meddle in domestic affairs of EU Member States and hand over their concerns to democratic control.
3. European-level policymakers and national governments shall work side by side in dismantling tax havens while tackling tax fraud and evasion, and shall engage in deeper coordination of tax policies across Europe to strengthen tax revenue and enhance fiscal contributions.
4. European-level policymakers and national governments shall harmonise the corporate tax base across Europe, set a minimum tax rate for businesses, and adopt fair and effective progressive tax systems to obtain additional revenue for education budgets.
5. Member States of the European Union shall summon the financial industry to pay its fair share in meeting the costs of the crisis by expressing unanimous support in the Council of the European Union to adopt a Europe-wide financial transaction tax. Proposals on this common system should not be relegated to enhanced cooperation.
between Member States on the basis of Article 20 of the Treaty on European Union (TEU) and Articles 326 to 334 of the Treaty on the Functioning of the European Union (TFEU). They should, rather, be adopted under Article 113 TFEU.

6. European-level policymakers and national governments shall advance an effective Europe-wide regulatory and supervisory framework which successfully tackles regulatory arbitrage and provides for transparent central clearance of over-the-counter (OTC) derivatives, sound macroprudential analysis, and the harmonisation of capital and liquidity requirements while curbing excessive risk-taking.

7. European Central Bank (ECB) shall explore every policy alternative within its mandate to bring down sovereign borrowing costs to a sustainable level. The ECB has been and remains too fixated on inflation rather than unemployment. It must adopt a more balanced monetary policy.

8. European-level policymakers and national governments shall support the issuance of jointly-backed Eurobonds as an instrument of debt solidarity with a view to decreasing interest rates on sovereign debt.

9. European-level policymakers and national governments shall adopt a framework for the allocation of unused structural funds to support sustainable investment, including investment in education.

10. European-level policymakers and national governments shall enhance their efforts in tackling corruption and to engage more deeply in corporate governance reform which boosts transparency and accountability standards as well as democratic participation.

11. European-level policymakers and national governments shall prevent the privatisation and commercialisation of education services, and shall stand firm, shoulder to shoulder, in defending the added value of equal access to all levels of free public education.

12. European-level policymakers and national governments shall support national social dialogue structures, trade union rights, social cohesion, and solidarity among generations.

13. Trade unions shall be involved in creating effective education initiatives ensuring:
   a. quality basic and initial education for all at all levels;
   b. support and compensation instead of unemployment;
   c. programmes to tackle inequality;
   d. programmes to tackle social tensions and xenophobia;
   e. cross-sectoral lifelong learning programmes and a recognition and validation of skills and competences irrespective of how they are acquired.

14. All the stakeholders in this crisis in Europe, and beyond, shall seize the moral high ground by coming together in solidarity and to preserve – with intensified efforts – the dignity of teachers and education employees through expanded public investment in education and in this way succeed in offering an effective helping hand to present, and future, educated and responsible citizens of Europe (ETUCE, “Draft Resolution”).

11. Conclusion

The global financial and economic crisis was in the first place created by the greed of investors and speculators alongside banks and financial institutions. Subsequent bank bailouts and recapitalisations in Europe unleashed an unprecedented sovereign debt crisis. The ordinary worker had no stake in causing the present situation.

At present, there is no real prospect of paying down public debt if it is not met with adequate increase in economic output. Sovereign debt in Greece is increasing despite a 50 per cent “haircut” while output continues to decline.
The real problem in Europe is not debt. It is the lack of growth.

It is clear that austerity measures in Europe will have had a detrimental effect on growth and employment. Sharp contraction is expected for periphery economies in 2012, “constrained by tight fiscal policies and financial conditions”. The IMF also concludes that periphery economies in the Euro Area have had deeper recessions than other countries (World Economic Outlook 66, 64).

Anti-austerity protests across the continent have proved that the involvement of international lenders, the Troika – dictating national policies as a prerequisite for providing financial assistance to cash-strapped governments – is socially destructive and economically counter-productive. As a result, Europe is also undergoing a social crisis and a crisis in democratic legitimacy. In the words of Joseph Stiglitz, “we should not underestimate the extent to which the crisis and how it has been dealt with has broken the social contract and all of these elements which make a society function well” (Stiglitz 13).

Europe stands at fresh crossroads of history. The ETUCE’s response to the financial and economic crisis has been far from reactive. It has proposed viable alternatives to the destructive and widespread austerity measures across Europe while seeking to avert continued recession.

With far-right elements on the rise in many countries and a crisis of democratic legitimacy at European level, policymakers are facing a moment of choice.

*Europe is in a dilemma over how to tackle the crisis. The latest decisions taken by the European Council call for a choice, firstly, between deeper integration at the expense of national sovereignty for the sake of coordinated solutions, and secondly, an unwinding of the European project and a potential break-up of the economic and monetary union.*

*Viable, balanced and social recovery in Europe will certainly involve deepened solidarity in relation to sovereign debt spreads. The question, however, is whether Europe is ready for a leap in solidarity, and, perhaps more importantly, if continued integration at European level will expand democratic influence in giving people a decisive role. It remains to be seen whether a common framework can be established without a European Federation of States.*
Bibliography


Annex 1

List of ETUCE statements related to the financial and economic crisis

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