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CLR News

Thirty-Year Crisis of Labour Relations

CLR

European Institute for
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Note

from the editor

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02-10-2011

Crisis, what crisis?!...CLR has already devoted some attention to the actual economic situation. For instance, in the recent past we have published several articles that criticised the narrow view that the crisis was mainly a product with US origins. In his contribution in CLR-News 2-2009 ('The Real Economy in Crisis') Jörn Janssen treated the historical background with a focus on the transformation of labour relations and I myself formulated some theses related to the disparity between short time cashing and productive investment. After all, investors and capital owners, backed up by the state and a policy of deregulation, have created an artificial world and played a game of fantasy that money can create money. However, the bill is supposed to be paid by the public.

In the meantime, the world of labour has become more and more dominated by the primacy of shareholder and capital owner upper hand. All other actors in the productive environment have had to be neutralised by legislation (as little as possible) and by contracting out. In this philoso-

phy labour is no more than a commodity that has to be cheap, flexible and powerless. The fact that labour is a crucial actor in the production of goods and services has been (and is) completely denied.

In recent years social risks have been transferred to individual workers or to the state as a result of the strategy to lower social costs and reduce industry-wide provisions. The consequences are both an increase of precarity and higher public debt. The positive effects of welfare state regulations, though recognised by several authors who have studied the relatively good performance of those "surviving" Western European economies with a strong regulatory frame for their industrial relations, is completely neglected in the austerity plans that are formulated at this moment. Whereas social safety nets, sectoral funds and provisions paid directly out of productive activities (through levies and other 'additional' wage costs) that contribute to dampening inequalities in wealth have "softened" the crisis in recent years in these economies, the dictate is now

the lowering of wages and wage costs, less social security and further deregulation in order to reduce the “burden” for business to the minimum. On the other hand, a restrictive tax policy will reduce the possibility for the state to act as a safety net for the losers in the speculation battle. Neo-liberalism that was seen as one of the basic causes for this crisis, is back on the scene, or rather it was never away. With business back to usual, we are far from the predicted end of an economic regime.

For this issue of CLR-News, Jörn Janssen acted as sub-editor. He has collected a remarkable series of contributions that can be seen as a follow-up to earlier publications and as an effort to go into depth. The relationship between the world of finance and the real economy is treated and so is the rise and fall of the real estate boom in several countries. In his introduction Jörn Janssen has framed the different contributions and also comes up with a rough outline for a political agenda. As usual we bring an issue with additional reporting, our reviews and announcements.

We will welcome your comments.

Subject articles

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INTRODUCTION: A STARTING POINT FOR LABOUR STRATEGIES

More than two years ago we published an issue of CLR-News on 'The real economy in crisis' (2/2009). In the meantime a lot has been written about the crisis and the media are full of it. Yet the economy is still in a mess and, as I write, the European Monetary Union is at the brink of collapse under the burden of sovereign debt. In this situation we are trying once more to come to terms with a socio-economic transformation which triggered the global crisis of financial capitalism and its neo-liberal doctrine. From an orthodox point of view, this was a crisis in a cycle of economic growth and, as we slid into it, we will have to 'exit' from it through the restoration of 'growth and jobs'. Conversely, from a critical point of view we have witnessed the end of an economic regime. Hence the only way forward is to discard this absurd concept of eternal or, as it is now termed, 'sustainable' growth, coupled with the exploitation of natural and 'human' resources through an elite of owners, and to build a socio-economic order according to human needs and social justice. Until the architecture of such a new order emerges the plight of the debt economy is likely to keep haunting the world with poverty and warfare.

From this perspective, we have tried to take stock of the last thirty years. John Grahl traces the itinerary leading up to the crash in 2008. Michel Husson suggests in his paper that the global crisis of the financial sector is indeed a crisis of capitalism caught in a vicious circle starving the workforce which is indispensable for the reproduction of the productive system. The more general picture of socio-economic development as an historical process happens to show the construction industry in a relatively prominent role, because 'real' estate was the target of various forms of financial speculation and securitisation, though the 'reality' of land only served to produce property bubbles. The articles of Michael Hudson, Aidan Re-

gan and Jörn Janssen highlight this aspect also with regard to its impact on construction labour.

The most important result of these accounts of financial capitalism is that it was fundamentally an assault on wage labour, which the trade unions were not equipped to challenge. Martin Hartwich summarises the development of employment, wages and union organisation since 1980 as a protracted process of defeat.

However, the defeat of wage labour was not accompanied by a victory of capital. Capitalism eroded its principal resources and would have collapsed without the crutches provided by taxpayers. Thus it keeps limping on as long as the crutches do not break. And they are at the brink of breaking in Greece, Ireland, Portugal, Spain, and Italy, threatening another crash in Europe and consequently across the globe.

One might expect that this suicide of capitalism would be regarded as a liberation of labour and give rise to new strategies. Instead the labour movement, with its call for a return to 'growth and jobs', seems to be preoccupied with helping to rescue this teetering regime. The status of wage labour under the rule of private capital ownership has not yet been called into question on a large scale. Maybe such a move will become inevitable when the crutches break under the weight of their patient. We should be prepared.

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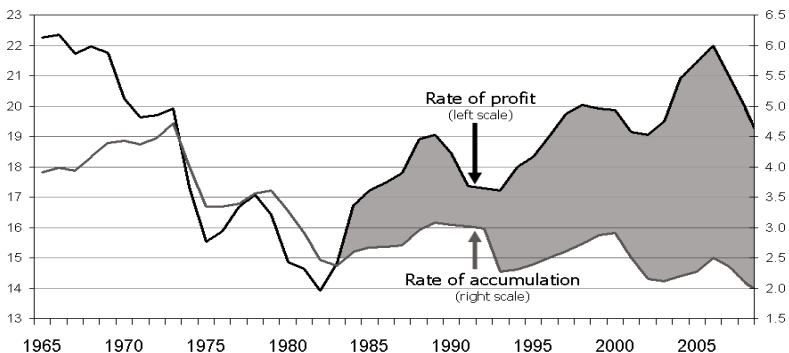
FINANCIAL CRISIS OR CRISIS OF CAPITALISM? ¹

The current crisis originated in the financial arena but quickly spread to all of the so-called real economy. This observation raises two questions. A theoretical question: how to analyse the relationship between finance and the real economy and their responsibility for the crisis? And a more practical question: what are the channels of transmission from one to another and how to reverse financialisation?

What is the link between finance and the real economy?

Very schematically, it is possible to say on this point, that between progressive economists, two theses are opposed according to whether finance is considered as parasitic or functional. In order to discuss these two positions better, a possible starting point is consideration of an essential characteristic of contemporary capitalism. From the neo-liberal turn at the beginning of the 1980s the rate of profit has recovered considerably, but this has not lead to an increase in the rate of accumulation (see diagram). In other words, the extra profits were used for something other than investment.

Figure 1: Profit and accumulation (USA + UE + Japan)



Source : Ameco Database, European Commission, <http://tinyurl.com/ameco8>
Rate of accumulation = growth rate of net capital

Manifestly, the “theorem of Schmidt”, enunciated by Chancellor Helmut Schmidt at the beginning of the 1980s (“today's profits are tomorrow's investments and the jobs of the day after tomorrow”) has not worked. That this behaviour is unprecedented in the history of capitalism has been established and emphasized by many analysts, and is a key element of the critique of financial capitalism.

An increasing amount of the wealth produced has been absorbed by bank profits and dividends. The first explanation for this phenomenon is that the financial sector extracts profits made by enterprises in the productive sector. This is referred to as parasitic or predatory finance, which implies that the requirements of profitability will continually grow and exert a growing pressure on business management and particularly on employment. This interpretation contains some truth but it may relieve productive capitalism of responsibility. There would be a “good” capitalism which would be unable to function properly as a result of the puncture made by the “bad” finance. Such a reading grid logically implies that the horizon of an alternative plan could be limited to the regulation of capitalism through relieving the financial pressure that is the source of all the ills, and through this would provide it with the means to function normally.

A variant of this view distinguishes between two measures of profit rates as calculated before or after payment of interest and dividend payments. The rate of capital accumulation is seen as evolving in line with the narrow definition of profit of enterprises, thus implicitly advancing the idea that finance drains away the capital needed for investment. It is a distorted view of the theory of capitalism to make the dynamics of accumulation dependent on the distribution of profits between companies and stockholders. It is opposed both by Marxist theory and conventional theories which postulate that the remuneration of shareholders is justified by their provision of savings and therefore investment.

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Another objection to this reading is based on a reality in several countries, and in any case in France; domestic investment is relayed through foreign investment. Analysis on a global scale would show the difference between profit and accumulation to be reduced significantly. In addition to the statistical difficulties that hinder such an assessment, observation of international investment flows shows that they still relate mainly to developed countries, although the share of emerging markets has increased. IMF data show that in 2006 the two superpowers (U.S. and EU) were net exporters of productive capital, but at a level of a small proportion of their private investment, respectively 1% and 3%.

This approach is unsatisfactory because it can not account for the change of capitalism since its entry into the neo-liberal period. The transformation of the financial system must be analysed through two key trends at work since the early 1980s. The first is the continuing decline in the share of produced wealth that accrues to employees, almost everywhere in the world. Even the IMF and the European Commission are now finding this. It is this decline in the wage share that has led to a dramatic recovery in profit rates from the mid-1980s. But, again, this additional profit has not been used to invest more.

The growing mass of profits not invested was mainly distributed in the form of financial revenue, and here lies the source of the process of financialisation. The difference between the profit rate and investment rate is also a good indicator of the degree of financialisation. One can also verify that the rise in unemployment and job insecurity is associated with the growth of the financial sphere. Again, the reason is simple: finance has succeeded in capturing most of the productivity gains at the expense of employees by blocking the growth of wages and not sufficiently reducing, in fact increasing, the duration of labour.

The relationship between productive capital and financial capital has profoundly changed. But this has been in the direction

of increasing interdependence: we have moved from an economy of debt, where bank credit provides financing to companies to a financialised economy where firms have developed their own financial activities. The requirement of financial profitability is very high, an effect which in turn influences the conditions of exploitation of workers. One can therefore not artificially separate the role of finance and that of the conflict between capital and labour for the distribution of value added. It is not the rise of finance which lowers wages but, conversely, the rise of the share of profits not invested which feeds finance.

If one thinks in terms of the reproduction of capital, then we are facing the following problem. The share of wages has fallen and that of investment stagnated: under these conditions, who will buy production that continues to grow? The solution to this problem relies on the recycling of profits not invested, which is carried through by the redistribution operated by finance.

Financialisation is not an independent factor and it appears as the logical counterpart of the decline in wages and the scarcity of investment opportunities which are profitable enough. Therefore, the rise of social inequalities (within each country and between areas of the world economy) is a constitutive feature of the functioning of contemporary capitalism.

This approach to finance is reinforced through the inclusion of globalisation. In the gradual establishment of a global market, the role of finance is to eliminate as much as possible any boundaries to areas of valorisation. The great strength of finance capital is in effect to ignore geographical or sectoral boundaries, because it has the means to quickly pass from one economic zone to another; from one sector to another the movements of capital can now be deployed on a scale greatly enlarged. The function of finance is here to intensify the law of competition and to make the movement of capital more fluid.

The current configuration of the global economy strengthens this mechanism. It is indeed fundamentally unbalanced, since the deficit of the United States is financed by the rest of the world. However, this imbalance contributes to an enormous amount of liquidity in search of maximum profitability which fuels finance and adds to its inherent instability. The main feature of contemporary capitalism does not lie in the opposition between financial capital and productive capital, but the devaluation of work and the hyper-competition between capitals which leads to financialisation.

Which transmission channels?

In 1987, a major meltdown led most economists to predict a sharp slowdown in the global economy. The opposite happened: from 1988, developed countries experienced a cycle of dynamic growth. The stock market crash did not transmit to the real economy and, instead, drained the excesses and allowed resetting of the meters to zero. It is after all a classic function of crises to clear the accounts and eliminate lame ducks. A few years later, a housing crisis and major mortgage shock hit Japan, which was presented at the time as the rising power set to conquer world markets. This opened a decade of approximately zero growth, from which the Japanese economy has struggled to emerge.

Finance is more or less independent in different places and times but it is clear that in the current crisis, the transmission to the real economy has been rapid, brutal and universal. Neither Europe nor the emerging countries have avoided the collapse of the mortgage market in the United States. This transmission has worked through several channels:

- restrictions on credit affect both household consumption and corporate investment. This effect was particularly marked in countries like the US and the UK, where household consumption is driven by debt
- devaluation of financial assets and household property will encourage lower consumption through the wealth effect;

- the general uncertainty weighs on consumption and investment behaviour,
- the housing crisis contributes in its own right to the general economic downturn;
- public spending to support the banking system represents considerable sums which will require spending cuts or tax increases;
- last but not least, the slowdown is spreading to the entire world economy through trade and investment .

All these mechanisms currently at work are combined with other dimensions of the crisis to extend its impact well beyond the financial sphere. There is no watertight division between finance and the real economy, because finance is a cornerstone of neo-liberal capitalism. This also means that the very foundations of its current operation will be jeopardized by the current crisis. For example, the growth model of the United States is based on a double deficit; the foreign trade deficit and the internal savings deficit. In both cases, finance plays a key role in managing these imbalances: internally it has made possible over-indebtedness; externally it has sustained the balance of payments through capital inflows. But if the financial sector collapses, it is the basis of this mode of growth that will be challenged: household debt is now blocked, and capital inflows are no longer guaranteed. Therefore, the financial crisis will lead to a lasting slowdown in growth in the United States which will be communicated to the rest of the world.

The nature of the crisis

This interpretation of the crisis opposes certain dogmatic interpretations which lay a claim to Marx and allot a central role to the famous law of the falling rate of profit. However, all empirical evidence shows that the rate of profit has recovered sharply in the major capitalist countries. Without twisting the measurement of the rate of profit to show it falling contrary to the evidence, it is necessary to think about a crisis resulting from an overflow of profit. Against this backdrop, a

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debate is growing on the characterization of the crisis: over-production, over-accumulation, under-consumption? Contributions to this debate are often lengthy comments of Marx's Capital instead of a concrete analysis of the current crisis. It is no doubt necessary to return to more detailed discussion of this tedious debate, but it is especially important to stress here two dimensions of the crisis which it obscures.

It results primarily from the exploitation of workers worldwide. Overall, the main characteristic of contemporary capitalism is a general trend toward higher rates of exploitation. From this point of view, capitalism has managed to restore its rate of profit but it faced a problem of realisation which appeared in the mid-1980s. This contradiction was managed in two ways: by increasing inequality which generated alternatives to consumption out of wages and by a headlong rush into debt distress. In both cases, the role of "finance" is decisive in ensuring the recycling of capital gains income to stockholders, and supporting the rush towards debt.

Capitalism has been caught short by this contradiction, and this is the meaning of this crisis. But we must go further and ask the question why capitalism is now investing a smaller proportion of its profits. We can once again see the pressure of finance, but this would not be exercised with the same force if capitalism had sufficient opportunities for profitable investments. It is here that the systemic character of the crisis is located, at a deeper level, and involving the vital springs of this mode of production. The source of this crisis is fundamentally the widening gap between the social needs of humanity and the criteria specific to capitalism. Social demand is focused on goods that are not likely to be produced with maximum efficiency. The productivity gains allowed by new technologies and innovation lead to a choice (based on profitability in production) which is less in line with social demand and which, consequently, is not sufficiently profitable in the market.

This gap is in two main dimensions. The first, in developed countries, is the shift in demand from manufactured goods to services which are associated with lower productivity growth and hence lower profit outlook. No outlet has taken over at a scale sufficient to play the same role as the automotive sector in the earlier Fordist phase. The second dimension is the result of geo-economics and globalisation: it tends to create a global market, i.e. an enlarged space for valorisation. The lower levels of productivity of less advanced sectors are directly confronted with profitability requirements aligned with the performance of countries or companies which are more efficient. The resulting supplantation means that a number of producers - and hence the social needs that they could meet - are no longer viable based on the criteria of hyper-profitability that they face.

Under these conditions, the reproductive system goes through a double movement of expansion in the field of goods and refusal to respond to needs which are not profitable. Contemporary capitalism has met the conditions of optimal functioning from its point of view. Rather than improving social welfare, perfect competition, free of regulations, rigidities and other distortions, shows a total lack of legitimacy, since social regression is explicitly claimed as the main condition for success of the system. In this framework, finance is not only the compensation for the increased exploitation of workers, it is also an outlet for capital in search of maximum profitability. The excessive profitability requirement it imposes on the real economy in turn reinforces the low buoyancy of investment and social inequality as a condition of reproduction of the system.

This analysis leads to two general conclusions. The first is that capitalism has been overtaken by its contradictions and sees itself reduced to the situation that it was in after the recession of 1974-75. For over 25 years, it existed entirely on credit and is now faced with deadlines with which it cannot cope. The bank failure is the symbol of its own bankruptcy, and it

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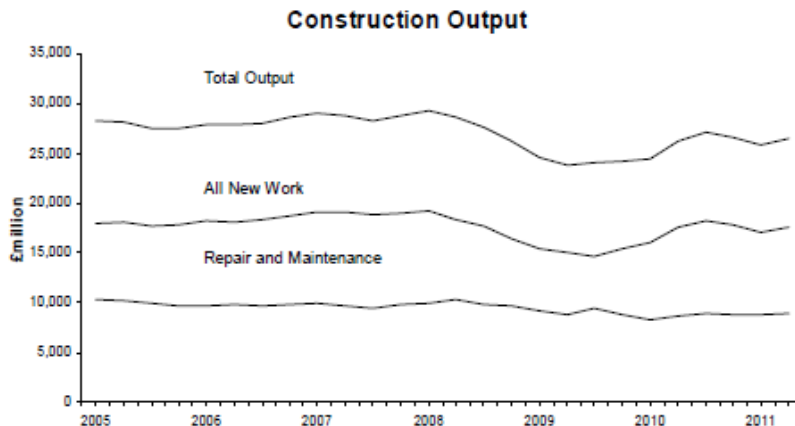
has no other alternative. Under these conditions, and this is the second conclusion, regulation of finance would be a useful remedy, but that does not address the root causes. Financialisation feeds on the declining wage share and imbalances in the global economy. To deflate finance therefore requires closing the two valves that feed it, which implies a different distribution of wealth and another organization of the world economy, both perspectives absolutely foreign to capital.

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1. English version of Michel Husson: *Crise de la finance ou crise du capitalisme*. In *Denknetz Jahrbuch 2009*, edition 8, Zürich, pp. 22-28.

TOWARDS THE DOUBLE DIP: THE CASE OF CONSTRUCTION IN BRITAIN

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Construction is more sensitive to economic fluctuations than is the economy as a whole, and this proved true once again in the recession provoked by the financial crisis in 2008. However, the impact of the crisis on the UK construction sector so far has been severe but not dramatic. Production fell only a little in 2008, more sharply in 2009, but made up much of the lost ground in 2010 so that the cumulative fall over 2008-2010 was 9%.



Figures of all graphs and tables from the Office of National Statistics (ONS)

The worst affected component in that total was new house-building, but even there some recovery could be detected in 2010.

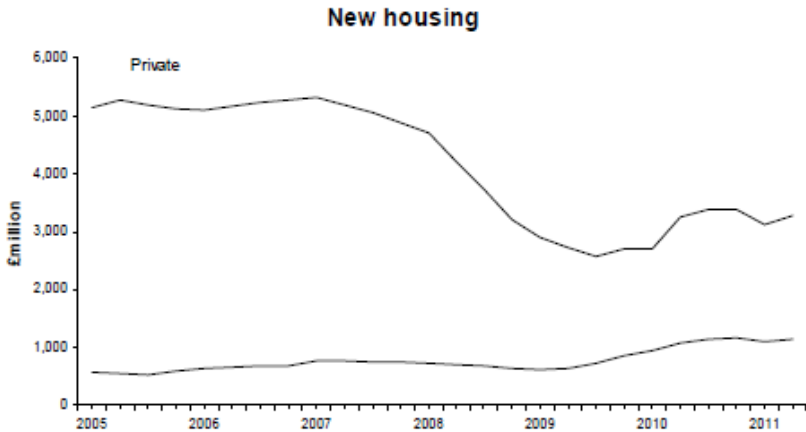
Given the decline in output, employment has been much more stable than in the last recession.

Three Recessions:

1. Early 1980s: The index of total production peaked at 54.7 in 1979 Q2 and fell to 51.5 in Q1 of 1981 (always 100% in 2003); the previous peak was reached again in Q2 of 1983.

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Total employment peaked at 27,411,000 in the fourth quarter of 1979. The employment trough was in the first quarter of 1983 at 25,410,000. The previous peak was recovered in Q3 1987.



The index of construction output peaked in 1979 Q3 at 60.5 and declined to 50.1 in 1981 Q4. The previous peak was reached again in 1983 Q3. Construction employment peaked one quarter later than in the economy as a whole in Q1 1980 at 1,948,000 and fell to a low of 1,760,000 in again Q2 1983. The previous peak was reached in Q1 1987.

In this case the employment effects in construction were only a little more severe (job losses of 10%) than those in the economy as a whole (7%), although the loss of output was much more severe (17% against 6%).

2. Early 1990s: The index of total production turned down from 69.3 in 1990 Q2 and declined to 68.1 in 1991 Q3. The previous peak was recovered by 1993 Q2.

Total employment peaked at 29,225,000 in Q2 1990 and fell to 27,378,000 in Q2 1993. The previous peak was reached again in Q3 of 1999.

The index of construction output peaked in Q2 of 1990 at 86.9 and fell to 74.3 in 1993 Q2. Construction employment on this occasion peaked earlier, in Q3 of 1989 at 2,392,000 with a trough of 1,771,000 in Q2 of 1997. The employment level of 1990 has never been recovered.

Here construction employment was affected earlier, more deeply and for a longer period than the rest of the economy. Construction accounts for half the lost output in the general recession.

3. The Current Recession: The index of total production turned down from 107.4 in 2008 Q1 and had fallen to 100.7 by the third quarter of 2009. This makes it already the deepest of the three recessions in terms of GDP. Total Employment turned down after reaching 31,643,000 in the first quarter of 2008. By Q2 2009 it had fallen to 30,997,000. The recovery since then, however, appears to have stalled. There was a fall in Q4 of 2010 and, the last figure. For Q2 of 2011 is still nearly 4% down on the previous peak.

The index of construction output peaked as for the economy as a whole in 2008 Q1 at 105.8. By the third quarter of 2009 it had fallen to 90.2, a drop of 15% as against 7% in GDP. However, by the usual definition, construction is already in a "double dip" recession because there were two successive quarters of falling output – 2010 Q4 and 2011 Q1. The latest output figures are still 8% below the peak level.

Construction employment peaked in Q3 of 2008 at 2,281,000. By Q2 2009 it had fallen to 2,170,000. This is a loss of 5% of jobs, as against 2% in the whole economy. However, this was not the trough – employment has continued to fall reaching a new low of 2,093 in 2011 Q2, the latest figure available. (In terms of status, those losing their jobs seem to have been predominantly 'self-employed' because the decline in employees between March 2008 and June 2009 was only 36,000 out of roughly 100,000 losing their jobs.) So far (up to 2011

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Q2) 12% of construction jobs have been lost. This points to reactions by construction enterprises very different from those of the early nineties when a comparable decline in output led to much greater job losses.

Three Recessions Compared				
	Economy		Construction	
	Output	Employment	Output	Employment
Early 1980s				
Peak	1979 Q2	1979 Q4	1979 Q3	1980 Q1
Peak to Trough	7 quarters	13 quarters	10 quarters	13 quarters
Decline	6%	7%	17%	10%
Recovery	9 quarters	18 quarters	7 quarters	15 quarters

Early 1990s				
Peak	1990 Q2	1990 Q2	1990 Q2	1989 Q3
Peak to Trough	3 quarters	7 quarters	12 quarters	27 quarters
Decline	2%	6%	14%	26%
Recovery	7 quarters	25 quarters	8 quarters	Peak employment never recovered

Late 2000s				
Peak	2008 Q1	2008 Q1	2008 Q1	2008 Q3
Peak to Trough	6+ quarters	6+ quarters	5-7 quarters	11 + quarters
Decline	7%	2%	15%	5%
Recovery	Not achieved after 13 quarters	Not achieved after 13 quarters	Not achieved after 13 quarters	Not achieved after 11 quarters

The Collapse of Orders

The most recent orders data for the construction sector (for the second quarter of 2011) are ominous: a decline from £11.35 billion in Q1 to £9.50 billion in Q2 in constant 2005 prices. This is approximately 50% down on the previous peak levels of 2006 when, in each of the second and third quarters, new orders totalled over £18 billion.

The pattern since the start of the recession of 2008 has been that, until 2011, a substantial expansion of public orders partially compensated for private sector decline.

Note that this kind of support was less marked in housing.

Construction: Annual Public and Private New Orders (£ million at 2005 prices)						
	Public Sector Orders				Total Orders: Public plus Private	Public Share (%)
	Housing	Infra- structure	Other	Total Public		
2006	3,248	4,985	9,303	17,436	70,018	24.90
2007	3,308	6,402	10,083	19,793	69,668	28.41
2008	2,740	7,567	12,708	23,015	57,503	40.02
2009	3,030	10,909	14,161	28,100	49,470	56.80
2010	3,309	8,916	13,232	25,457	50,238	50.67

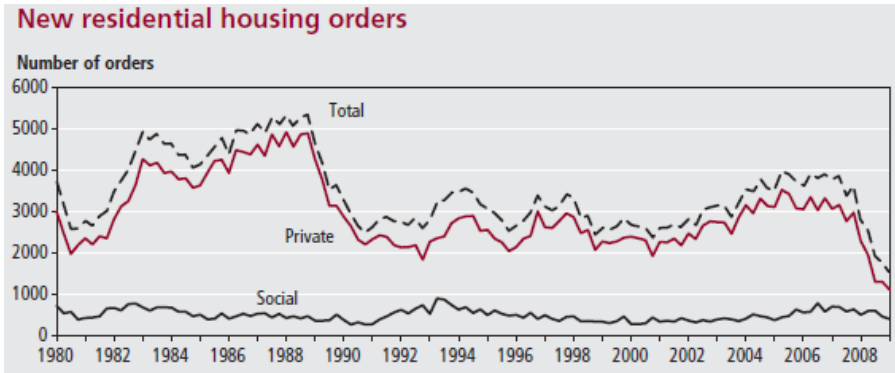
The difficulty in expanding public house building relates firstly to the drastic reduction in these programmes over two decades; secondly to the trend to abandon independent public construction projects and seeking instead to secure a public (or “social”) component in private projects. This strategy meant that public house building tended to contract pari passu with private building and that there was only a very narrow base on which to expand public projects. However, between 2008 and 2010 a more vigorous public response seemed to be taking shape.

In the industry as a whole, the public sector provided substantial support. Thus the annual data shows the public sector accounting for over half of new orders in 2009 and 2010. The quarterly data for 2011, however, show this support being withdrawn.

Since there is no sign of a recovery of private sector construction investment, a drastic decline in production is to be anticipated. If the Coalition Government’s strategy of rapid re-

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trenchment does fail, then falling production and employment in the construction sector will probably be a large part of the story.



Source: ONS new orders in the construction industry

Specific Factors of the Current Recession

Commentators have pointed to three specific features of labour market behaviour in the current recession:

- Part-time employment has actually increased; job losses have been only in full-time jobs. Since the downturn in 2008, part-time employment has grown by nearly 400,000. Meanwhile, the number of involuntary part-time employees, those who were unable to find full-time work, grew by even more so that this switch is due to people opting for part-time work rather than unemployment.
- Self-employment has also grown over the same period (even though, in the Construction sector, more 'self-employed' positions have disappeared than employee jobs). It seems likely that this also constitutes a reinforcement of supply in response to the decline in demand as households avoid unemployment.
- Similarly, there have been many fewer 'discouraged' workers than in previous recessions, with economic activity actually growing. Over the same period – first quarter 2008 to second quarter 2011 – the number of economi-

cally active grew from 30,327,000 to 30,733,000. Demographic growth meant that this corresponded to a virtually stable activity percentage – falling only from 76.8% to 76.5% in spite of a much bigger fall in the employment rate (72.7% to 70.4%).

All of these factors testify to significant social distress in the recession, with many people accepting inferior jobs rather than unemployment or inactivity.

Construction: Quarterly Public and Private New Orders (£ million at 2005 prices)						
	Public Sector Orders				Total Orders: Public plus Private	Public Share (%)
	Housing	Infrastructure	Other	Total Public		
2010 Q4	910	2,606	3,373	6,889	12,983	53.06
2011 Q1	827	1,604	2,826	4,257	11,349	37.51
2011 Q2	571	1,189	1,973	3,733	9,502	39.29

Conclusion

Most commentators recognise that, although the recession directly provoked by the financial crisis of 2007/8 was severe, a recovery was under way. This was aborted by the secondary crisis associated with public debt and retrenchment in the public sector. The performance of the British construction industry matches this pattern. The industry was to a great extent stabilised by public sector orders through 2009 and 2010. The current rapid reduction in public sector orders exposes the industry to a very severe downturn at a time when a decline in the quantity and quality of employment in the economy as a whole is causing acute social distress.

Michael Hudson

REAL ESTATE IN THE FINANCIALISED BUBBLE ECONOMY¹

From St. Simon's followers in France to Marx and other reformers prior to World War I, nearly all financial observers expected banking to become the economy's industrial planning agency, alongside government. But contrary to their expectation that banking would become industrialized, the opposite has occurred: Industry has been financialised. Companies are being turned from means of production into vehicles to extract interest, generate banking fees and register stock market gains for the banking and financial sector.

Capital formation today is financed mainly out of retained business earnings. The stock market also was supposed to supply investment funding, but since the 1980s it has been turned into a vehicle for corporate raiding. By permitting interest to be tax-deductible and taxing capital gains at low rates (and often not at all), the tax code favours replacing equity with debt. The effect is to make asset-price inflation the quickest mode of 'wealth creation' – buying real estate, monopolies and financial securities on credit, and hoping to emerge with a 'capital' gain.

This is true above all for real estate, which remains the largest asset in every economy and hence the banking sector's largest customer. Some 70 percent of bank loans in the United States, Britain and Australia are real estate mortgages. This paramount role of land and buildings as recipients of credit creation has created what national income accountants call the FIRE sector – an acronym for finance, insurance and real estate.

This symbiotic sector is political as well as economic. Translating its economic power into political control, bankers support real estate owners in lobbying to roll back property taxes, slash income taxes on higher wealth brackets and dismantle

public bank regulation. This policy is guided by the realization that whatever revenue the tax collector relinquishes will be 'free' to be capitalized into mortgages and other loans, and paid as interest – to be recycled into new loans to bid up property prices further, justifying yet further new lending.

From antiquity down through medieval times, land provided the main source of taxes. But starting with the Barons' Revolt in England in 1258-67, its owners used their control of Parliament to shift the fiscal burden onto the rest of the economy. The thrust of classical economic reform was to make land once again the basic source of public revenue. Seeking to free labour and capital from the burden of rent and interest, Progressive Era reformers sought to fully tax the land's rent or nationalize it outright.

It is natural for land prices to increase over time as a result of infrastructure spending, the general level of prosperity, and property tax cuts. Governments invest in transportation, public schools and other infrastructure (water and sewer services, gas and electricity) and give rezoning permits providing valuable development privileges. All this raises the rental value of sites as populations grow and become more prosperous. But what turns out to be mainly responsible for the rising price of land today is mortgage credit. A property today is worth as much as banks will lend against it. As the volume of credit has grown exponentially, banks have lowered their credit standards to the point where most rental value (or its equivalent value to homeowners) is paid out as interest.

New homebuyers are obliged to take on a lifetime of debt to obtain housing as property prices have soared. The irony is that this 'democratisation' of housing is called the bulwark of the middle class rather than debt peonage. As real estate bubbles burst and leave debts in their place, owners with negative equity (mortgages in excess of plunging market prices) are unable to sell, frozen into their homes, the result is not unlike medieval serfs tied to their land. Today's post-

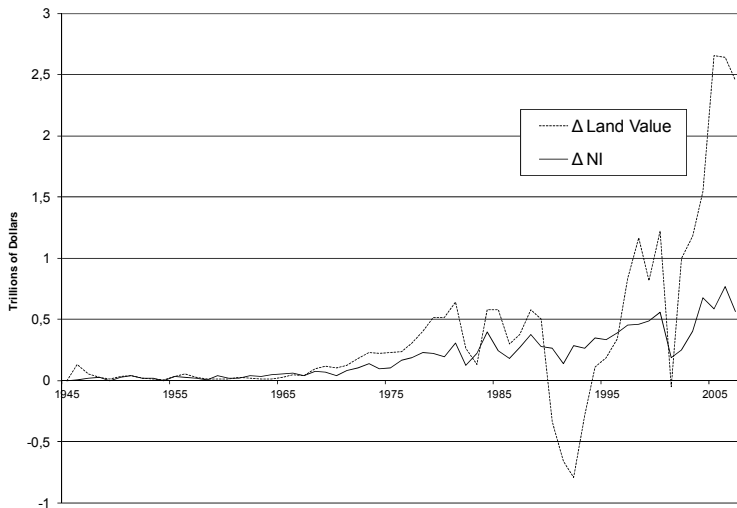
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industrial society is coming more and more to look like a regression to debt peonage.

What additionally is factored in today is the expected price rise. Buyers acquire property on credit, planning to pay off their debt by refinancing their mortgages (or 'cashing out') as asset prices are inflated. Hyman Minsky described this phenomenon as culminating in the Ponzi stage of the financial cycle²: Debts are carried simply by adding the interest onto the principal, creating a rising upsweep of indebtedness – 'the miracle of compound interest.'

A Bubble Economy is based on debt leveraging in search of 'capital' gains. Inasmuch as real estate is the economy's largest sector and land its largest component, these gains are headed by rising site value. The annual rise in land prices has far outstripped growth in national income since the late 1960s, becoming the driving force in today's financialised mode of 'wealth creation'.

Chart 1: Annual Land-Value Gains compared to Growth in National Income in the US



From asset-price inflation to debt deflation

Inflated asset prices have made fortunes for investors, and also for many homeowners who saw the market value of their homes rise by more than they were able to earn in a year. Financial promoters hawked a dream that people could maintain their life styles and get rich by capital gains rather than by what they could earn and save. Families who found that their wages and salaries were not enough to make ends meet were tempted to sustain their living standards by taking out home-equity loans. Banks appeared to have created a post-industrial mode of wealth creation by issuing enough credit to keep bidding up property prices – and to keep the boom going by lending yet more against collateral rising in value. Not to play this game was to be left behind as the affordability of housing rose further and further beyond the means of most families to pay without cutting back their expenditure elsewhere.

The problem with such bubbles is that once underway, asset-price inflation becomes the only way to sustain the debt burden. Debt-financed speculation must accelerate or else end in a wave of bankruptcy. The problem is that carrying charges on this debt divert income away from being spent on consumption and investment. Using debt leverage to bid up property prices loads the economy down with interest and amortization commitments to pay creditors. Prospective buyers must devote more and more of their working life to pay off the debts needed to buy a home, automobile, education or health care. That is the essence of debt deflation.

As this has occurred, interest payments have expanded to absorb most of the rental value of commercial properties and owner-occupied housing. And as property became more widely owned and democratized, it was fairly easy for the largest investors – and mortgage bankers – to stir up popular opposition to real estate taxation. But homeowners are not much better off. What formerly was paid to the tax collector is now paid to bankers as interest.

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Real estate bubbles are a symptom of debt creation, shaped and sponsored by governments cutting property taxes and thus leaving more revenue to be pledged to bankers as debt service. Modern debt peonage obliges families to take on a lifetime of debt to gain access to housing.

From asset-price inflation to debt peonage

In contrast to industrial capitalism, financialisation squeezes out an economic surplus not by employing labour to produce commodities for sale at a mark-up but by getting labour and industry into debt. It extracts a financial surplus in the form of interest, not profits on production and sales. And finance capitalism uses this surplus to extend yet new interest-bearing loans, not to invest in tangible capital formation. When income is insufficient to pay bondholders, financial managers extract revenue by carving up and selling off assets. Such zero-sum (or even negative-sum) transfer payments do not promote growth but polarize the distribution of wealth in ways that dry up the domestic market for consumer goods and investment goods.

Financialisation also acquires wealth from governments by appropriating the public domain or monopoly rights in settlement of debt. In the United States the railroad barons became land barons with a stroke of the privatisation pen – along with the emerging mining and timber oligarchy. By

this time real estate, mining and forestry were becoming part of the FIRE sector, dominated by finance. In America this meant Wall Street; in England, the City of London.

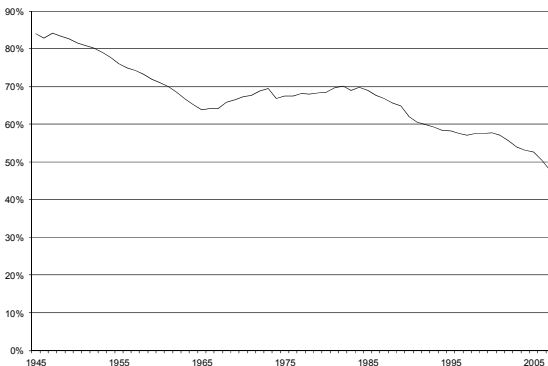


Chart 2: Homeowners' equity as percentage of household real estate.

(Source: FRB)

It often is overlooked that inequality of wealth far exceeds that of income. This is because the wealthiest 10 percent of families prefer to take their returns not as income but in the form of the much less highly taxed capital gains. And while the population's bottom 90 percent hope to catch up by going into debt to buy homes and other property, the insatiable growth in debt needed to keep a real estate and finance bubble expanding imposes financial charges that polarise wealth ownership. The debt charges grow so heavy that debtors are able to pay only by borrowing the interest.

Real estate in a debt-leveraged economy

The fact that land-price gains have long overshadowed real estate cash flow, earnings before interest, taxes, depreciation and amortization (EBITDA), has made property investors willing to pledge their rental income to bankers as interest. Rather than seeking current income (or for homeowners, rental value) the aim is to ride the wave of asset-price inflation. So the fact that overall real estate net cash flow (EBITDA) is about a third of national income in the U.S. Families get off the rent treadmill only to get onto the debt treadmill. Rental income hitherto paid as taxes is now paid as interest on credit extended to new buyers, while taxes on consumer income and sales also rise.

This is the tragedy of our financial system today. Credit creation, saving and investment are not being mobilized to increase new direct investment or raise living standards, but to bid up prices for real estate and other assets already in place, and for financial securities (stocks and bonds) already issued. The effect is to load down the economy with debt without putting in place the means to pay it off, except by further and even more rapid asset-price inflation – and sale or forfeiture of property from debtors to creditors.

This kind of economic distortion is largely the result of relinquishing planning and the structuring of markets to large banks and other financial institutions. In the name of 'free

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markets' the economics profession has celebrated the shift of planning and tax policy to the financial sector, whose lobbyists have rewritten the tax code and sponsored deregulation of the checks and balances put in place in the Progressive Era a century ago.

At that time it seemed that banking and finance would be industrialized, while landed wealth and monopolies would become more socialized and their 'free lunch' (economic rent) fully taxed. Rather than real estate prices rising as we are seeing today, this 'free lunch' (what John Stuart Mill called the 'unearned increment') would provide the basic source of public finance, including the financing of public infrastructure.

The classical policy of basing tax policy on the land's rising rental value was intended to have two positive effects. First, it would free labour and industry from the tax burden as this was shifted back onto property. Second, paying this rental value to the government would make it unavailable to pledge to mortgage lenders as interest and capitalized into larger bank loans to bid up real estate prices. This would prevent rent-extraction from becoming the objective of new credit, absorbed as interest by the banks.

But the vested interests have fought back. Financial lobbyists have extracted fiscal favours for real estate and pressed for deregulation of monopolies as the major source of interest and collateral for bank loans and bonds. The largest gains of all are made by privatising enterprises from the public domain, most notably in the post-Soviet kleptocracies but also from debt-strapped Western governments. This is a travesty of the 'free markets' that lobbyists for the banks and the wealthy in general claim to advocate. If the revenue currently used for interest and depreciation were paid property taxes, this would free an equivalent sum from having to be raised in the form of income and sales taxes. This was the classical idea of free markets.

Financial and real estate lobbyists encourage the popular misconception that higher property taxes squeeze homeowners and wage earners. The reality is that taxing the land's rental value would reduce interest charges by an amount equal to the tax. Real estate prices would become more affordable as the interest now paid to banks to support a high debt overhead would go to lowering the income- and sales-tax burden. This would reduce the cost of production and living proportionally, by about 16 percent of national income.

Prices and rents for housing and office space are set by the market place. Interest and taxes are paid out of this rental value. This means that homeowners and renters would pay the same amount as they now do, but the public sector would recapture the expense of building transportation and other basic infrastructure out of the higher rental value this spending creates. The tax system would be based on user fees for property, falling on owners in a way that collects the rising value of their property resulting from the rent of location, enhanced by public transportation and other infrastructure, and from the general level of prosperity, for which landlords are not responsible but merely are the passive beneficiaries under current practice.

In sum, fiscal policy would aim at recapturing the land's site value created by public infrastructure spending, schooling and the general level of prosperity. The economy's debt pyramid would be much lower as savings take the form of equity investment once again, rather than a minority position in a debt pyramiding operation.

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1. Abridged version of Michael Hudson (2010) *The Transition from Industrial Capitalism to a Financialized Bubble Economy*. Levy Economics Institute of Bard College, Working Paper No. 627.
 2. Hyman P. Minsky, *The Financial Instability Hypothesis*, Working Paper No. 74, May 1992 (The Jerome Levy Economics Institute of Bard College). Prepared for *Handbook of Radical Political Economy*, ed. Philip Arestis and Malcolm Sawyer (Edward Elgar: Aldershot, 1993).

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WHAT IS THE RELATIONSHIP BETWEEN THE FINANCIAL CRISIS AND THE PROPERTY MARKET? THE CASE OF IRELAND IN THE EMU

Ireland's credit fuelled construction boom has resulted in a collapsed domestic economy, growing unemployment and an insolvent state. This essay will argue that the causal mechanisms behind the Irish crisis can be traced to the perverse macro-financial incentives created by the European Monetary Union (EMU) and the micro-composition of Ireland's low tax liberal market political economy.

I. The origin of the European and Irish economic crisis can be found in the reckless behaviour of private banks in global finance markets. The aggressive deregulation of global finance markets and domestic credit-mortgage markets led to unprecedented levels of interbank lending within member states of the European Union (Lane, 2011). In 2003 Irish banks borrowed the equivalent of 60 percent of gross national product (GNP) on European money markets. By 2007 this had risen to almost 280 percent when securitised mortgages are included (see figure 5). This cheap money was channelled into real estate and property speculation. The outcome was colossal growth in house prices in the Irish domestic market (see figure 4). Direct and indirect employment associated with residential construction grew from 7.2 percent in 1998 to almost 17 percent in 2007. When the financial crisis hit in 2008 the Irish state guaranteed the private liabilities of the three main domestic banks: Anglo-Irish, Allied Irish Banks and the Bank of Ireland. The bad debt owed by property developers to these banks, in addition to the collapsed tax revenue associated with construction, resulted in the insolvency of the state. The Irish general government deficit went from 1.2 percent in 2007 to 32 percent in 2010. In the same period the debt to GDP ratio went from less than 50 to 110 percent and unemployment soared from 4 to 14.7 percent. To bring down the deficit, the government introduced three austerity packages that amounted to 14 percent of GDP, the largest recorded by any

developed economy in the western world (IMF, 2010). In 2010 the Irish state was priced out of international bond markets and had to resort to an European Central Bank-International Monetary Fund (ECB-IMF) financial loan. The condition of this loan is the introduction of an additional €15bn austerity package. Irish taxpayers are paying for the reckless behaviour of private market actors in private finance markets.

II. The transmission effect of finance into the real economy has produced what Colin Crouch (2009) calls 'privatised Keynesianism'. Privatised Keynesianism can be considered, similar to the argument advanced in this issue by Michael Hudson, as a response by policymakers to the decline in real wages. Demand managed Keynesianism associated with the Fordist era of production enabled the expansion of mass production with mass consumers through real wage growth. Confident, secure working class consumers were not a threat to capitalist democracy but a conduit to it. As prosperity stagnated, with the demise of 'les trente glorieuses', capitalist democracies had to find new ways to combine the need for accumulation, mass consumer demand and social stability. Policymakers across the western world responded by opening up product, finance and labour markets to increased trade and competition. This increased flexibility in the labour market created the conundrum of how to sustain domestic demand and high levels of consumption. Countries with a strong manufacturing base such as Germany exported the problem by securing confident consumers in countries such as Ireland, UK and the USA (and emerging markets). These countries increasingly relied upon personally delivered domestic services to generate employment. The problem of how to sustain a consumption economy in an insecure flexible labour market was resolved by increasing the availability of cheap credit. The credit card replaced real wages.

The growth of credit markets in Ireland, the UK and USA meant that these economies became premised on debt financed consumer spending. Thus, unlike the post-war European welfare state, individuals rather than the state took on debt to stimulate the

economy. This debt in Ireland was mostly accounted for by mortgages¹. Hence the shift from state to privatised Keynesianism. Government policies began to encourage house-price inflation as a means to enable households to leverage credit for consumer spending. The rapid increase in the price of land and housing were considered 'good inflation'. Rather than focus on increasing competitiveness through productive investment or the buying and selling of goods and services, the liberal oriented Anglo-Irish-American economies began to sell houses to one another as means to increase wealth. Ireland is the only 'liberal market economy' (LME) in the Eurozone. It was the fastest growing economy to enter the European Monetary Union (EMU) and has a business model that is closer to the USA than Germany. In the pre-EMU period Ireland constructed an export economy premised on internationally traded goods and services in the Information and Communication Technology (ICT) and pharmaceutical sectors. When the economy began to slow down after the dotcom bubble a new growth model premised on cheap money emerged. Irish banks took advantage of the absence of exchange rate controls and low European Central Bank (ECB) interest rates. The government de-regulated finance and mortgage markets and introduced a whole series of tax breaks for property construction. The outcome was a colossal house price bubble (see figure 4). The same occurred in Spain and the USA.

III. There is increasing evidence to suggest that the ECB maintained historically low interest rates in the Eurozone as a response to stagnant domestic demand in the German political economy. The sluggish German economy was a result of a decade of wage restraint (ILO, 2010). Wage growth in the highly productive export sectors, particularly those in chemicals, engineering steel and metal fabrication have been lower than almost every other OECD country. In some sectors, they have declined. But, industrial output from these sectors has been growing steadily from the mid 1990s. Thus, their rate of profit has increased whilst wages have declined. As argued by Michael Hudson in this issue, most of this profit has been recycled

into the finance industry. The growth in derivatives and other complex financial products has created what Wolfgang Streeck (2011) calls 'money factories'. These money factories recycle and repackage financial products and make their profit not from increasing productivity or investing in the real economy but through interest rates, much like state financed bond markets. German banks, particularly Deutsche Bank, lent significant amounts of capital to Irish and Spanish banks in the post-EMU era to fund their real estate boom. This was made possible by a liberal financial regulatory regime implicit in the design of the EMU.

The ECB-Frankfurt interest rates were aimed at mean or average inflation levels in the Eurozone. In theory they are not targeted at specific countries. But, in practice, interest rates were kept low because of stagnant domestic demand in the German economy which was the direct outcome of holding down real wage growth. The impact in Ireland and Spain was negative interest rates and an influx of cheap money into the economy (see figure 6). Domestic policymakers could not use monetary tools to contain inflationary pressures associated with rapidly rising house prices (which fuelled residential construction). In the context of 7 and 8 percent economic growth rates per annum, it would have been inconceivable for the Irish central bank to adopt negative interest rates. But, as Colin Hay (2009) has argued, the ECB was targeting the Harmonised Index of Consumer Prices (HICP) and this index does not include house prices or mortgage repayments. The Irish Central Bank would have been targeting the domestic Consumer Price Inflation (CPI) as this is the measure used by trade unions to determine nominal wage demand. The general point is that the single European market in finance-credit was an exogenous factor that facilitated an unsustainable boom in Ireland and Spain's property markets. Negative interest rates were the consequence of German wage restraint. This is the first factor that must be considered when examining the Irish case.

IV. In an ideal rational-efficient world Ireland would have mirrored the German political economy after its entry into the EMU. But, given extensive historic-empirical research on the diversity of

institutional configurations that make up national labour, fiscal and wage policy in Europe, this was unlikely to happen. The seventeen economies that make up the Eurozone have very different welfare and industrial relations regimes. Irish policymakers entered the Euro with a political economy that was gradually converging on European standards of living. But, its expenditure on social protection and education as a percentage of GNP was significantly below the EU15 average. In addition, Ireland's physical infrastructure, a core factor in long term economic competitiveness, significantly lagged behind European standards. The largesse that was made available from the pre-EMU Celtic Tiger and European Structural Adjustment funds facilitated a massive capital expenditure programme from 2000. Capital expenditure in 2004 was double the EU15 average. The National Development Plan was the strategic mechanism through which productive investment in roads, buildings, electricity and waste sewerage took place. This investment contributed to the inflationary pressures in the Irish economy but it also generated significant employment in construction. Whereas the rest of Europe was engaged in 'permanent austerity', Ireland was engaged in 'developmental expansion' to overcome infrastructural bottlenecks.

The unproductive investment in Ireland's political economy occurred in the private real estate market. According to White (2010), real estate accounted for two thirds of the €477bn available for capital investment from 2000-2008. During this period bank lending tripled, rising from 60 percent of GNP in 1998 to 270 percent at the peak of the construction boom in 2007. Real estate increased from 37 percent to 72 percent of total bank lending. It was this increase in bank lending on wholesale money markets that created the house price bubble in the Irish economy. House prices and construction employment soared (see figures 3 & 4). Between 1991 and 2007 house prices in Dublin increased by 490 percent. By 2006, land prices in Ireland were the highest in Europe. By 2007 almost 20 percent of GNP was accounted for by construction.

This created an employment boom in craft related trades, general labourers and professions such as architecture. Ireland experienced a jobs miracle from 1993-2000 with 650,000 jobs created in the private service market. This slowed down after 2000. Unemployment remained at approx 6-7 percent. But, between 2002 and 2007, Ireland experienced a second employment boom with an additional 400,000 jobs created. Less than two percent of these were accounted for by Irelands export economy. Almost all of these jobs were created in construction, domestic retail and public services. By 2006 one in four males under the age of 25 were employed in the construction sector. Most of these were low skilled labourers. By 2004, labour shortages were overcome by a huge influx of inward migration from central and Eastern Europe.

The expansion of credit made possible by low ECB interest rates fuelled house prices which shifted the Irish economic growth model from one premised on exports (pre-EMU) to one premised on construction (post-EMU). As detailed by Norris and Coates (2010), the commercial mortgage sector was de-regulated as part of a wider process of domestic financial liberalisation. Policymakers were aware that house price inflation would lead to increased wage demands. But, to tackle house price inflation the government adopted policies to increase the supply of housing (i.e. build more) rather than 'interfere' in the property market by managing lending criteria or controlling prices. The National Institute for Regional and Spatial Analysis (NIRSA) have described the Irish governments approach to economic policy as a 'patchwork system of neo-liberal governance'. At a Euro-macro level it involved the abolition of quantitative restrictions on credit growth, lowering bank reserve requirements, dismantling capital controls and the removal of restrictions on interest rates. At the domestic level Irish policymakers adopted pro-cyclical fiscal policies, developer rather than government led planning, light touch regulation, poor corporate governance and minimal taxation. The patchwork quilt of neo-liberal governance, however, was complicated by the existence of national social

partnership, centralised pay bargaining and a relatively generous welfare safety net. Trade unions were not excluded from the national governance framework but central to it.

V. Kelly (2010) argues that the Irish government and central bank were captured by the interests of the financial industry, a classic case of crony capitalism. This is only part of the story. Economic growth rates of 6-7 percent per annum from 2000-2007 increased government revenue and employment growth (see figure 2). The 2002 budget, in particular, was designed to win electoral support after the economy began to slow down. The government introduced a series of tax relieves on the purchase of rented residential property and expanded tax relieves for private hospitals, car parks, urban and rural renewal. The 2003 and 2004 budgets extended and widened these property related schemes with the result that Irish fiscal policy was aggressively pro-cyclical and directly linked to construction related capital investment (Gurdgiev et al, 2010). The increased revenue enabled government expenditure to increase by approximately 11 percent during this period. Most of this expenditure went on increasing social welfare payments and public sector pay. This satisfied and kept intact the underlying distributional coalition of Irish social partnership. Irish corporatism was premised on centralised wage restraint in return for decreasing income taxes. Hardiman and Dellepiane (2010) argue that the net effect of a government committed to income tax reduction was a path dependent route of sharing out growth through rising personal incomes rather than an improvement and collective investment in public services. Regan (2010) describes this as a 'liberal market' rather than a 'social democratic' political exchange.

The general point is that Ireland's fiscal policy regime was totally inappropriate to the conditions of a monetary union. The tax to GNP ratio remained steady throughout the construction boom. But, this masked a significant change in the underlying composition of the tax base. Income tax as a percentage of the total tax take declined from 37 percent in 1994 to 27 per-

cent in 2006. In addition, the tax base was increasingly narrowed with the net effect that 50 percent of employees were taken out of the income tax net altogether. By 2007 Irish revenue was hugely dependent on domestic consumer spending (VAT and indirect taxes) and property related taxes (stamp duty, VAT on new homes, capital acquisition taxes). Property related taxes went from 8 percent of total tax revenue in 2002 to over 15 percent in 2006. Thus, when the property market collapsed, tax revenues plummeted (see figure 7). From 2008-2009 government revenues fell by almost €18bn or almost 20 percent of GNP. Yet, given the rapid rise in unemployment and the associated social protection payments, government expenditure increased from 37 to 47 percent of GNP. Ireland's liberal and low tax political economy was the consequence of domestic political choices. This is the second factor in explaining the rise and fall of Ireland's property boom.

VI. Thus, low ECB interest rates, de-regulated finance markets and domestic tax policies led to the boom-bust cycle in Ireland's property market. None of the actors, including Irish trade unions, called stop because it generated full employment, strong economic growth and increased revenue for social expenditure. All three of these variables were central to maintaining the underlying political coalition of Irish social partnership. This institutional framework was one of the first casualties of the crisis. The ECB-IMF adjustment policies are now focused on improving 'national competitiveness' through removing the few remaining institutional regulations in what is otherwise a 'flexible liberal labour market'. The policy response has been to impose wage devaluation in the hope that this will improve investment, economic growth and jobs. However, there is little or no evidence to suggest this will happen. Most jobs in the Irish economy since 1998 have been reliant on high levels of domestic consumption and real estate construction. 60 percent of the 380,000 job losses since 2008 are the direct result of a collapse in real estate (NESC, 2011). The construction boom was based on cheap credit and increasing real wages through low marginal tax rates. This seriously calls into questi-

on the strategy of a 'growth' led rather than 'employment' led labour market strategy. The absence of strategic coordination to ensure investment in skills, productivity and employment between the export and domestic sectors is the source of Ireland's problem. This strategic coordination, however, would require an institutional framework of embedded social dialogue, encompassing employer associations and a developmental industrial plan that is lacking in Ireland's liberal market *laissez faire* economy.

Figure 1: Irish Unemployment Levels (%) ILO 1980-2010

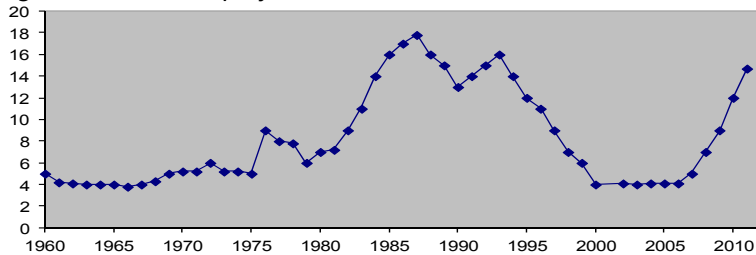


Figure 2: Irish labour market trends (1987-2010)

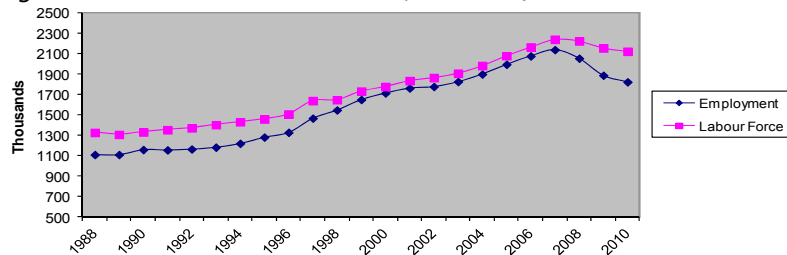


Figure 3: Construction as a percent of total employment (1980-2010)

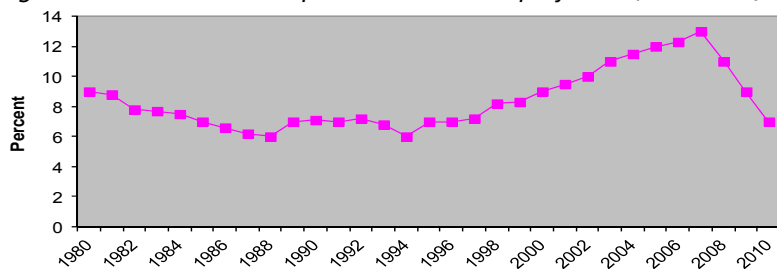


Figure 4: Average Irish house prices (1990-2008)

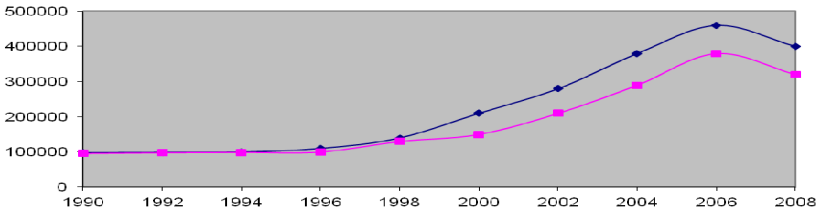


Figure 5: Net foreign liabilities of Irish banks (2003-2010)

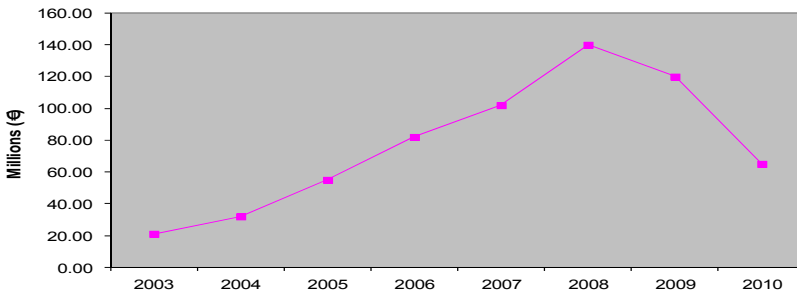


Figure 6: Interbank interest rate, adjusted for inflation (1980-2009)

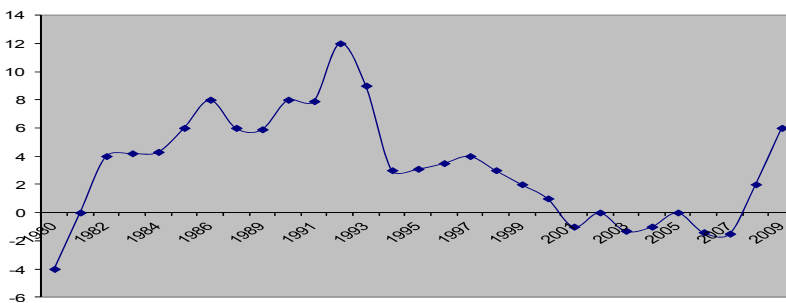
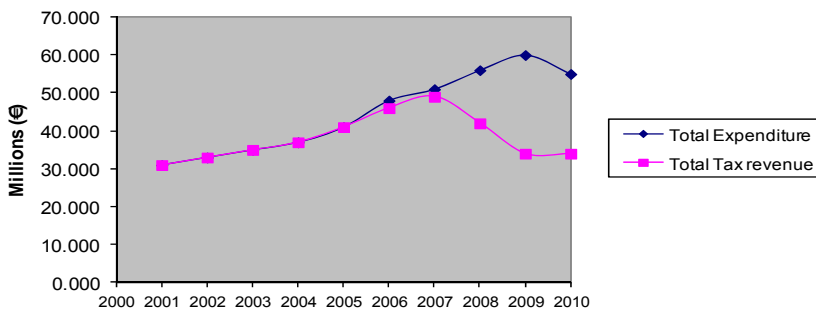


Figure 7: Total tax revenue and expenditure in Ireland (2000-2010)



1. The genealogy of the term 'mortgage' can be traced to the French 'dead peasant'

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DEVELOPMENT OF TRADE UNIONISM AND WAGES IN NEO-LIBERAL EUROPE: THE CONSTRUCTION INDUSTRY.

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The offensive against workers' rights and their Unions since the 1980s

Since the beginning of the eighties of the twentieth century we have faced a neo-liberal 'rollback' in Europe: Starting from the UK with the election of Margaret Thatcher in 1979, this development became a powerful tendency almost all over Europe. Trade Unions, who had been very successful in gaining better living and working conditions not only for their membership but also for all (also non-unionised) workers during the long period after the Second World War (respectively after Bretton Woods 1944) until 1979, were put under pressure. Herewith a long period of social peace and 'co-existence' ended. One could see that the 'class society was lifted up one floor' by an elevator (which was the work of the employees, i.e. during the period of the German Wirtschaftswunder¹). But now employers were no longer willing to share 'their' profits with 'their' employees. Governments became capitalists' allies or hostages. Consequently, lots of attempts were made to take away from Trade Unions and workers what had been given during the period from 1944 to 1979. Also, social welfare systems were put under general suspicion. Public services were also denounced generally as expensive and ineffective. This tendency became more persuasive through the instruments of globalisation and international competition. Especially after the end of the cold war, employers felt stronger and stronger. Over the last two decades workers and trade unions all over Europe have been faced with diverse strategies and tendencies to undermine their influence.

Construction Sector in Europe today

In 2009 estimated construction sector investment (EU 27) reached a volume of 1.173 Bio. €, amounting to 9.9% of the EU 27 GDP. This production was achieved by 3 million enterprises,

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95% with less than 20 employees and 93% with less than 10. All in all, about 14.9 million people were working in the construction sector, representing 29.1% of Europe's industrial employment. Altogether about 44.6 million jobs depend, directly or indirectly, on Europe's construction sector². If we look into the sector's structure, we face the fact that we have to deal with lots of small businesses. These small and micro enterprises are more widespread than in other (industrial) sectors in Europe:

Share of value added and persons employed by enterprise size class, EU-27, 2006 (%)

	Value added		Persons employed	
	Non-financial business econ.*	Construction	Non-financial business econ.*	Construction
1 to 9 employed	20.9	33.0	29.6	41.5
10 to 49 employed	18.9	31.7	20.6	30.6
50-249 employed	17.8	17.9	16.8	15.9
250 + employed	42.4	17.3	32.9	12.0

Source: Eurostat, * 2005

A comparison of the German construction sector shows that, whilst in 2010 Statistisches Bundesamt counts 7,073 construction enterprises, employing 378,000 people, Soka-Bau counts 67,945 enterprises, employing 577,512 people³. Whilst Statistisches Bundesamt counts only companies employing 20 or more persons, Soka-Bau counts actual figures. This implies that, in the German construction sector alone in 2010, circa 200,000 people were employed by 60,000 companies, an average of 3 employees for these mini- and micro-enterprises. So we find en masse micro-enterprises and (bogus-) self employed. Although this might seem extreme, we can state that all over Europe the figures - though differing in detail - tell the same story: Micro and small enterprises constitute a rather large part of the construction sector all over Europe. In 2006 these enterprises (50 or less persons) employed 72.1 % of the EU-27 construction workforce and

provided about 65% of the value added in the sector. One of the reasons for this characteristic in construction is that most construction companies serve a local market. In general, micro and mini enterprises in the construction sector serve local markets, whereas larger companies serve a more international market. Larger infrastructure projects are especially interesting for multinational enterprises (Verkehrsprojekte Deutsche Einheit, Alp Transit Tunnels, construction sites in London for the Olympic games and so forth).

The construction sector during the latest crisis

All over Europe the construction sector has been hit quite seriously by the latest crisis: Not only Spain, Ireland and the UK have been hit, but almost all countries across Europe. Exceptions are, for instance, Poland and Switzerland, due to their very special situation (and Germany, for other reasons). After a long period of growth from the mid-nineties until 2006/2007 (in some countries until 2008), production dropped in leaps and bounds:

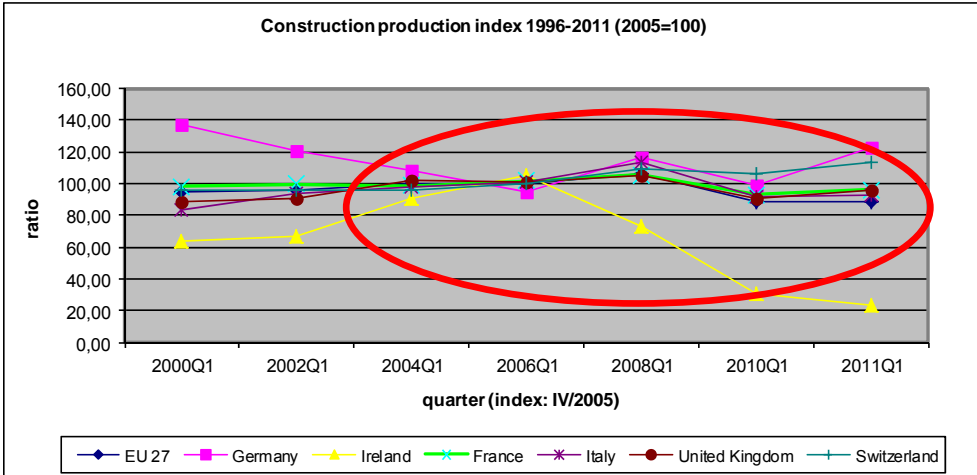
Index of volume of production in the construction sector, seasonally adjusted data - Construction production index - quarterly data - (2005=100) - in each case 1st quarter

	1996	1998	2000	2002	2004	2006	2008	2010	2011
EU 27	80.10	85.80	94.84	96.29	99.76	100.05	105.96	88.32	88.41
Germany	125.83	136.04	137.21	121.04	108.20	94.57	117.07	99.09	123.23
Ireland	:	:	63.70	67.40	91.20	105.10	72.80	30.50	23.40
France	90.12	90.09	98.40	99.93	98.52	102.01	105.65	93.02	96.40
Italy	70.33	73.79	83.55	93.80	98.32	100.66	113.83	91.90	92.36
United Kingdom	78.58	84.45	89.07	91.22	101.91	100.67	105.73	91.18	95.98
Switzerland	:	:	95.77	96.26	96.17	100.43	109.29	106.22	113.25

Source: Eurostat, July 2011.

If we try to visualize these figures, we see a somewhat irritating picture. As expected, Ireland experienced very strong growth until 2006 and then a tremendous drop-off. Germany's construction sector went through a harsh crisis from the mid-nineties (after the boom of reunification), so that its construction sector was no longer too affected by the latest crisis.

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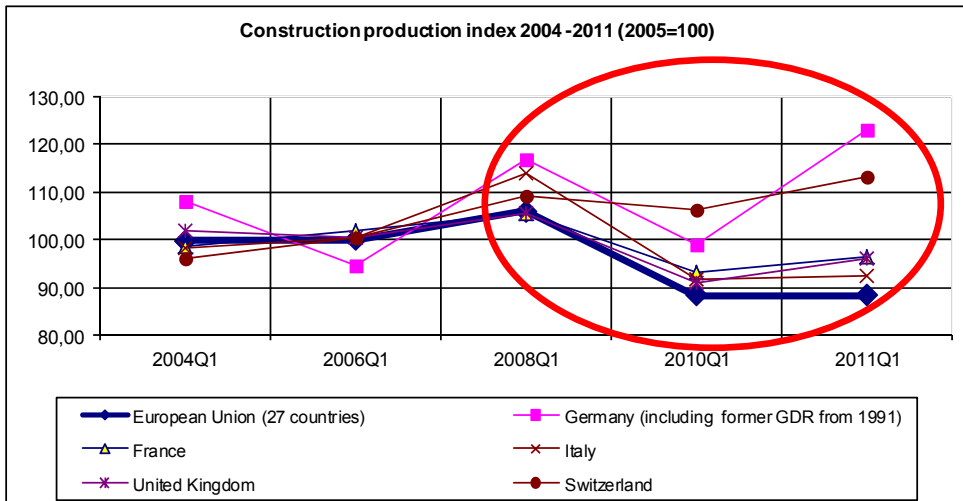


Data-source: Eurostat, July 2011

If we leave out the 'special case' of Ireland, we see that, even during the crisis, the construction sector in the EU 27 grew until 2008 (index 2005= 100) by about 6 index points to 105.96 points in 2008, before the crisis hit the sector severely: the production index dropped 88 points in 2010 and has stayed stable at this level until now (first quarter 2011).

The construction sector was hit hard by the crisis, not only in terms of decreased activity and lost employment, but also in terms of an increased share of precarious jobs, wage deterioration and social dumping. The present crisis in the Euro-zone too particularly affects the construction sector since austerity measures often mean reduced public spending and investment.

The economic crisis – both at the European level and in some EU Member States – has also been taken as a pretext to dismantle vital parts of the European Social Model⁴. All in all, the tendencies described above became even more powerful during the latest - and ongoing - economic and financial crisis.



Data-source: Eurostat, July 2011

Other specifics of the construction sector

Due to its nature, construction labour is local, as stated above - at least if we look into the building/housing sector. But the construction market is not always local. Public customers in the EU (and not only there) are obliged to publish calls for tenders as required by the 'Government Procurement Agreement'⁵. In fact, market changes and globalisation also affect the construction market⁶.

On the other hand, there is one fact that cannot be ignored: In general, work has to be executed where the customer needs the product (i.e. a road cannot be pre-produced in China and then delivered to France). It is self-evident that companies cannot dislocate their production in order to gain higher profits from 'low-cost countries'. They have to organise wage competition exactly the other way round: Construction companies have to import a cheap workforce in order to profit from low-cost countries. That is why we see a strategy which is quite unlike the classical (industrial) dislocation strategies.

Companies' strategies to profit from neo-liberal tendencies and crises

All in all construction companies have aspired to find new forms of labour in a search mainly driven by the attempt to lower labour costs. Companies have chosen in general two options:

- Labour cost competition via 'importing' workforce from low-wage countries to high wage countries
- Labour cost competition via outsourcing of departments and the use of subcontracting (chains) and (bogus-) self-employment

Companies' attempts have been in line with the neo-liberal roll-back policy since the early eighties. Wages and working conditions came under pressure; hundreds of thousands of local jobs were lost. Much of the workforce was replaced by a posted, migrant and self-employed workforce (as we can see in the growing number of mini- and micro enterprises in the sector (see above).

Employment in the construction sector from 1980-2010

Enterprises, persons employed and turnover in construction sector (Germany)						
Sector/area	Enterprises ¹ number		Persons engaged in Construction sector 1,000		Sector turnover in million €	
	1995	2010	1995	2010	1995	2010
Construction	27,046	14,376	1,456	668	123,009	86,292
Main construction trades	16,746	7,073	1,012	378	90,032	53,448
Finishing construction trades	10,300	7,303	444	290	32,977	32,844

Source: Statistisches Bundesamt, July 2011 (1 enterprises with 20 or more persons employed)

Widespread forms of irregular work in the building sector in Europe

- In many countries construction companies have begun to use contract labour (i.e. steel fixing); this is a construction-sector specific way of outsourcing.
- We have to face the wider tendency of a growing market

for (bogus) self-employment (i.e. tillers, dry-wall-builders...), apparent if we look at the average size of construction companies: lots of mini- and micro-enterprises (one to three employees/self-employed).

- Subcontracting chains have been set up (often in an abusive manner in order to camouflage the use of illegal/illicit work). You find chains with up to seven tiers so that in the end nobody knows which company is executing the work (and employees or (bogus-) self-employed do not know for whom they are working).
- The use of posted workforce is also widespread (namely in the UK, Ireland and Germany): Posted workers from countries where wages are lower are posted into countries where wages are higher. Here EU-jurisdiction has played an inglorious role⁷. The principle of host country regulations has been undermined by these sentences.
- Generally we have to observe a growing tendency towards outsourcing (i.e. machinery, cranes). Companies source out the lucrative parts of their business and gain from the extra -profits which are generated in these new 'profit centres'.

For its 2011 congress the EFBWW (European Federation of Building and Wood Workers) is searching for a strategy in response to these threats. Probably it will go for a strategy of reinforcing existing social safety regulations, both at EU and respective national levels. The discussion is open, but even today the negotiation of legally binding collective agreements and minimum wages is not one of the key issues discussed among member organisations. The following fields of action are identified⁸:

- a. Labour market policy;
- b. Industrial relations between employers and workers;
- c. Vocational and professional training;
- d. Safety and health;
- e. Internal cross-border coordination of bargaining;
- f. Strengthening the affiliated organisations;
- g. Striving towards a sustainable, competitive and climate-friendly building sector.

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We will see how successful these attempts will be in recovering the construction sector and the sectoral social dialogue as well as the regulatory framework.

Trade Unions

In general trade Unions have suffered a dramatic loss of influence. This is one of the consequences of the developments of the past twenty years: If we look at membership figures, we can observe dramatic losses in some countries. In the Central and Eastern European countries unions lost up to four fifths of their membership between 1993 and 2008. But also Austria and Germany (and lately the Scandinavian countries) have lost quite a considerable portion of their former strength (if we measure strength by members) during the last two decades, as the following figures show:

Country	1993*	1998**	2003***	Change 1993-2003
Austria	1,616,000	1,480,000	1,407,000	-12.9%
Belgium	2,865,000	3,013,000	3,061,000	6.8%
Bulgaria	2,192,000	778,000	515,000	-76.5%
Cyprus	159,000	167,000	175,000	10.1%
Denmark	2,116,000	2,170,000	2,151,000	1.7%
Estonia	-	-	93,000	-
Finland	2,069,000	2,084,000	2,122,000	2.6%
France	1,256,000	1,425,000	-	13.4% (93-98)*
Germany	11,680,000	9,798,000	8,894,000	-23.9%
Greece	721,000	656,000	639,000	-11.4%
Hungary	-	-	936,000	-
Ireland	432,000	463,000	515,000	19.2%
Italy	10,594,000	10,763,000	11,266,000	6.3%
Latvia	nd	252,000	180,000	-28.6%(98-03)
Luxemburg	97,000	112,000	139,000	43.3%
Malta	74,000	82,000	87,000	17.6%
Netherlands	1,810,000	1,936,000	1,941,000	7.2%
Norway	1,325,000	1,489,000	1,498,000	13.1%
Poland	6,500,000	3,200,000	1,900,000	-70.8%
Portugal	1,150,000	-	1,165,000	1.3%
Romania	-	-	4,399,000	-

Country	1993*	1998**	2003***	Change 1993-2003
Slovakia	1,583,000	854,000	576,000	-63.6%
Spain	-	-	2,108,000	-
Sweden	3,712,000	3,562,000	3,446,000	-7.2%
Switzerland	754'519	-	769'992	2.1%(95-05)
United Kingdom	8,804,000	7,852,000	7,751,000	-12.0%

* CGT and CFDT alone

Source: Mark Carley/eironline - European industrial relations observatory online: 'Trade union membership 1993-2003'. Swiss Trade Union Confederation SGB/USS: Mitgliederzahlen, Bern 2011

And this development has continued, if we look at the following graph. Also (not mentioned in the graph) the formerly strong German trade unions lost another 693,000 members (they fell then to 8,200,689⁹, representing a further loss of 7.7 per cent compared to 2003).

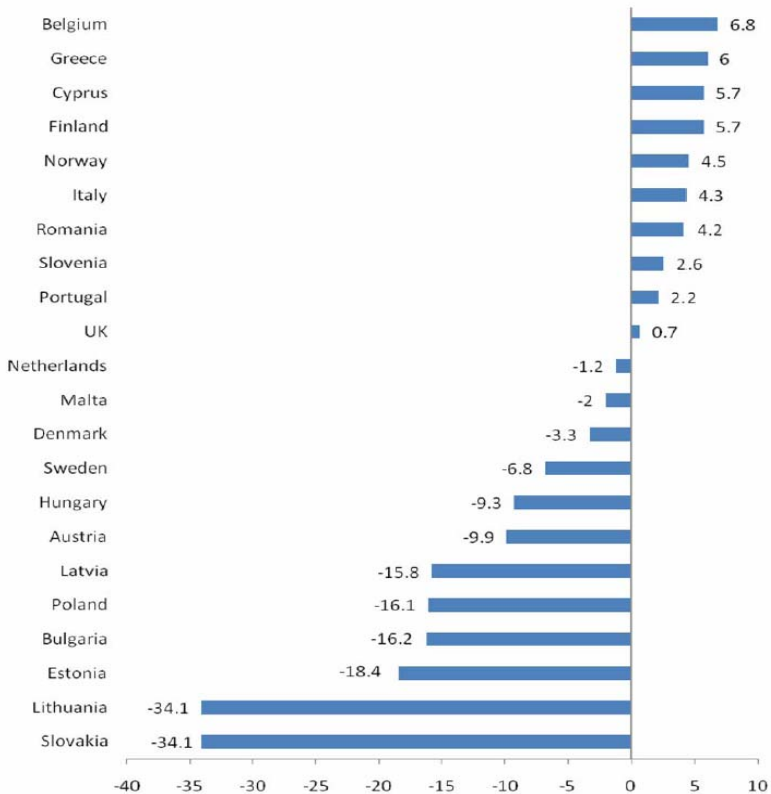
This tendency is somewhat less grave in the construction sector trade unions, but these trade unions have also still lost almost 10% of their membership all over Europe just between 2008 and 2011. This is on the one hand one of the consequences of the crisis and of the loss of regular work in favour of irregular work (unemployed and/or self-employed workers are scarcely unionised, at least compared to regular construction workers). The situation has also meant that trade unions in the construction sector are on the defensive and under pressure. Their freedom of decision-making (in the sense of power) has been shrinking for several years.

In other words, generally one can state that bargaining power is more or less directly linked with organisational power (as counted in membership figures). On the other hand, we see some countries (i.e. Switzerland, Germany) where the construction sector has been shrinking for fifteen or even twenty years. Today in both countries compared to the early or mid-nineties only 50% of (regular) jobs remain¹⁰. Here also trade unions have lost membership and bargaining power. But,

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whereas the Swiss trade union for the construction sector, GBI, merged with the metalworkers union SMUV and unions of the service sector, the German IG BAU still stands alone. The Swiss also chose the option of legally binding collective agreements, whereby not only framework agreements, but also wages are legally binding in Switzerland. The Germans did not succeed in this. Today only the Sozialkassen-Tarifverträge, the framework agreement and minimum wages are declared legally binding, not wages in construction in general.

Change in total trade union membership, 2003-2008 (%)



Source: European Foundation for the Improvement of Living and Working Conditions, 2009

Today's strategic challenges for Construction Trade Unions

We have seen the very special situation in the construction sector in Europe. Trade unions in this sector face a lot of challenges. The latest EU-Court of Justice sentences concerning trade union rights and the posting directive in connection with posted labour, legally binding (minimum) wages, joint liability and procurement regulations¹¹ cause particular trouble as regards the principle of 'equal pay and equal rights for equal work'. Trade unions will have to tackle issues linked with the problems caused by subcontracting chains, the posting of workers, the freedom of services and new (irregular) forms of labour, i.e. (bogus) self-employment. At the end of the day, one question has to be answered: Will the trade unions in the construction sector succeed in (re-)gaining regulatory and bargaining power, will they succeed in recruiting new members? If they do, construction labour will also have a chance in the future, if not, trade unions will cease to exist (together with the European construction sector).

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1. Ulrich Beck, Risikogesellschaft, 1986.
 2. Figures cited from FIEC and Eurostat 'Statistics in focus 7/2010: The EU-27 construction sector: from boom to gloom'.
 3. Source Soka-Bau, July 2011 - we are talking here only about 'main construction trade'.
 4. This argument follows the description given in the EFBWW draft action programme 2012-2015.
 5. Agreement on Government Procurement (WTO, 1994).
 6. Chinese building company 'COVEC' company (with Chinese workers) won the bidding for two major parts of a Polish motorway (A2 - Lodz -Warsaw) - in the meantime (summer 2011) COVEC lost the contract due to irregular practices (www.diepresse.com - July, 21st, 2011).
 7. i.e. Laval and Rüffert cases; that is why lots of trade Unions go for a revision of the posting directive, especially where there is no legally binding minimum wage in the construction sector.
 8. Draft EFBWW action programme 2012-2015
 9. European Foundation for the Improvement of Living and Working Conditions, 2009; Trade union membership 2003–2008, p. 5
 10. Sources: Seco/Bfs, SBV (Switzerland), Statistisches Bundesamt, Soka-Bau (Germany)
 11. Rüffert, Luxemburg and Laval cases

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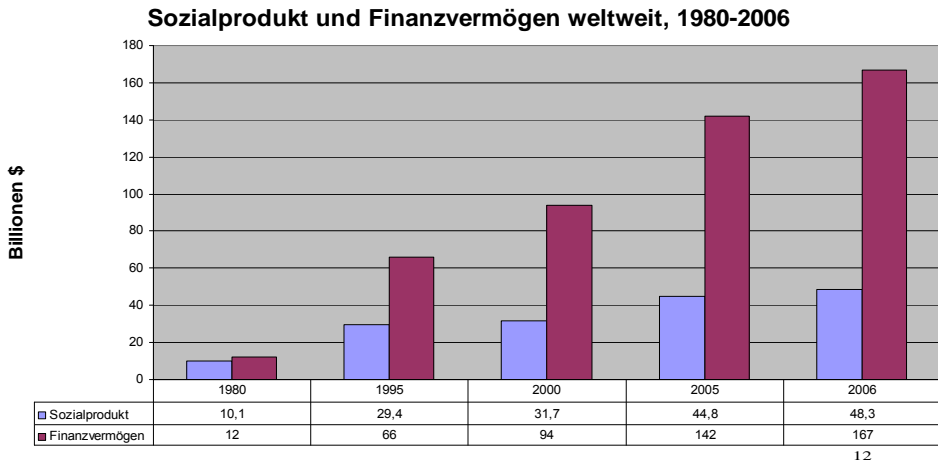
TWO-PRONGED LABOUR EXPLOITATION IN PRODUCTION AND PROPERTY

The financial crash in the autumn of 2008 was triggered by the sub-prime mortgage crisis in 2007. This crisis indicated the limits of exploitation of wage earners. Given a conventional level of wages, the expenses for owner-occupied housing in the United States exceeded the budgets of a few. The following foreclosures triggered a decline in property prices which, in turn, led to further foreclosures and household bankruptcies on a scale that shuttered the whole banking sector in the United States and to varying degrees the entire globe. In the United States the number of foreclosures is forecast to peak in 2011 after 2.9m foreclosures in 2010.

This essay is not about how the mortgage crisis unfolded into financial, economic, and sovereign debt crises, but about the mutation of wage relations as a specific way to distribute the social product and to determine the share of labour vis-à-vis ownership of productive assets.

Statistics are a limited instrument to measure qualitative economic transformation, but they all show the same turning point about 1980, when the share of wages in gross national product started declining and the rate of profits rising (see Michel Husson in this issue). Simultaneously, up to 2008, financial assets globally rose from 1:1 to 4:1 in relation to the annual gross social product. The share of wages in the social product not only ceased to rise, as it had done fairly consistently after World War II, but earnings also became increasingly polarised at national as well as global levels, whilst the exploding disparity of wealth outstripped income disparities.

Chart 1: Global Social Product and Financial Assets, 1980-2006 - Trillion \$



Quelle, Farrell/Folsater/Lund 2008, S.3

The inherent dynamic of financial capital to bear interest and, thus, to expand exponentially makes for a chronic shortage of assets as collateral of debt. One way to increase the value of assets is productive investment as long as the increase in production is matched with rising purchasing power, namely wages. Given a stagnation of wages, there is also the option to raise the value of existing assets. This has happened since the early 1990s to landed property – particularly but in no way exclusively, in the United States, Great Britain, Ireland, Spain – affecting, besides commercial development, the cost of housing for the working population. In Great Britain, within about 15 years, property prices quadrupled – for the United States see Michael Hudson Chart 1 - without corresponding investment in infrastructure. First-time buyers paid directly for this value explosion in terms of mortgage repayment and interest. Owners widely used the gains to buy more property, e.g. on a buy-to-rent basis, or as security for debts incurred by expenses to maintain their living standards, despite declining income. Costs for rented accommodation for those unable to afford to buy property

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rocketed to levels typically absorbing more than half an average wage earner's income. A further mode of decimating earnings is to charge excessive interest on credit card overdraft based on expected future earnings.

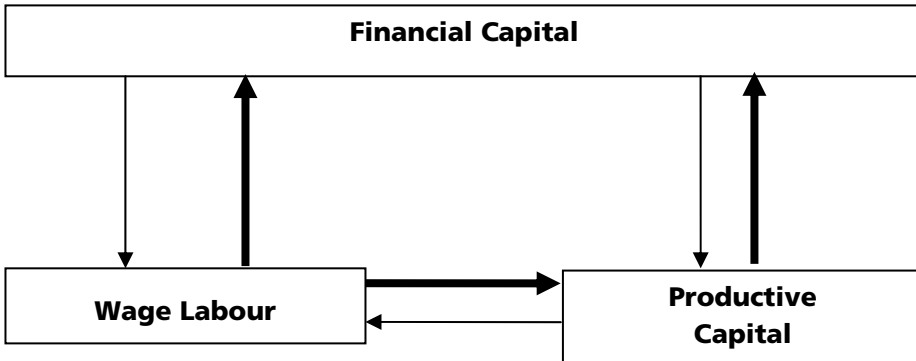
In a similar vein the pensions industry might be mentioned. But it would be largely telling the same story. Saving for pensions is a way of accumulating credit and corresponding debt by deduction from wages. Pensions are the largest part of financial assets and respective speculation.

Without looking into all the details and legitimate as well as fraudulent tricks by which finance capital expands its domain of assets as collateral of debt services, its fastest growing segment is land as the overwhelming part in property values at global level (see Michael Hudson). Irrespective of whether as rent or mortgage, in both cases wage earners have to pay the bill, and there are no limits to the levels of land value. Housing has become the expedient to divert a major part of wage income directly and indirectly into the financial sector. The tragedy is that house-owners have widely been drawn into the mechanism of property speculation, buying in the expectation of future benefits or even participating marginally in rising values. The vast majority, however, has been ruthlessly exploited or even driven into bankruptcy. Housing costs - and rents -, formerly determined by investment in construction and infrastructure, that is by production costs, have become a matter of financial speculation and, hence, virtually unlimited inflation.

What is the overall picture in the circuit of labour exploitation?

At first sight the relationship between labour and productive capital has not changed under the regime of financial capitalism. Labour is bought and sold for wages, whereas products and services are exchanged at prices under competitive conditions. Both labour and productive capital, also have exchange relationships with financial capital. Productive capital receives

money by selling shares and bonds as well as borrowing (credit). In return it pays profits and repayment to financial capital (debit) to banks, equity companies and shareholders representing financial capital.



Labour, by definition deprived of substantial capital assets, has only limited access to credit. However, there are minor sources of liability, savings, pension contributions, property, and future earnings. By far the dominant component, if wage earners obtain access to it through initial savings, is landed property or house-ownership. Mortgage banks lend up to the full assessed price of houses (credit) for regular instalments paid by wage earners (debit). Varying from country to country, this track in the circuit of labour exploitation has become one of the major sources feeding finance capital by draining the income of labour.

These new unequal relationships between labour, productive capital and finance capital have taken shape in the past thirty years and qualitatively changed wage as well as productive capital relationships. Both became dominated by finance capital.

Prior to this new constellation in capitalist regimes, the distribution of the social product was negotiated and ultimately divided between capital and labour into profits for capital and wages for labour. The social institutions, consolidated in

various ways by national labour law, were the 'social partners': employees and employers or their respective representative bodies, e.g. labour unions and employers' federations. Under this regime the financial sector was to provide services in particular by collecting savings and channelling them into productive investment, the business of the retail banking sector. This mode of distributing the gross social product, especially after World War II, in the respective economies generated an extraordinary level of growth of productive capital as well as wage income, driven by the permanent pressure from employees on employers to concede higher wages and improve working conditions and social security. Increasingly the employers were on the defensive until, in the 1970s, they started withdrawing from the frontline in the productive sector, making far superior profits indirectly as shareholders etc. and through relocating production into low-wage countries. Employees and their representative bodies came to be faced with cash-strapped corporations as employers and were forced to reduce their claims in order to save jobs. Employment relations deteriorated on all fronts: wage levels, protection against redundancy, social security etc.

The crisis of financial capital, symbolically manifested in the collapse of Lehman Brothers, one of the standard bearers of investment banking and heavily dependent on the mortgage exploitation of labour, brought into the open how this business had intensified by an insidious trick. Wage earners had been enticed to shoulder phenomenal debts through the *fata morgana* of having a share in eternally rising land values. This sector of financial business is nothing but another Ponzi scheme for a segment of society near the lower end of the income scale queuing for a first step on the property ladder or exploited in the rented housing sector. Unlike the fraudulent illegal schemes of e.g. Madoff and Stanford, this speculative land price investment is universally legitimised through property rights. Most of this increase of land value consists of ('toxic') debt and the respective huge flux of wage income into the mortgage banking sector.

The global rise of land value, whether in the United States, Spain, Africa, or China, driven by this speculative dynamic, has had its first great crisis in 2007-8, but it is again in full swing and heading for another crash. China seems to be in the forefront of the global land price inflation. The critical link in this spiralling money circuit is wage labour as personified by wage earners. Household expenses can to a certain degree exceed income by accumulation of debt securitised by property and future earnings. If the value of property does not exceed the debt – the case of sub-prime mortgage borrowing – household expenses are either limited by the available income and/or further borrowing securitised by rising property values or future wage earnings. Thus a stagnation in property values and/or wage income may suffice to trigger the collapse of a household budget. Wage earners' households are increasingly wedged into this two-pronged exploitation, as wage earners and as landowners or – indirectly – (land-) rent payers.

What does this imply with regard to the nature of wage relations? For centuries wages were regarded as a share in the produce created by the employment of labour. The employer had the larger share by selling the product at a price in excess of the expenses and thus made a profit on capital investment. In the course of history the levels and differentials of wages, including social security components, became increasingly regulated beyond the levels of individual employers by collective agreements and statutory minima. As pointed out above, these mechanisms of distribution have come to be severely punctured by the drain into the financial sector. As a result, the wage earners' share in the social product has plummeted, above all in the classical industrialised countries, far beyond the decline of real wages. This recent development has, at the same time, undermined collective bargaining as the institution for the dispute between capital and labour about sharing the product of labour. Neither are the proceeds of productive capital any more on the bargaining table, nor is the whole wage available for purchasing pro-

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ducts, since part of it is directly siphoned off into the financial sector. Thus the wage has ceased to represent a share in the social product. Globally income disparities have reached astronomical levels.

The retreat of capital from direct ownership of productive assets and implicitly from its role as the employer of labour has allowed the owners to extract their share, without the interference of wage disputes, in the form of interest and dividends. Similar to wage labour, productive capital has become an object of exploitation by financial capital. A typical instrument in this process is the equity fund as a temporary owner of corporations for the sole purpose of restructuring and redistributing productive capital. Ownership in relation to productive capital has become volatile and shared between an anonymous aggregate of individuals and financial institutions, such as banks, insurance companies, hedge and equity funds. This debt subordination of productive capital ('debtocracy') has empowered financial capital to expand on its own account to create bubbles of value condemned to growth unrestricted by real assets. This edifice is bound to evaporate as soon as the debts are reclaimed.

If a degree of social justice in the distribution of the work of labour is to be restored, new instruments will have to be introduced, or else the uprising of people around the world will keep mushrooming.

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DIE DENKNETZ-REFORMAGENDA (THINKNET REFORM-AGENDA)

On 20 April 2011 the Swiss Thinknet core group adopted an agenda as work in progress. It consists of three parts, 1) the reasons for having this agenda, 2) the main objectives of the agenda, and 3) a concluding summary.

The centre part sets out a reform strategy on:

- Redistribution of Wealth;
- Economic democracy concrete;
- Departure from parasitical allocation policy;
- Educational Policy.

This remarkable document, instead of suggesting a repair of the existing socio-economic order or a decent exit from a temporary crisis, identifies the fundamental defects of the market economy and seeks alternative options. This is a unique initiative in the European trade union movement which deserves a wider audience. We have translated part 3. The entire German text can be accessed on the website: http://www.denknetz-online.ch/IMG/pdf/Working_Paper_Reformagenda_April_2011-2.pdf

3) At the Threshold of a Social Order for the Future

We are at a socio-political threshold. On this side of the threshold, there is a society oriented towards making profits and marketing commodities. On the other side of the threshold, there is a society in which services for humans and care in exchange with nature are in the centre. The step across this threshold is a necessity because the old order produces more and more harm. A bon mot is accredited to the former German Chancellor Helmut Schmidt according to which today's profits are the investments of tomorrow and the jobs of the day after tomorrow. Adapting this bon mot, we should say today: the profits of the financial market of this morning are the speculative bubbles of this lunchtime and the econo-

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mic crisis of this evening. But instead of taking this situation into account, dominant present-day politics insists on throwing good taxpayers' money after bad money (i.e. that of financial markets). For purposes where money is urgently needed, it is missing: enforcing care work, for eco-social change, for public services, for the reduction of time in paid employment.

The step across this threshold is a precondition to be able to abolish poverty in the world without destroying living environment. The peoples in poor countries need sufficient goods for everyday needs, public services, and infrastructure. Environmentally-friendly technologies, materials for optimal recycling, concepts for mobility beyond the automotive craze, and an economy, which is not geared at maximum short-term return, has to make sure that in this process the environmentally harmful developments of the 20th century will not be repeated in the South.

The step across this threshold is necessary in order to liberate care work from its fetters. Private care work – looking after children and adults in need of care, care for personal connections and relationships – suffers from the fact that it is economically in low esteem in a profit oriented society. It is characterised by great inequalities and these inequalities are passed on from one generation to the next. Public care work in the health sector, in day nurseries and other social institutions is put under the pressure of austerity because they seem only to produce cost instead of making money. Yet the decisive potential for a sustainable increase in social affluence is inherent, in particular in promoting and further developing care work.

Nowadays industrial production is highly rationalised, industrial products take less and less time to be produced. Resources saved hereby have to be directed into care economy, education, promotion of culture, environmental protection and catch-up development in poor countries. But it is in particular

these shifts in which capital is only marginally interested. This leads to a fundamental paradox: the globalised economy in fact becomes more and more rich and productive. However, at the same time social inequality is increasing. The means to make the great majority of people more wealthy and free seem to be lacking. That is why financial resources have to be taken off from financial markets and be made available to building a care economy. We need the democratisation of the economy instead of the marketisation of politics, the regulation of financial markets instead of the dictate of big banks. We need politics which lead us across the threshold towards a society of care and circumspection, toward a care economy.

At this threshold we are faced with many challenges and a central question: how can those social and political forces be given the strength needed to overcome the threshold? How can people be persuaded to restructure social relationships instead of seeking their salvation in rejecting aliens and others. What spaces for manoeuvre can be found for progressive solutions within national boundaries, and what is the situation of the interrelationship between national politics and international developments?

These questions are also reflected regularly within Thinknet – keeping in mind that here even more than elsewhere conclusive theoretical answers are not to be found. These questions have to be approached rather in interaction with political practice. Even though Thinknet can maintain its independence only if it does not represent a political agent, in the last instance this practice is decisive. That is why we are continuously trying hard for the results of our thinking work to become fruitful for progressive politics.

Reports

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Annual Conference of the EuroMemo Group 16-18 September 2011 in Vienna

Déjà vu

It was already the 17th meeting of the 'Euromemorandum Group' consisting mainly of economists from across Europe, striving with their expertise for an alternative path of economic development. Although it was the first I attended, at a personal level it was a comeback, a return to life, experience and work.

The Start

All this started about the early/mid 1970s. A little earlier the German government commissioned a group of highly prestigious economic institutes to elaborate an annual report on economic development: wage cuts, keeping 'social costs' low, restricting public investment to bring growth, employment and affluence for everybody etc. From 1975, in response a group of not only economists but also political scientists, regional planners and many other areas of social sciences, first rather small, later and even today still growing, highlighted their positions in alternative statements. Emphasis was put on the fact that investment has to be undertaken in different ways: saving on profits, investing in wages, shortening working hours and thus distributing employment rather than administering and paying for unemployment. This was the work of academics - in permanent search of political allies especially amongst the trade unions - engaging in public debates and political economic processes.

Widening the Framework

This 'new economy' served its own maintenance: exchange-based profit-generation rather than useful activities and useful products. Though institutionally in a different framework, the same story came up again. Growing out of a large EU-funded project, scientists faced similar official orientations: we all know the story, don't we? It is now a European story.

The 'right' answers of the establishment of economists actually managed to achieve enormous growth; for a while in particular countries like Greece or Ireland emerged as 'tiger' economies. And now it is clear, what could have been seen for some time already, their growth was not much more than the growth of modern slaves, the basis on which others established their 'strong' economies.

'Finance capitalism' is only the most extreme form. What is new at this stage: the story is a truly European sub-chapter of the global story although the actors are still very much tainted by the spirit of parochial nationalism: Germans feel as if they are paying for Irish debts, the French blame the Greeks etc., whilst the bourgeoisie have for long been doing what Marx and Engels wrote on the banner of the working class: they united.

Where to go?

I was personally involved in the work of the Memorandum in Germany many years back; not least benefiting from the engagement of Jörg Huffschmid who passed away in 2009. Moving to Ireland, I lost contact, worked in other areas. Again attending last weekend's meeting in Vienna was some kind of a déjà vu. Nobody said: Yes, we can. But every body said: Yes, we could. And we have to if we want an economy that serves people rather than being a slave of permanent and increasingly severe failures: We have to analyse systematically the current situation and its history and on this basis to develop strategies that go beyond hasty, short-term solutions saving the economy rather than serving the people.

The outcome of the annual workshops and subsequent editing are published as 'Memoranda' circulated way beyond the participants. The publication of the next Memorandum is due early in December 2011.

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Anticyclical Training, new skills for construction employees in crisis times

Early in 2009, when the crisis had only begun to reach the economy and labour market, Dutch construction unions and employers found each other in a special initiative. ACO, Anti Cyclisch Opleiden (Anti Cyclical Training), enabled 'VET recognised' companies suffering from the crisis to invest in training with the help of the sector as a whole.

The construction sector had learnt its lesson in 2003 and 2004: 2,300 trainee places then disappeared, leading to huge staffing problems afterwards. Near the end of 2008 employers and unions discussed:

- How to prevent a new dramatic loss of trainee places? (in particular a topic for employers)
- How to keep employees longer in employment when production declined? (interest of unions and employers together)
- How to take anti-cyclical measures, softening the effects of the recession, and 'invest' in future labour market demands? (also unions and employers)

ACO anticipated the fear that companies, temporarily lacking work, would refuse to take VET trainees as a first crisis step. Their natural cyclical reaction ('I would rather keep my employees than take on new trainees during recession') had to be influenced by an anti cyclical programme, in order to prevent quantitative and qualitative shortages in the future.

The ACO scheme made it possible to send employees on substantial (re)training programmes and save wage and other costs during the training period, on condition that they took on one or more (extra) trainees. For many companies it would be the first time that they had to produce a company training plan plus an individual training plan for every employee sent onto training.

For ACO 64 million Euro was reserved from sectoral training funds. The scheme was to run in 2009 and 2010, but was pro-

longed by one year. It will end in December 2011. Unions and employers started a common national steering group, as well as bipartite steering committees at regional levels to decide on participation, conditions and contracting of providers. The main challenges were to 'seduce' companies to participate and to help realise training modules. Moreover, special government funding for youth employment had to be negotiated with regional public authorities, to be used for trainee costs.

Two years after the start, in May 2011, 518 companies had developed a Company Training Plan, covering individual training plans for 5023 employees (3% of the total workforce in 'direct' construction). On average 38 training days per employee were provided and nearly 400 days per company - the number of training days gradually going down during the project; normally employees have the right to at least 2 training days per year financed by the sectoral training fund. 1617 trainee places for VET entrants were created in return - roughly one trainee place for every three employees going into external training.

Smaller and medium enterprises were surprisingly involved in the scheme: 52% of the company training plans came from construction companies with less than 25 employees; the fact that SMEs in particular were experiencing a loss in orders and work at this time of crisis 'helped' to get them on board. Among the employees trained, the older generation was reasonably represented: 20% of the participants were between 45 and 55, 10% were over 55.

The majority (53%) took modules for employee qualifications at level 2 or 3. Another 43% started with 'professional steps for qualified employees' (new knowledge and insights within their professional area). All in all, ACO seems to have preserved a substantial number of trainee places and retrained groups of workers who had long been without training in their job.

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A legal basis for safe construction products in the EU



On 24 April 2011, the new EU Construction Products Regulation came into force. It takes effect immediately, but will not impose binding obligations upon manufacturers until 30 June 2013. From an occupational safety and health perspective, the regulation is a significant improvement over the former Construction Products Directive since, for the first time, it sets out requirements for the safety of construction products at European level. A legal loophole has thus been closed.

KAN monitored development of the new Construction Products Regulation [FN1¹] closely from the outset, and lobbied the German ministry responsible for construction, the European Parliament and the European Commission for product safety requirements to be included in it. The provisions that have now been adopted constitute a major step forward for occupational safety and health:

- According to basic requirement 3 in Annex I, a construction work must be designed and built in such a way that, throughout its life cycle, it is not a threat to "the hygiene or health and safety of workers". Reference to the life cycle covers all phases of a product's life, from procurement of the raw materials through to disposal.
- For certain families of construction products, the European Commission may determine, in delegated acts, the essential characteristics for which the manufacturer of a product is obliged to declare its performance (Article 3), irrespective of national regulations in force at the location where the product is to be placed on the market.
- Should a Member State determine that a construction product poses a threat to human health or safety, it may require the economic operators concerned to take measures to eliminate the risk or to withdraw the product from the market (Article 58).

With the New Legislative Framework [FN2²], in force since 2010, construction products are now also subject to market surveillance. The Construction Products Regulation takes up the provisions and substantiates them.

Particular legal aspects

Like the directive preceding it, the regulation is also based upon the principle that the essential performance characteristics of the construction products should not be specified, but should be derived from the basic requirements for construction works stated in Annex I. Concrete requirements for these features are then formulated in harmonized technical specifications (such as standards). These requirements form the basis for the manufacturer's declaration of performance and for awarding of the CE mark.

An important aspect particular to the construction sector continues to be the fact that a certain performance need be declared for a product only when relevant national provisions are to be observed at the "intended" location at which the product is to be made available on the market (Article 6 (3)e). It remains to be hoped that this arrangement will not be abused, since a contractor cannot determine from the CE mark alone to which EU Member State the original declaration applied.

Easier arrangements for manufacturers

The Construction Products Regulation brings with it a range of new provisions which are intended to simplify matters for the manufacturers of construction products:

- Certain products are exempted from the obligation to produce a declaration of performance. These include products manufactured on the construction site, and individually manufactured and custom-made products.
- Construction products are now defined more closely: they now include not only discrete products but also kits which are incorporated in a permanent manner in construction works and which have an effect on the performance of

the construction works with respect to the basic requirements.

- Micro-enterprises may use simplified procedures for type-testing.
- It is now set out in the legal text that the manufacturer may to some degree make use of the test results already available for other products in the declaration of performance for a product.
- The Member States designate Product Contact Points which provide information free of charge on the national provisions applicable to the particular intended use of a construction product.

Since the Construction Products Regulation is founded upon national provisions, it is now crucial for occupational safety and health that the individual Member States create a sustainable statutory foundation for the safety of construction products. Based upon this foundation, the European Commission can formulate concrete requirements within mandates which in turn can be implemented within standards.

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1. FN1 Regulation (EU) No 305/2011, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:088:0005:01:EN:HTML>
 2. FN2 Regulation (EC) No 765/2008 concerning accreditation and market surveillance

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Asbestos – Still a Killer, Seminar in Brussels June 30

Following closely after the debacle which was the June 2011 meeting of the Rotterdam Convention (RC), an event derailed by the obstructive position taken by asbestos stakeholders, the occurrence of the seminar Asbestos - Still a Killer in the European Parliament provided the opportunity for civil society representatives to express their outrage at the self-serving and disruptive behaviour of the Canadian RC delegation. The June 30 Brussels seminar attracted participants who included

European Union (EU) civil servants, trade unionists and representatives of asbestos victim support groups. Amongst the panel of speakers were asbestos experts such as Stephen Hughes, Member of the European Parliament (MEP), Dr. Jukka Takala Director of the European Agency for Safety and Health at Work, Danish trade unionist Lars Vedsmand, Bernd Eisenbach and Rolf Gehring from the Europe 2023 – Asbestos Free campaign and Laurie Kazan-Allen, Coordinator of the International Ban Asbestos Secretariat (IBAS). Interpretation into several languages facilitated the wide ranging discussion stimulated by the presentations.

Co-chair Stephen Hughes kicked off the session with a brief discussion of the process required to achieve an asbestos ban in the EU; negotiations to prohibit the marketing and use of all types of asbestos in Member States took, he said, 15 years. Nevertheless, recent work to install Wi-Fi connections in the EU Parliament in Strasbourg revealed that the building was still riddled with asbestos. Hughes called for a mandatory public register of the location of asbestos in all buildings. The ongoing threat from asbestos hidden within national infrastructures was the subject of comments by Lars Vedsmand who highlighted the vulnerability of Danish construction workers to hazardous exposures even though the use of asbestos had been unilaterally banned 25 years earlier. Precautionary measures adopted by Scandinavian trade unions include asbestos inventories of workplaces and rigorous training schemes with certification protocols for educating workers about the asbestos hazard [1]. A 13-page paper by Rolf Gehring, entitled: Proposals on Registration, Better Working Conditions, Training of Workers, the Recognition of Asbestos Related Disease and its Compensation, detailed proposals to address some of the challenges pinpointed by Mr. Vedsmand.

The second speaker, Dr. Jukka Takala, has had years of experience in tackling European asbestos issues in his current role at the Bilbao European Agency and in his previous position as Director of the International Labour Organisation's International Programme on Safety and Health at Work and the Environ-

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ment (SafeWork). Having presented data which placed the asbestos epidemic into a global context, Takala estimated there are 112,000 work-related deaths from asbestos every year; 'asbestos is,' he said 'the world's biggest occupational killer.' In the light of the lack of data regarding the asbestos death toll in many countries, the speaker cited academic estimates of annual national and regional incidences of mesothelioma as follows: Russia 4,000, Established Market Economies 24,000, 27 EU Member States 12,000. Substantial asbestos consumption in developing countries is of serious concern as 'asbestos cannot be used safely.' Graphs showing the link between national asbestos consumption in industrialised countries in the 1960s with asbestos mortality forty years later indicate that future asbestos epidemics will occur in countries which continue to use asbestos [2].

The presentation entitled Asbestos – An International Perspective, by IBAS Coordinator Laurie Kazan-Allen, focused on recent developments at the Rotterdam Convention, specifically the refusal by the Canadian delegation to include chrysotile asbestos on the Prior Informed Consent list. Canadian Government documents distributed at the seminar supported comments by the speaker that Ottawa wilfully disregarded recommendations from its own advisors to list chrysotile under the Rotterdam Convention despite knowing the consequences for vulnerable populations in countries which import Canadian asbestos. Having detailed the machinations of global asbestos stakeholders at the Rotterdam Convention meeting, the speaker told delegates:

'I have been studying the global asbestos industry for over 20 years. In that time, I have witnessed political dishonesty, industrial thuggery, corporate malfeasance, judicial manipulation, the misuse of science, the abuse of the legal process, physical and professional intimidation. What transpired last week in Geneva transcended this – it was pure evil.' [3]

Responding to this presentation, Co-Chair Stephen Hughes said:

'I first became involved in the European campaign to ban asbestos 20 years ago. It is unfathomable to me that Canada, a democratic developed country, continues its support for this deadly industry. MEPs attending today's seminar are scandalised to hear the extent to which Canada is implicated in dumping asbestos on vulnerable populations. We will do our utmost to bring this outrageous behaviour to wider notice and to translate our anger into action.'

Co-Chair Alejandro Cercas MEP seconded Hughes call for joint action against the pro-asbestos policy of the Canadian government.

Useful resources and ongoing asbestos projects were the focus of comments by Bernd Eisenbach, an asbestos expert from Germany. The on-line 'Asbestos House,' developed by the Swiss Safety and Health at Work Insurance and Prevention Body (SUVA) is an innovative and well-presented schematic which not only indicates where asbestos-containing products are likely to be found in domestic properties but reveals what these products look like. Information on this site is of particular relevance to workers involved in the redevelopment, refurbishing, reconstruction and maintenance sectors as well as owners, inhabitants and managers of these types of properties. The Training Modules for Asbestos Workers and Safe Working Conditions Project, developed by the European Construction Industry Federation (FIEC) and the EFBWW is of particular relevance in light of cut-backs on training for workers and worksite inspections. Economic pressure on governments and commercial organisations mean potentially life-saving training on occupational issues such as the asbestos hazard is no longer regarded as essential; the knock-on effect of this is that 'today they (workers) mostly cannot expect to be warned and prepared by the enterprise... Therefore they need a deep understanding about where possibly asbestos can be found and how to identify it.' In the light of the trans-European migration of workers, action on a European level is essential; the scheme being proposed envisages the requirement for all at-risk workers to obtain a 'minimum level of qualification' re-

garding asbestos risks [4].

The failure of the EU to implement minimum provisions for the recognition and compensation of asbestos-related diseases was highlighted in the presentation Recognition and Compensation of Asbestos-Related Diseases by IBAS Coordinator Kazan-Allen:

'Throughout EU Member States, there is a huge disconnect between what (asbestos) sufferers should receive as their due and what they in fact do receive. Each EU asbestos victim has an equal and inalienable human right to receive appropriate medical treatment, equitable compensation and practical support... While asbestos victims in some EU Member State receive government benefits, civil compensation, medical treatment and counselling, most sufferers do not.'

Recommendations made to rectify the inequalities which exist included:

- Adapting EU legislation mandating equal rights for asbestos victims.
- EU policymakers to recognise the vital role of asbestos victims' support groups.
- Establish a European Research Centre for Asbestos-Related Diseases: ECARD.
- Prioritise collaborative efforts with civil society organisations in Eastern Europe to raise awareness of the asbestos hazard.

To commence the discussion section, the EFBWW's Rolf Gehring indicated possible avenues for joint action [4]. His action points have been incorporated into the list below along with suggestions made by other speakers and seminar participants:

At a Global Level

- Civil society should cooperate with international agencies, regional bodies and national governments to achieve a worldwide asbestos ban; specific initiatives were indicated.

- A challenge by the European Union should be made regarding the \$58 million loan guarantee that the Quebec government is offering to the international consortium behind the new asbestos mine in Quebec as this financial support is an unfair trade subsidy under World Trade Organisation rules.
- A WHO Framework Convention on Asbestos Control should be implemented.

Within the EU

- MEPs should consider sanctions and trade boycotts against Canada in protest at the deplorable behaviour of the Canadian delegation at the Rotterdam Convention meeting. The Comprehensive Economic and Trade Agreement between Canada and the EU should be put on hold indefinitely.
- Programmes should be developed to comply with new EU regulations that mandate a minimum standard for occupational asbestos training.
- A campaign to make all European schools asbestos-free within a specified time period should be instituted.
- EU agencies should be instructed to quantify specific asbestos problems such as reporting on the progress made by Member States in transposing EU ban asbestos directives and determining the social and economic costs of asbestos-related disease in individual countries.
- Legislative requirements regarding workers protection should be tightened and mandatory asbestos audits of workplaces, public buildings and domestic properties should be introduced.
- Calls should be made to investigate the manner by which two chemical companies were able to railroad EU plans to end the derogation allowing the use of asbestos-containing diaphragms; the EU should be lobbied to abolish this exemption.

In his final remarks to the seminar, Co-Chair Alejandro Cercas MEP underlined the need for the European Parliament to prioritise the asbestos issue and called for tightening up of EU asbestos legislation, increased occupational safeguards

and measures to ensure that Member States recognise and compensate the injuries of asbestos victims. Cercas argued that specific asbestos targets should be included in the upcoming European Community strategy on occupational safety and health. Immediately, after leaving the seminar, Co-Chair Stephen Hughes had a meeting scheduled with Laszlo Andor, European Commissioner of Employment, Social Affairs and Inclusion. Having taken note of the issues raised during the seminar, Hughes discussed the recommendations made, including the calls for sanctions against Canada, with the Commissioner. As MEP Cercas said when he brought the session to a close: 'Our goal must be to create a Europe based on human values and not just one based on money and commerce.'

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1. June 30, 2011 Brussels seminar was organised by the Group of the Progressive Alliance of Socialists & Democrats in the European Parliament in collaboration with trade unions and non-governmental organisations. The Rotterdam Convention is a multi-lateral agreement to regulate the global trade in hazardous chemicals and pesticides; see: <http://www.pic.int/>
 2. This campaign is an initiative of the European Federation of Building and Woodworkers (EFBWW): website: <http://www.efbww.org/default.asp?Language=EN>
 3. The Asbestos House is available in German, French and Italian, not in English. German: http://www.suva.ch/startseite-suva/praevention-suva/arbeit-suva/kampagne-asbest-einstieg-suva/asbesthaus-suva.htm?WT.mc_id=shortcut_asbesthaus
 4. The need for more information was underlined by a document distributed at the meeting entitled: 'Observations on the interpellation of the European Parliament on Asbestos.' From this document it was clear that questions asked to the European Commissioners by MEPs have, on the whole, either gone unanswered or been answered inadequately.

References

- [1] Lars Vedsmann's presentation: <http://www.efbww.org/pdfs/Presentation%20Mr%20Vedsmann.pdf>
- [2] Dr. Takala's presentation: <http://www.efbww.org/pdfs/Presentation%20Mr%20Takala.pdf>
- [3] Laurie Kazan-Allen presentation: <http://www.efbww.org/pdfs/Presentation%20Mrs%20Kazan-Allen%20-%201.pdf>
- [4] Bernd Eisenbach's presentation: <http://www.efbww.org/pdfs/Presentation%20Mr%20Eisenbach.pdf>
- [5] Rolf Gehring's recommendations: <http://www.efbww.org/pdfs/Presentation%20Mr%20Gehring.pdf>

EFBWW Research Project: Wages, Working Time and Pensions for Construction Workers

Ernst-Ludwig
Laux

In the last three years the European Federation of Building and Woodworkers (EFBWW) has examined and documented the working conditions of construction workers in a number of research projects which have substantially been subsidised by the European Commission: in 2009 hourly wages and income and in 2010 working time and its flexibility as well as holidays. Most recently the situation of pensions and regulations for early retirement, the age of retirement and collectively agreed additional pension benefits have been explored and compiled. This last research will be summarised here.

Since a number of years, especially after the EURO crisis, in almost all European Union states pensions and its regulations have been a matter of discussions. Many laws concerning old age benefits have been passed and the raising of the retirement age up to 67 is an issue of intense controversy. Though in debates about pensions the reasoning differs among the EU-countries, four main arguments can be identified:

1. Because of demographic development of the rising age of the population, in the pay-as-you-go system the active working population has to contribute a higher proportion of their wages for the increasing numbers of pensioners.
2. By liberalising social security benefits the mandatory public pay-as-you-go systems shall be replaced or supplemented by so-called capital insurance systems.
3. Pensions shall be privatised. A third pillar shall be established on the basis of employee savings.
4. As a result of the financial and EURO crises, of the liberalisation of the labour markets and employment relations as well as of the assimilation of pension systems in Europe, a general and special need for discussion and decision making has arisen.

Financed by the European Commission, in 2011 the EFBWW

has carried out this project about the situation of pensions for construction workers in 16 EU-countries. National experts have collected and documented facts and figures for the construction industry concerning:

- Pension systems;
- Retirement age;
- Levels of pension benefits;
- Possibilities and regulations for early retirement;
- Pensions for workers employed in heavy work;
- Collectively agreed and statutory pension supplements.

The national contributions are documented in a comprehensive final report and a great number of graphs, statistics and figures complement and illustrate this very complex material. This is the first research on this subject for the construction industry and no similar examination has yet been carried out for other sectors.

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CLR-GB

Ludwig Wittgenstein and the Tower of Babel

A seminar and book launch on 10th June 2011 at the Nuffield Foundation in London put the question, 'Mobility and Transparency of Qualifications across Europe: how can VET in UK achieve this?' In his welcome to an extraordinarily distinguished international audience Josh Hillman, Director of Education at the Foundation, presented the book on 'Knowledge, Skills and Competence in the European Labour Market', edited by Michaela Brockmann, Linda Clarke and Christopher Winch, with the words: 'Wittgenstein would have loved to read this book.'. The cover page shows a late medieval illustration of the Tower of Babel.

It is worth remembering that the debate about the linguistic confusion around 'Qualifications across Europe' has a long history in CLR-News. The first issue of CLR-News, 1/1993, announced a major transnational project on 'Disparities in Wage Labour Relations and Qualification in Europe, the Example

of the Construction Industry'. It covered Britain, France, Germany, and Poland. Reflecting on this project, CLR-News 2/1997 on 'Training' published a short article under the heading 'What is Qualification?'. The article concluded by recommending 'the study of concepts and practices of qualification as a key to understanding different forms and concepts of labour in Europe' (p. 6). Again a year later, CLR-News 2/1998 on 'Disparities of Wage Relations' raised the same subject under the heading 'The Tower of Babel in Europe'. This article found everywhere 'the retreat of collective rights and agreements and of social protection linked to wages and salaries' warning: 'Should this process continue at its present momentum, the European Tower of Babel has little chance of being completed.'(p. 6)

The Nuffield seminar summarised the state of the art after a three-year research on 'Cross-national Equivalence of Vocational Qualifications and Skills' and offered the opportunity to check progress in comparability - let alone equivalence -, at least between Britain, France, Germany and the Netherlands, relying on the medium of the English language.

The book, subtitled 'What's in a Vocational Qualification?', provides help for 'understanding each other' through a 'Dictionary' which interprets education, qualification, knowledge, competence, and skill, each term broken down into more specific categories, such as education into general education, liberal education, vocational education, apprenticeship, professional education, training, and civic citizenship education. Each term, in turn, is interpreted - in English - for each of the four countries/languages.

The first speaker of the first session of the seminar, Tom Leney/ Institute of Education, located 'English vocational education and training in the European context' by pointing out its specificities - as the chair observed at the end - without using the word skill except when addressing English institutions by their name: 'sector skills council' and 'national skills academies'.

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Hilary Steedman/London School of Economics referred to a recent report on vocational education, the 'Wolf Review', and to the response of the British Government, concluding with a great question mark whether it will 'bring about greater convergence with VET in Europe.'

Michael Young, Institute of Education, concluded the first session expressing his doubts whether the European Qualifications Framework (EQF) might have a great impact on the convergence of the National Qualifications Frameworks (NQF).

The second session was to confront employer and employee perspectives. Instead, Bob Bischof, chief advisor of the German Industry in the UK, was preoccupied to show the superiority of the German VET system. Jeff Bridgeford of the European Trade Union Council pleaded for geographical and social mobility of workers and expressed his doubts that the EQF 'could deliver'.

In the final session four of the researchers and co-authors of the book had five minutes each to present core VET concepts in the four countries:

- Georg Hanf/Germany: **Beruf**;
- Philippe Méhaut/France: **Savoir**;
- Anneke Westerhuis/Netherlands: **Competence**;
- Christopher Winch/England: **Skill**.

The academic debate persuasively benefited from a considerable awareness of conceptual and linguistic divergences between the VET systems. But there was hardly much evidence of progress in transnational agreements on labour conditions generally and qualifications in particular. Nevertheless, large construction projects such as Olympic sites, bridges and tunnels across the sea or mountains have been carried out with workers educated and trained in different countries and speaking different languages. It seems rather that national institutions are lagging behind and impeding the internationalisation of the real process of production.

Reviews

Gerhard Bosch, Claudia Weinkopf, Georg Worthmann:
Die Fragilität des Tarifsystems. Einhaltung von Entgeltstandards und Mindestlöhnen am Beispiel des Bauhauptgewerbes

(The fragility of the wage bargaining system. Compliance of wage systems and minimal wages in the construction industry in Germany), Edition Sigma, 2011, 200 pp. ISBN: 9783836087285, € 16.90

Natalie Imboden, Roland Erne, University College Dublin

Gerhard Bosch, Claudia Weinkopf and Georg Worthmann provide a comprehensive analysis of wage bargaining institutions, practices, and outcomes in the German construction industry. Whereas the authors detect a dramatic erosion of the German collective bargaining system in the construction sector since the mid-1990s, they also emphasise the importance of the legally binding minimum wages for skilled and unskilled workers that became universally applicable after the adoption of the posted workers legislation (*Arbeitnehmerentendegesetz*) in 1997.

The core of the study is based on a survey of 1000 unionised construction workers and statistical data provided by SOKA-Bau, the social fund of the bargaining parties in the construction industry. The authors find that the wage-related rules and regulations specified in collective agreements are widely neglected, as collective agreements are not enforced anymore in their entirety. Only the specific terms and conditions that have been made universally applicable due to the adoption of the 1997 *Arbeitnehmerentendegesetz* – such as minimum wages and holiday entitlements – still provide protection at the bottom of an increasingly precarious labour market (194).

The erosion of wages and labour standards in the German construction industry reflects the declining strength of works councils in a more and more competitive market as well as the adoption of opening clauses in collective agreements that permit deviations from collectively agreed pay rates that

are above the universally applicable minimum wage. However, the hollowing out of labour standards is also a result of a particular political context; namely the legal ability of the German employers' national umbrella organisation (*Bundesvereinigung der Arbeitgeberverbände*) to veto the joint request of the social partners in the construction industry to extend the collective agreements to their entire industry by means of a ministerial order (18).

The conclusion that politics matters is also highlighted in the final sections of the book in which the authors compare the German developments with the situation in other West European countries. Whereas the enlarged European single market is putting construction workers' wages and working conditions under pressure, the authors also show that national actors can protect domestic labour standards if they want to. The French and Dutch collective bargaining systems, for example, have been strengthened in recent years due to an increased use of universally applicable agreements (21). Hence, collective bargaining is not eroding in all countries despite the increasingly transnational labour market in the enlarged European Single Market. All depends on the political strategies that employers, unions, and political authorities adopt in response. An interesting political answer to the increasing number of transnational subcontractors is given by the Dutch Liability in Series Act (*Wet ketenaansprakelijkheid*). This act makes any contractor liable for social security contributions and taxes that its subcontractors fail to pay (133). Dutch unionists demand the extension of this mechanism to salaries. The French and the Dutch cases also demonstrate that it is possible to make not only minimum wages legally binding, but also entire wage scales set out in collective agreements (194).

In short, this is an appealing book which shows that politics still matters.

Sylvie Contrepois, Violaine Delteil, Patrick Dieuaide and Steve Jefferys (eds), (2011), Globalizing Employment Relations. Multinational Firms and Central and Eastern European Transitions.

Jan Cremers,
AIAS,

Palgrave Macmillan, 264 pages. ISBN 978-0-230-2543-1, \$105.-

On the eve of the 2004 EU enlargement a team of CLR experts from Eastern and Western Europe examined how labour relations had crumbled inside companies and sectors after the demise of the planned economy in Central and Eastern Europe (EU Enlargement. Construction Labour Relations as a Pilot, CLR-Studies 1, 2003). In the study we observed an unceasing disintegration of trade union organisations and a fast decrease in collective bargaining in CEE countries. Our conclusion was that in the CEE countries a decent safety net of social security and protection was missing. The necessary foundations for social dialogue and agreements between social partners about labour rights and collective working conditions were underdeveloped and therefore social dialogue lacked solid underpinning by active industrial relations. The CLR-study ended with a plea for rebuilding industrial relations with the cooperation of the social partners in the EU member states.

Now, eight years later a book is published that is partly dedicated to the same item. In Part II of the study Globalizing Employment Relations industrial relations in CEE economies are analysed from a sectoral perspective (the automotive, the banking and the food sector).

The authors note a high dependency on Western European markets and show how the CEE economies experienced highly imbalanced growth. In Part III the role of multinational companies is described. This section is based on an empirical survey of French multinationals present in three new member states (Hungary, Bulgaria, Poland). MNCs tend generally to adapt to the host country's social model, while most keep their subsidiaries in separate compartments. These multinational companies benefit from local policies aiming at attract-

ing foreign direct investment. In the CEE countries Hungary, Poland and Bulgaria the trade unions are marginalized and industrial relations are developed only in an informal and individualised way. In the chapter on the Baltic States (by Woolfson, Kallaste en Berzins) the authors signal that consultative national-level social pacts were abandoned as soon as the crisis was felt.

In the final chapter (written by Groux) the thesis that CEE employment systems are neither becoming 'ultra liberal' nor constitute an enhanced neo-liberal model of industrial relations is defended. According to Groux these markets are being used as a laboratory to test the new forms and practices associated with what he calls the emerging 'managerial social dialogue'. The author describes a hegemony of managerial prerogatives and the underdevelopment of rule-making. Managerial social dialogue is then a process that situates itself outside the more classical European tradition of industrial relations. The system is not based on the primacy of the law or of contracts, but on the primacy of economics and of financial 'optimisation'. The notion is not clearly defined and not very convincing. The signalled non-appearance (or erosion) of the regulatory frame of labour law and bargaining fits extremely well in the neo-liberal agenda of shareholder value that has led all over the world to a weakening of workers' voice. Therefore, we do not need new artificial terminology.

All in all the picture is not very promising. The findings are not far from what was found in earlier research. Labour markets in CEE countries are highly fragmented and weakly regulated and there is a clear managerial domination over industrial relations. The separate sections throw interesting light on recent developments. However, some criticism is pertinent. The editors state in their introductory part that the 1990s and 2000s were decades of a totally unexpected kind in terms of changes in employment regulation. They conclude that in this period 'collective bargaining, where it continued

to exist, shifted to local workplaces' (p. 2). From a historical perspective this is a rather unhistorical conclusion.

In our 2003 EU Enlargement report that complemented a previous 2001 ETUC/UNICE report *Dialogue social et concertation dans les pays candidates à l'UE – bilan et perspectives*, the conclusion was that, directly after the demise of the planned economy, industrial relations at sector level were rudimentary and collective agreements beyond the plant level were in practice non-existent. Both reports found in the ex-communist countries neither a joint framework for negotiations nor autonomous actors. There was a dispersion of trade unions and employer federations had serious problems to find their identity; they hardly existed or were bodies that lacked representativeness, mandate and experience. Most workplace based trade unions turned into autonomous bodies already from the early 1990s. All in all, any conditions to develop a fruitful dialogue at sectoral or supra-company level or to start collective bargaining were missing from the start. The only input from the EU at that time was the lip service paid to tripartite structures with no serious political backing for more partnership in the sectors. In our view, therefore, the strong emphasis on interprofessional dialogue soon would turn out to be counterproductive.

The book is certainly worth reading. But, we highly recommend the readers of this study to combine reading with re-reading the two old studies referred to in this review.

Calendar of Events

EFBWW General Assembly

The European Federation of Building and Woodworkers (EFBWW), the European trade union federation representing the building, woodworking and forestry sectors in the ETUC, will be holding its 11th statutory General Assembly in Palermo on 1-2 December 2011.

On the agenda:

- Activity report for the period 2008-2011
- Financial report on the past period
- Proposals for amendment of the EFBWW Constitution
- Elections
- Round-table on the draft EFBWW Action Program
- Adoption of the programme for the years 2012-2015
- Financial multi-annual forecast and proposal of affiliation fees for 2012-2015.

New Projects

PhD Henni Appell: EFBWW and the Europeanisation of the Construction Industry

Henni Appell is conducting her PhD study on the path of trade union Europeanisation in the construction sector, notably the development of the European Federation of Building and Woodworkers. She is a researcher in the Research Centre on "Organizational Paths" funded by the German Research Foundation at the Faculty of Business and Economics at the Freie Universität Berlin (www.pfadkolleg.de). Her own background is in political sciences.

Given the difficulties often stated of European trade unionism, her focus is on investigating constraining mechanisms and critical junctures in the history of the organisation. In particular, she is interested in the evolution of the role of the EFBWW, e.g. discussion on alternative organizational forms, resource dependencies and the positions of the national associations. Apart from conducting interviews, she has been carrying out research on the EFBWW in the "Archive of Social Democracy" at the Friedrich-Ebert-Foundation in Bonn. If you are interested in her work or if you have suggestions or remarks regarding the historical evolution of the federation, feel free to contact her. Contact address: henni.appell@fu-berlin.de

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