

Introduction

The economic decline that began in 2007 and turned into a global recession with the collapse of Lehman Brothers, a major Wall Street investment bank, on 15 September 2008, has shaped policies and political debates on the national and European level over the past 18 months.

The prevailing concept of *laissez-faire* financial capitalism had been such as to enable profits, in particular in the financial sector, to grow at double-digit rates while overall economic growth remained in the low single-digit range. This led to a general shift in income distribution at the expense of employees and low-income groups, i.e. a shift of national income from labour to capital and/or within wage income to the wealthy. The concentration of wealth resulted in a weakening of broad-based demand. Two opposite growth models emerged – increased household borrowing (e.g. US, UK, Spain) or export-led growth (Germany, Japan, China) – both of them based on the need to compensate increasing income inequality with other sources of demand, and rising global economic imbalances were the result. Both growth models proved economically unsustainable, and the world economy entered the worst recession since the Great Depression of the 1930s.

Now, 18 months after the threat of a global collapse of the financial system and the unprecedented intervention of governments to save it, Europe, and the world, are still faced with an economic and social crisis that will shape the political and socio-economic debates over the next decade.

During 2010 the European Union will define and draw up its next mid-term strategy, EU2020. This exercise takes place at a time when the EU is facing three serious challenges that will require strong decisions and careful balancing in order not to jeopardise the future wellbeing of European Union citizens and workers. Firstly, the financial crisis has become an economic and social crisis that will require that the EU member states continue to play a strong role in supporting the workers who have already lost their jobs, or who are threatened by job loss, and in ensuring that the growth potential is maintained. Secondly, the demographic challenges have not disappeared with the crisis and will continue to demand special attention in order to prepare Europe for an ageing population. Thirdly, despite disappointment at the outcome of the Copenhagen summit on climate change and the blatantly weak role played by the European Union, the EU cannot neglect its obligation – as well

as the opportunity – to play a strong role in contributing to the transformation of the current growth model into a sustainable growth model. These major challenges come at a time of scarce public finances and weak private investment. Elaborating a mid-term strategy in such a climate requires balanced approaches and an open mind towards what can be learnt from the past. There seems to be a strong case for arguing that EU2020 should be not simply a “green-washed” version of the failed Lisbon Strategy but a genuinely new approach to achieving progress for European citizens and workers.

Every year, the *Benchmarking Working Europe* report offers a contribution to the EU Spring summit. It provides a genuine benchmarking exercise applied to the world of labour and social affairs and grounded in effective labour and social rights. The aim is to establish what progress – or lack of it – has taken place in selected areas of importance to the trade unions and of significance for a social Europe. Accordingly, in this year of preparation of the strategic goals for the next ten years, we have chosen to embark upon a social stocktaking of the reaction to and impact of the financial, economic and social crisis as a means of feeding into the post-crisis and

EU2020 debate. Among the questions addressed this year are the following: What were the macro-economic developments and policy responses? How has income developed in the crisis? How have labour markets responded to the financial and economic crisis? How have social partners reacted and what has been their role in preventing the recession from becoming a depression? How can workers better participate in the efforts to emerge from crisis and move in the direction of a sustainable growth model?

The indicators presented in this year’s *Benchmarking Working Europe* reveal that the progress in growth and employment over the past growth cycle has been practically wiped out in the course of the past year: the EU average employment rate is back to its 2006 level, while unemployment has increased by two percentage points in a single year. Yet the impact of the economic crisis on labour markets displays considerable variation from one country to another. Some countries have succeeded in keeping employment levels up and unemployment levels down through recourse to employment-preservation and employment-creation measures combined with an expansion of both passive and active labour market policies. What is more, some groups (such as

Introduction

men, temporary workers, youth and migrant workers) have been particularly hard hit by the crisis. While the recession has so far impacted on the labour market primarily via working-time adjustment and lay-offs, there will be also, as labour markets deteriorate further, downward pressure on wages. In fact, some countries that have led the recession – Lithuania and Estonia – have already experienced nominal wage cuts (wage cuts in simple money terms), while in the UK, in spite of small nominal increases, the value of wages when converted into euros has fallen steeply. It still remains unclear how the financial crisis will impact on inequality (one of the root causes of the crisis) and, due to the nature of data collection procedures, it will be some time before post-crisis data are available.

This year's edition of the Benchmarking report emphasises the important role played by governments, employers and trade unions in avoiding the onset of a full-fledged depression. Industrial relations systems have been put to a test, and evidence shows that, while some have failed, others have stood up to it. Collective bargaining on a national level to prevent job losses has been successful in countries where the institutional foundations were sound, the social partners took their

responsibilities seriously and governments offered the right kind of support.

The EWCs do not at first sight appear – with very few exceptions – to have played a significant role in handling the crisis at the company level. There seems to be some evidence that these bodies have sometimes become overwhelmed by issues that exceeded their information and consultation competences and the tools and resources available to deal with them.

At the present time it is simply not clear whether we will emerge from the crisis with a continuation of earlier industrial relations developments – such as the decentralisation of collective bargaining or individualisation as a phenomenon challenging collective interest representation. In actual fact, a number of counter-developments have been observed, such as a strengthening of company-level bargaining that has tended to be accompanied by an increased importance of higher level bargaining on the national and sectoral levels (in systems of multi-level bargaining as in most EU countries).

The European interprofessional dialogue was also influenced, throughout 2009, by the “phantom of the crisis”, with most of the issues tackled or in

the process of being dealt with having been influenced, in one way or another, by the changed context introduced by the economic crisis. Apart from the six joint texts agreed upon and relating directly to the crisis, the changed context also, in a more indirect manner, overshadowed the European sectoral social dialogue and this is a trend likely to continue throughout 2010 and 2011.

As 2010 continues, we are bound to witness a wave of restructuring and hence worsening of the labour market outlook and conditions. The strategies that are put in place to handle this onset will determine not only the short-term but also the long-term outlook of the European Union. It seems essential not to lose sight of the fact that public expenses on social policies are counter-cyclical and that employment growth will automatically cause expenditure to fall.

It is also essential that the European Union Strategy for Sustainable Development should remain on track and green recovery become a core element in both the national and European recovery plans and their future growth strategies. The crisis is not an excuse to push the climate change challenges under the carpet. However, it should be pointed out that

the social dimension is an integral element in sustainable growth and that the quality of jobs is a way of fostering the combination of economic, climatic and social considerations within a new growth model. A number of reflections along these lines have recently emerged, forming the basis of a renewed vision of the next EU mid-term strategy EU2020. The challenge remains to give concrete shape to these reflections in drawing up the EU2020.

There would seem, in conclusion, to be cause to question the underlying foundation of the current growth model and its emphasis on deregulation and labour cost cutting. There is evidence to support the claim that worker's rights should be rediscovered as a force for productivity and as a way of building a new model of economic progress in which fair wages and good working conditions constitute the basis of growth and employment dynamics. We need to turn away from the logic that claims that Social Europe is just a cost, and to bring in a new social deal according to which workers' rights act as a beneficial constraint, and social policy as an investment strategy. These elements are fundamental in getting the European Union out of crisis and well on track towards 2020. Rethinking policy strategies is essential because

Introduction

we will not find a way out of the crisis by applying the same logic that led to it in the first place.

We hope that this year's *Benchmarking Working Europe* will provide helpful information and some stimulating ideas to fuel debate and contribute to the shaping of a post-crisis Europe.

John Monks
ETUC
General Secretary

Maria Jepsen
ETUI
Director of Research Department

Philippe Pochet
ETUI
General Director