

# Introduction

During much of the period when western Europe was prosperous and highly developed, the challenge represented by social inequality was regarded as secondary, insofar as this problem would – so the conventional wisdom went – ultimately be eradicated by the effects of continuing economic growth. The question arose to a greater extent in the English-speaking countries, which were less egalitarian (Piketti and Saez 2004), but in a manner too often confined to the monetary aspect alone.

This edition of *Benchmarking Working Europe* shows that social inequality is now worsening everywhere in Europe, and not only on account of the succession of financial, economic and debt crises. Inequality has been growing since long before 2008 because the policies implemented over more than twenty years in the European Union (EU) and its member states have contributed to deepening social and pay disparities. While the crisis is amplifying and accelerating this development, the structural changes in income distribution were actually one of the factors that triggered the crisis. It is becoming increasingly evident that policy choices in relation to growth (based on competition and competitiveness) and employment (based on increasing labour market flexibility and deregulation) lead to a weakening of social cohesion and greater inequality in terms not only of income but also of education, training, access to the labour market, social security entitlement and benefits, healthcare, etc. This evolution is increasingly perceived, in a context of austerity which affects the most vulnerable groups more severely, as a serious form of injustice.

Such is the fundamental message conveyed by this 2012 edition of *Benchmarking Working Europe*. Since 2001 the purpose of this publication has been to assess the progress – or lack of progress – in areas of importance for the trade union movement: employment, unemployment, working conditions, wages, etc. This year, a meticulous examination of these areas shows – or rather confirms – the rise in inequal-

ity to which various international organizations (OECD 2011a; European Commission 2012) have already drawn attention even in European countries with more ‘egalitarian’ traditions such as Germany, Sweden, Finland or Denmark. Above all, however, this examination conducted by the ETUI brings to light, unlike other studies and reports, the way in which the policy choices implemented in the EU weaken the mechanisms that would facilitate the struggle against these forms of inequality and enable the crisis to be vanquished via the route of cohesion and prosperity. In other words, the message delivered by *Benchmarking Working Europe 2012* is that Europe is on the wrong path.

This brief introductory chapter is structured in three parts: first of all, how and in what areas has inequality got worse? The nine chapters of this edition of *Benchmarking Working Europe* provide a multidimensional set of answers to this question: in the macroeconomic sphere (Chapter 1), in terms of labour market developments (Chapter 2), of education (Chapter 3), of wages (Chapter 4) and of poverty (Chapter 5), of transition to a low-carbon economic model (Chapter 6), of regional disparities (Chapter 7), of worker participation (Chapter 8), and of health and working conditions (Chapter 9). In its second part, this introduction considers the question of political responsibility for the growing inequality and weakening of the mechanisms of social cohesion. The third part, finally, seeks to examine how it might be possible to modify the non-egalitarian stance adopted by the EU and most of its member states, in order to find a positive way of moving beyond the crisis. Such, indeed, is the essence of the message delivered by this report: there will be no lasting way out of the crisis in the absence of a reduction in inequality (Reich 2011). We should remember, after all, that, according to the Treaties, the purpose of the European Union is ‘the promotion of employment, improved living and working conditions, so as to make possible their harmonization while the improvement is being maintained’ (Article 151 TFEU).

## Characteristics and causes of inequality

### Crisscrossing inequality

In Europe **inequality is growing not only within each of the EU member states but also between one country or group of countries and another**, as shown by the chapter of this *Benchmarking Working Europe* devoted to macroeconomic developments. The crisis naturally exacerbates these trends, generating economic outlooks that differ greatly from one country to the next. Some have been much more severely affected than others by the debt crisis (Greece, Ireland, Italy, Spain), while growth prospects are particularly poor in countries such as Slovenia, Romania, Hungary, or Denmark. Others have succeeded in returning to their pre-crisis production levels: France, The Netherlands, Belgium, Germany, and Austria. Yet others have actually achieved some economic growth during this period (Poland, Sweden, Slovakia). Even so, in 2012 the outlook is bleak for most member states; and for Greece and Portugal it is nothing less than a nightmare.

**In spite of the austerity programmes now in place right across the EU, the public-debt-to-GDP ratios, far from declining, are expected to continue to rise until 2013** in almost all countries (see: ‘Public debt crisis deepens and expands’, p. 14). Attempts to combat excessive deficits form indeed only one of the three variables for a reduction of public debts, the two others being growth rates and the level of the interest rates payable on the debt. At present growth rates are low and the situation is made even worse by the austerity programmes implemented in the member states.

In terms of income distribution, **these austerity programmes have in some cases entailed regressive effects, insofar as low incomes are more severely affected by them than high ones**. In a context of recession, the major risk in terms of social consequences is that

austerity is likely to lengthen periods of unemployment, leading to labour market exclusion or marginalization of the most vulnerable groups and growing inequality. Indeed, as shown by Chapter 3 (e.g. section on ‘Social and educational inequalities’), long-term unemployment levels and low educational levels in households have an impact on poverty reproduction and social exclusion mechanisms. **Children living in households experiencing or threatened by marginalization are less likely to achieve or gain access to higher levels of education.**

This trend is perceived as deeply unjust when we see the European Central Bank (ECB) deciding to ‘subsidize’ the financial sector (by offering loans – directly to banks – at very low interest rates) at the same time as the debt crisis is extending to include countries that seemed beyond its reach, leading to an ever increasing number of austerity plans.

Another effect of the crisis is that we are witnessing a reversal of the trend observed in recent years (before 2008) whereby the poorer EU countries were experiencing higher growth rates than the richer ones. In other words, **the trend for the poorer economies to catch up with the richer ones, leading to greater convergence** – which would have led to a convergence in per capita income – **has been halted and even reversed** (see ‘Trend towards greater equality between countries halted’, p. 19). After a few years during which inequality among the EU member states was gradually narrowing, the gulf between centre and periphery is widening once again.

What is more, this gulf is deepening even within individual member states between their rich(er) and their poor(er) regions. Chapter 7 on ‘Regional inequality in Europe’ shows, in particular, the **exacerbated divisions between demographically expanding areas and rural regions**, the latter being frequently less developed and suffering from the loss of their most important resource, namely their population. Apart from the demographic inequality (which naturally also entails inequality in terms of infrastructures, mobility, environment, and so forth), this chapter brings to light also the **growth of regional inequali-**

**ties in terms of income, health and lifestyle** (in particular the ‘digital divide’ that is widening all the time, see ‘Closing the divide in a digital age’, p. 93).

What we are witnessing is, accordingly, an aggravation of both internal and external inequality. It is essential to realize that **to resolve the crisis without reducing these forms of inequality would be to allow the seeds of the next crisis to take root in the soil of Europe.** These seeds could sprout in the not too distant future and would further undermine – could indeed cause collapse of – the legitimacy of the European integration project.

#### Quality of work and working conditions

Apart from the increasing disparities in terms of income, health, or lifestyle, the development of inequality also affects working conditions, at least for those who are in work. **An increasing number of workers, in particular young workers, find themselves trapped in sub-standard or insecure forms of employment:** fixed-term contracts, temporary work, extended internships, etc. (see ‘intensification of work’, p. 114-115; Chapter 2). Similarly, large numbers of women find themselves exercising part-time jobs, whether or not of their own volition. These situations are likely to entail worse career prospects, an experience of job insecurity and, ultimately, a deterioration of working conditions in general.

Chapter 9, focussing on working conditions, shows that **the crisis contributes also to work intensification**, additional forms of constraint and an increase in the phenomenon of ‘presenteeism’, that is, continuing to work during periods of sickness (see ‘presenteeism is a growing concern’, p. 117). It is hardly surprising therefore that many workers (almost 60%) believe that they will be unable to remain in their job until the age of 60. This observation, in the context of the deterioration of working conditions, is particularly striking at a time when the EU is calling for a raising of the retirement age in most member states.

#### Wages and collective bargaining

In the light of the above observations, it is particularly interesting to note the extent

to which such trends vary from country to country. Collective bargaining systems in Europe differ from one member state to another in terms of coverage rates, the degree of centralization, the role of the social partners in policy definition and implementation, etc.

In terms of pay, developments vary strongly. Thus wages continue to rise in the Nordic countries, in spite of the crisis, while pay restraint can be observed in the countries of western and central Europe (Austria, Germany, Belgium, Luxembourg, The Netherlands, Slovenia). In the English-speaking countries (the UK, Ireland, Malta, Cyprus) wages have come to standstill or even fallen, accompanied by a high degree of volatility and reductions in purchasing power in the countries of central and eastern Europe. Finally, wages have been falling in keeping with the drop in productivity in the Mediterranean countries (Greece, Spain, France, Italy, Portugal). **As such there exists real divergence in wage developments between different groups of countries since the crisis of 2008** (see ‘Diverging real wage developments in the EU’, p. 66).

**In parallel, trends in terms of the development of unequal income distribution display similar divergence.** Whereas income distribution tends to be more even in the Nordic countries and the corporatist countries of central and western Europe, it is more uneven in the Baltic countries, Romania, Bulgaria, the United Kingdom and some southern European countries.

One particularly interesting observation is that, when examining the correlation between, on the one hand, the level of collective bargaining coverage and, on the other, income inequality, it becomes clearly apparent that, the greater the coverage, the lower the degree of inequality and, by the same token, the lower the rate of coverage, the wider the inequality (see ‘High bargaining coverage: an important factor for reducing inequality’, p. 68). This factor should undoubtedly not be regarded in isolation when gauging income inequality, for several other factors, such as taxation and social security systems, also play a significant role here.

It may, however, be concluded that **sound collective bargaining sys-**

**tems do contribute to promoting equal pay;** and it may similarly be observed that the degree of centralization of bargaining tends to reduce wage volatility, while decentralization fosters greater volatility in this respect and hence has the effect of amplifying economic cycles and divergences in the euro area and beyond (see ‘Wage share stable only where bargaining coverage is high’, p. 70).

### Role of trade unions and worker participation

Contrary to the cliché according to which trade unions defend the acquired gains of insiders (full-time workers on unlimited contract, civil servants) to the detriment of outsiders (the self-employed, temporary and part-time workers, etc.), **collective global action may be seen to contribute to a better overall distribution of income**, and hence to a reduction in inequality.

This applies in a number of different respects: broad collective bargaining coverage (Chapter 4); introduction of minimum wages in some countries; efforts to eliminate gender inequality (including in worker representation bodies, Chapter 8); steps to counter the abusive wage practices of certain employers (there being less evidence of excessive management pay levels in companies where European Works Councils have been set up) (see Worker participation: a way to gender equality and balanced boards’, p. 105). It is necessary to place also on this list the social dialogue, both national and European, insofar as it tackles aspects of inequality as it affects the most vulnerable groups (workers with disabilities, migrants, youth, etc.); worker participation; information and consultation, etc. (Chapter 8).

In all these ways, the trade unions contribute to the fight to reduce inequality and injustice. **But this contribution is made increasingly difficult** by several factors: obstacles, often ideological in nature, placed in the way of trade union activity, loopholes in European legislation (the provisions of the EWC directive, for example, are worded so as to tolerate serious deficits in its implementation), but also trade union membership losses, and the crisis itself, which is used to un-

dermine and disrupt social dialogue and collective bargaining (see ‘Crisis: a pre-text for deregulation’, p. 109).

**For all this, the EU bears its share of responsibility, for the trade unions are increasingly marginalized in the new Europe 2020 strategy**, in which their consultation and negotiation role is less recognized than previously under the Lisbon strategy.

**Similarly, the remedies prescribed by the EU – Commission and Council – for ‘exiting the crisis’ contribute in most cases to weakening the national social models:** the EU calls for deregulation of labour markets, reform of labour codes, increasing flexibility of work organization and practices, reforms of social security and social protection, reforms of collective bargaining mechanisms, the introduction of new forms of employment contract, decentralization of collective bargaining, etc. The labour market is changing: part-time work is developing, affecting predominantly women, whereas it is above all young people who are affected by fixed-term and temporary agency contracts. In Poland, 60% of young workers employed on temporary contracts have accepted this form of contract because they were unable to find a permanent job; in Portugal the figure is 70%, and in Spain 80%. What is more, short-hours contracts and other forms of sub-standard or semi-casual work are spreading in particular among the relatively unskilled, the ‘working poor’; self-employment is encouraged but is frequently tantamount to increased insecurity, particularly among migrant workers (see ‘Developments in non-standard employment’, p. 31-36).

Apart from the fact that it seems difficult under these conditions to advocate ‘active labour market policies’ when it is obvious that the problem is less one of demand than of supply of jobs, it can be observed that **the development of these non-standard forms of employment affects the more vulnerable groups** and leads to an increase in pay inequality, to greater social insecurity and sub-standard employment, and ultimately to less cohesion and prosperity (see ‘Outcomes of labour market inequalities in terms of in-work poverty’, p. 37-38).

### The climate challenge

Finally, in addition to and beyond the crisis, Europe has to deal with the extremely urgent challenge of climate change, which appears to be not directly linked to inequality. **And yet this transition, or this ‘green convergence’, equally bears the stamp of inequality, both external and internal.**

External green inequality: we know that within the EU the poorer member states emit less CO<sub>2</sub> per capita than do the richer ones. But at the same time the poorer countries perform less well in terms of resource productivity (see ‘Divided Europe: resource productivity and per capita emissions’, p. 83). How can increased ‘green convergence’ be developed and speeded up in this context?

Internal green inequalities are linked to the questions of social exclusion tackled in Chapter 5: within the member states the poorest population groups encounter more housing, heating and energy problems (see ‘The micro-dimension of environmental inequality’, p. 85-86).

The principle of a fair transition must be based on an integrated approach that combines in a balanced fashion the climate issue and the industrial policies and social and employment policies most appropriate for accompanying this transition. **Yet the responses to the crisis currently provided in the forms of cuts and austerity programmes risk undermining such an integrated approach.**

## Weakening of the mechanisms for reducing inequality and policy responsibilities

According to the OECD, the most important general reasons for the exacerbation of inequality include technological changes that benefit primarily the most highly

skilled workers; working conditions (deregulation of labour law, development of non-standard contracts, etc.); changes in the volume of work (development of part-time work, increased gap between highly paid and low-paid workers); and an increasingly ineffective use of taxation for the purpose of redistribution (OECD 2011a). Even if there is no formal consensus on the academic level concerning the role of globalisation in widening inequality, it can indeed be observed that the changes triggered by globalization have frequently brought much greater gains to highly skilled than to low-skilled workers.

Since the 1980s, structural reforms on the labour markets have been undertaken in most EU member states, initially for the purpose of reducing unemployment. These reforms were based on relaxation of employment protection legislation (EPL), deregulation of product markets, lowering of minimum wages, revision of wage-fixing mechanisms, lowering of the replacement rates of unemployment benefits, reduction of tax burden entailed by the employment of low-skilled workers. According to the OECD, **while these measures seem to have had a positive effect on overall employment rates, they have, at the same time, contributed to the increase in wage inequality:** all in all, therefore, we have more jobs but, at the same time, more inequality. This long-term trend – the increase in the overall employment rate does not, per se, serve to reduce either inequality in household incomes or poverty rates (see also de Beer 2012) – also calls into question the European discourse according to which a rising employment rate is a means towards eliminating social exclusion and poverty: in actual fact, if it is to contribute to the aim of reducing social exclusion, this increase must necessarily be accompanied by an improvement in the quality of employment and by redistribution policies.

The economic paradigm underlying the policies implemented over the last thirty years serves, ultimately, to widen inequality. Apart from the element of labour market deregulation and less redistributive taxation, it is important to note the factors stressed in this report: austerity programmes entailing regressive ef-

fects, reversal of the past trend towards increased convergence among member states and regions, increasing employment insecurity, deterioration of working conditions, calling into question of collective bargaining systems even though such systems contribute to the fostering of income equality, weakening of national social models, and marginalization of trade unions in the definition and implementation of the strategic socio-economic guidelines of the European Union and its member states.

**It is thus paradoxical, at the very least, to seek now to assert belief in the values of equality and social justice while at the same time weakening the systems and institutions that allow these values to be fostered.** Might it be that we are here in the presence of an implicit political choice that would allow certain forms of inequality to flourish, along the lines of the Anglo-Saxon model so frequently lauded for its competitiveness?

In its report *Employment and Social Developments in Europe 2011*, the European Commission acknowledges this phenomenon of increasing inequality. While pointing out that inequality is ‘an unavoidable fact of life’, it stresses that **a high level of inequality, or its rapid widening, can be both economically and socially harmful.** It argues that increasing inequality gives rise to problems of social cohesion (risks of social unrest), threat to democracy (concentration of wealth and power), and finally of economic stability (some economists believe that the increase in inequality was a contributory factor to the crisis, but the Commission is at pains to stress that there is no consensus as to this interpretation).

The path of an ‘improvement of living and working conditions and their harmonization while improvement is being maintained’ entails the need for action on the social policy front but also in redistribution policy terms. It is a question of simultaneously restoring to tax policies their redistributive role and capacity, in particular via the taxation potential offered by high and very high incomes; of conducting job creation policies and improving the quality of

employment; of improving access to employment for vulnerable groups and offering training to persons with few skills; of recognizing also the importance of the role of social transfers, wage-fixing mechanisms, and workers’ bargaining power. At the same time, this entails recognizing and encouraging the role of social partners and trade unions in contributing to a fairer society.

**It means, in a nutshell, simultaneously conducting both active employment policies and redistribution policies.**

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## When the tide is no longer rising for all

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Since the beginning of 2012 the European discourse on the crisis has increasingly placed the emphasis on the post-austerity period, in other words, the expected return of growth and employment. This return, insofar as it is expected to take place, is made responsible for solving the major outstanding problems: improvement of public finances, convergence of the economies, reduction in unemployment and increase in the employment rate, all of which will, according to the official discourse, enable salvation of the European social model. According to this approach, the broadening of inequality will have been a merely temporary phenomenon and the return to growth will trigger a dynamic whereby inequality in its various forms will once again be reduced.

Yet this discourse is mistaken in that it places the stress on growth over and above equality, insofar as it continues to believe that the former will automatically engender the latter. As things currently stand, however, the tide is no longer rising for the population at large: growth is no longer reducing inequality; the link between growth and equality has snapped (Niechoj et al. 2011). On the contrary, **the increase in inequality experienced in the EU and its member**

**states in recent years** – including during periods of economic growth – **is one of the factors that led to the crisis and not one of its consequences.** The mechanisms have been brought to light: on the one hand, excessive concentration of wealth and speculative bubbles; on the other, the struggle of the middle class suffering from insecurity and uncertain and sub-standard labour market conditions to maintain their social standing and lifestyle, leading ultimately to a crisis of indebtedness.

Is it possible that a way can be found out of the crisis without first reducing social inequality in all its forms? There are those who answer to this question is an emphatic ‘no’ (Reich 2011). Is it possible that more economic growth will improve the wellbeing of the European population at large? There are those who believe the answer to this question is also ‘no’ (Wilkinson and Pickett 2009). To put the same question once again but in positive form: **is it possible that more equality might provide an alternative route to austerity in moving beyond the crisis and finding a way back to sustainable prosperity?**

In response to this question, increasing numbers of people are answering ‘yes’.

Wilkinson and Pickett have shown that the developed societies displaying the widest inequalities perform particularly badly when it comes to dealing with social and health problems. But above all, these authors observe that, in our societies, more economic growth serves to improve neither health nor wellbeing. **For a better quality of life what we need is not so much stronger growth as more equality.** In societies that strengthen social cohesion and report the smallest income gaps between rich and poor, the population has a better quality of life, levels of trust are higher, and there is less violence. Is this not what the EU member states need today? According to Eurobarometer, 88% of Europeans believe – or tend to believe – that gaps in income are today ‘too large’ (European Commission 2012: 67). This opinion well indicates that too much inequality has now come to be regarded as prejudicial to society as a whole.

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## Conclusion

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The analysis of various forms of inequality contained in this 2012 edition of *Benchmarking Working Europe* leads to the conclusion that the political remedies must in future focus not primarily on economic growth but on a redistribution and ‘deconcentration’ of wealth.

Europe and the United States have experienced thirty years of a ‘winners-take-all culture’, which has enabled the richest members of society, via a variety of mechanisms such as tax havens (Hacker and Pierson 2010; Chang 2011), to help themselves to ever larger shares of the cake. This economic model is condemned to collapse.

The priority focus must instead be today, for reasons that are social but also environmental, the need for greater equality. **A sustainable route out of and beyond the crisis presupposes the reconstruction and strengthening of the mechanisms and policies that contribute to reducing the various forms of social inequality, and a reversal of the tendency towards the excessive concentration of wealth.**