

Foreword

After 10 years of stagnating and declining growth rates, the economic forecasts for Europe are looking somewhat more optimistic, albeit with a high degree of uncertainty. Growth is stabilising at around 1.5%, unemployment is declining and employment rates seem to be on the rise. However, while this may be an improvement in relation to the 10 previous years of dire forecasts, the number of unemployed remains unacceptably high, now standing at 20 million, and employment levels are stagnating. Seen in absolute terms, therefore, there seems little reason to be optimistic about the economic and social situation in the European Union. The last seven years of austerity and deregulatory structural reforms have resulted in a lack of GDP growth, a rise in unemployment, damaging low rates of investment (both private and public), stagnating wage growth and cuts in social policy programmes. In other words, the lost potential over the past seven years of misguided policies now means that great efforts are needed to engage with the challenges and paradigm shifts emerging as a result of climate change and the digitalisation of the economy.

The challenges and policy recommendations presented in last year's edition of *Benchmarking working Europe* therefore remain pertinent in 2017; in fact, the need for action is now more urgent than ever, particularly in this climate of crisis that is not just economic in nature but also social and political. This year will see not only the start of the UK's 'Brexit' process, but also elections taking place in some of the bigger EU Member States and Donald Trump's first year as US president leading his 'America first' strategy. It is in this political climate that the European institutions are launching several initiatives on the 'future of Europe', including the White Paper on the deepening of the EMU, the Five Presidents' Report on the Future of Europe, and last but not least the European Pillar of Social Rights. These documents should form the basis for establishing a vision of the future of Europe which, as declared on several occasions, has social concerns at its heart. As the analysis of *Benchmarking working Europe 2017* demonstrates, this concern comes somewhat late, but is still of key importance in order for Europe to lay the foundations for a sustainable and fair society.

In light of the urgent need to construct a sustainable economic and social model, the ETUC has put forward their key priorities for the 'Future of Europe': namely, to create a sustainable economic growth that can support quality jobs and better working conditions, and to initiate a relaunch of the European social model based on stronger labour rights and social protection for all, with more democratic values that put workers and citizens at the heart of Europe.

With this year's chosen focus – 'overcoming cleavages across the EU?' – the new edition of *Benchmarking working Europe* sets out to assess and analyse the state of working Europe with the aid of a multi-level and multi-dimensional set of indicators. This 2017 edition is thus intended as one contribution to an assessment of what the current policy stance has achieved, or above all (as will emerge from a reading of the following chapters) what it has *not* achieved, with particular attention given to the ensuing divergences that we are now seeing across the EU. With this focus, it outlines some of the policies that need to be put in place for Europe to generate higher living standards for all, based on fair integration and upwards convergence.

All four chapters of this report call for a new set of policies that can put the European Union back on a sustainable track. The macroeconomic indicators point to a slight increase in GDP that sets it, in 2016, at just 4.8% above the 2008 peak level. This has largely been the result of export growth, indicating a reorientation of the EU economy towards external demand. Meanwhile, private consumption remains barely above the pre-crisis level and investment is significantly lower. In addition, the pre-crisis trend towards convergence of GDP per capita has not been restored despite the modest economic upswing, and the current policy stance does not promise that this will happen any time soon. The above-mentioned problems, as well as the policies that have led to them, have received verbal recognition, but this has only led to half-hearted and conditional responses: somewhat more flexibility has been allowed in the Stability and Growth Pact, the European Commission has cautiously argued for a modest positive fiscal stance across the euro area, the ECB has pursued its policy of quantitative easing, and Juncker's investment plan that had a slow start in 2015 is now taking off. However, not all Member States adhere to the idea of a modest positive fiscal stance, and are instead stubbornly wedded to the belief that budget surpluses will lead to reduced public debt; this despite the strong evidence from around the world that renewed growth and additional fiscal revenue are needed to reduce debt levels. Quantitative easing does not seem have put an end to deflationary tendencies and, as has been argued by several commentators, the Juncker plan is far from enough to get investment back on track and is, moreover, not able to address the divergence in GDP across the EU. Furthermore, these policy initiatives have little chance of succeeding as they are being held back by euro area rules and fiscal policies.

While real wage developments were more dynamic than productivity growth in 2016 this is largely due to the weakness in productivity growth, as well as low inflation rates. In addition, minimum wage growth outstripped the average real wage growth, indicating that

wages at the bottom of the scale grew faster than the average and, furthermore, grew faster in Member States where the minimum wage level is lower. However, despite this growth, in most countries the minimum wage remains too low for even a full-time worker to sustain a decent standard of living. Furthermore, the deregulatory reforms in industrial relations systems that have been implemented in many countries have created framework conditions that make pursuing a solidaristic wage policy and wage-led economic growth all the more difficult. A solidaristic wage policy has three requirements: appropriate minimum wages, all-encompassing collective bargaining systems and strong trade unions. The European Union appears to be showing divergence on all three indicators, thereby making upwards wage convergence an even more challenging prospect. In order for Europe to get back on to a sustainable growth path that ensures upwards convergence, a shift towards expansionary policies is needed which would raise demand through higher public and private investment, higher public spending and higher pay levels based on a solidaristic wage policy.

The slow and uneven economic recovery is reflected in the labour market indicators. While headline figures will tell us that a higher proportion of the working age population was in employment in 2016 than at the outbreak of the crisis and that unemployment is decreasing, a closer look at more detailed indicators tells us a quite different story. Many of these improvements are driven by demographic processes rather than improved labour market performance. Between 2008 and 2016 the actual number of jobs declined, with 180,000 fewer people in employment in 2016. The picture is even more negative when we look at the data; there appear to be increasing divergences between different groups of workers as well as different countries. Older workers above 65 years of age increased their labour market participation, reflecting either a more sustainable working life or a lack of income from pensions. Young people and those with a low level of educational attainment continue to face a very difficult situation in the labour market, and long-term unemployment remains persistently high and on the rise. Meanwhile, an increasing proportion of those who are in employment find themselves locked into short-hour jobs with low income and therefore at a greater risk of poverty despite working. In general, the risk of in-work poverty has intensified during the past nine years, with workers finding it increasingly difficult to escape temporary work. While social spending has increased, it has not been enough to offset the negative consequences of the austerity policies that have been pursued.

Social dialogue and workers' participation represent a means of regulating and ensuring a democratic process at various levels. The European Social Dialogue has always played an important role in ensuring that social partners have a voice in the European integration process. Recent developments, however, have revealed that this process is not always a smooth one, but rather a bumpy road fraught with obstacles. While the European Union has a long-standing tradition of promoting workers' rights to information and consultation, these rights are in fact more differentiated across the continent than one would expect, with wide geographical divergence and half of the workers in Europe lacking any form of collective interest representation. Likewise, the cross-border or European dimension of worker's participation also displays a patchy and uneven image, both in terms of coverage and rights. An overall assessment reveals a general advancement in terms of rights at the European level, but these advances are being undermined by setbacks or standstill in other areas. A well-functioning and well-articulated system of worker participation contributes to European integration by respecting information and consultation as a basic right for workers, and failure to respect such a right is tantamount to disregard for the fundamental concepts of democracy. Crucially, democratic processes such as social dialogue create the necessary conditions for working towards a sustainable future for Europe.

The findings reported here point to a lack of engagement with some of the fundamental issues that need to be tackled in order to get Europe back on to a sustainable path that will lead to an upward harmonisation of standards and outcomes. The current trend towards ever greater economic as well as social divergence across the European Union cannot form a viable basis for the future of European integration; nor can it build a foundation upon which to engage with the tremendous challenges currently facing the economy, environment, labour market and social protection systems.

This year's *Benchmarking working Europe* calls for a suitable policy mix that should include: developing a fully-fledged investment strategy for the future, with a genuine focus on research and development; promoting a solidaristic upwards wage policy; halting the deregulatory process; allowing fiscal policy to fully come into its own; consolidating and enhancing social protection; and committing to a Europe characterised by high social standards, including in the field of health and safety. This is the agenda to be followed in seeking to engage with the future of Europe.

Benchmarking working Europe first appeared in 2001. By providing a genuine benchmarking exercise, applied to the world of labour and social affairs and grounded in effective labour and social rights, this annual publication represents a contribution to the monitoring of the European Union. It aims at establishing what progress, or lack thereof, has taken place in selected areas of importance to the trade unions and of significance for a social Europe.

We hope you will derive both interest and benefit from your reading of this year's edition of *Benchmarking working Europe*.

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