

Foreword

The past few years have seen a recovery in output growth in the European Union (EU), with recent forecasts predicting the highest growth rates since 2010: 2.4% in 2017 and 2.3% in 2018, for both the EU28 and the euro area. While this relative upswing in the economy is having a positive impact on employment rates and investment, it is far from being enough to make up for the nearly 10 years of no or slow growth, nor are all EU28 countries benefiting equally. Certain fundamental variables give reason to be cautious when it comes to policy decisions. Unemployment remains high in many countries, and wage growth and inflation have stayed relatively weak, suggesting that deep scars in the labour market have yet to be healed. The prediction that we may already be approaching the peak of growth in the business cycle while there is still labour market 'slack' suggests that measures to keep on supporting demand should be reinforced rather than rolled back. In addition, big uncertainties remain in the international environment, with possible moves towards protectionism in the US and the risk of great disruption when the UK formally leaves the EU in March 2019.

The more lenient macroeconomic environment should be fully utilised to implement a suitable policy mix that includes: a fully fledged investment strategy for the future, with a genuine focus on research and development; a real pay rise; a halt in the deregulatory processes; allowing fiscal policy to come fully into its own; tackling the growing inequalities in the labour market; consolidating and enhancing social protection; and last but not least committing to a Europe characterised by high social standards, including in the field of health and safety.

The European institutions have launched several processes that aim to shape the future of Europe, including, among others, the Proclamation on the European Pillar of Social Rights, as well as related legislative initiatives and a 'Social Fairness Package', and the Communication on the deepening of the European Monetary Union. These documents will form the basis for establishing the future direction of Europe, and, as has been said on several occasions, social concerns will be at the heart of these reflections. Fundamental decisions are to be taken over the coming year as to the depth of future European integration, and this process will be complemented by the upcoming discussion in May 2018 on the multiannual financial framework. The budgetary decisions that will be made then will frame how ambitious the European Union can and will be, and will set the tone for how serious the European institutions and the Member States are about ensuring that upwards social convergence is the DNA of the European project. As the analysis of *Benchmarking Working Europe 2018* reveals, upwards social convergence cannot be taken for granted, and market forces are doing nothing to ensure its occurrence; rather the contrary in fact. Southern European countries are diverging from the rest of the European Union on many counts, while the 'catching-up' process in central and eastern Europe (CEE) towards the social standards of the western and northern regions has undeniably slowed down. It is therefore of vital importance that Europe lay the foundations for a sustainable and fair society and that governance, policy processes and budgets make this a possibility for all members of the European Union.

The key priorities are to ensure a sustainable economic growth for the creation of quality jobs and better working conditions, a relaunch of the European social model based on stronger labour rights and social protection for all, and to develop more democratic values that place workers and citizens at the heart of Europe.

With this year's chosen focus – 'on the path towards convergence?' – 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 2018 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. In its consideration of the divergences currently developing across the EU, this publication will set out an assessment of possible policies that need to be put in place for Europe to generate higher living standards for all based on fair integration and upwards social convergence.

All five chapters of this report conclude on a note of serious concern and call for a new set of policies that can put the European Union back on a sustainable track.

While the macroeconomic indicators point to a slight increase in output growth, the average GDP per capita growth remained negative for eight countries between 2008 and 2016, and close to zero for yet another seven countries during the same period. The past two years' increase in output growth should therefore be assessed against this long period of stagnation and negative GDP growth. While divergence in real GDP per capita was on a downward trend between 2005 and 2012 throughout the entire EU28, this has since gone into reverse. The wide gap in real GDP per capita between the east and the west does seem to be closing slowly, but the divide between the north and the south persists, and in the EU15 southern countries it is widening.

Meanwhile, private consumption remains barely above its pre-crisis level and overall EU28 investment is still below its 2008 level, although with clear signs of divergence: the level of investment in lower-income and crisis-struck countries is lower compared to the pre-crisis years, while it is higher in higher-income countries. The European-led investment plan and structural funds are currently not able to correct this very worrying trend. The above-mentioned problems, as well as the policies that have led to them, have received verbal recognition, but this has only resulted in half-hearted and conditional responses: somewhat more flexibility has been allowed in the Stability and Growth Pact, and 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 EC President Jean-Claude Juncker's investment plan, which had a slow start in 2015, is finally taking off. However, not all Member States adhere to the idea of a modest positive fiscal stance, and are instead stubbornly wedded to the idea that budget surpluses will lead to reduced public debt, despite the strong evidence from around the world that suggests it is renewed growth and additional fiscal revenue that helps to reduce debt levels.

The most worrying observation, though, is that while some of the higher-income countries seem to be leaving the crisis period behind, the performance of southern European countries, in particular, is below average, while on many indicators the eastern European countries are no longer converging at their previous speed.

Real wage developments in 2017 displayed a less dynamic and more diversified picture than in 2016. CEE countries pursued their catching-up process with a stronger real wage growth than in the rest of the EU, although this progress has slowed down somewhat since the onset of the crisis. In addition, the 2016 trend of real wages outstripping productivity has been reversed in many countries. This is resulting in a slowdown or even reversal of the longer-term wage convergence between the EU's western European core countries and CEE and southern European countries. This reversal and slowdown in wage convergence can mainly be attributed to the negative effect of the flawed 'one-size-fits-all' EU crisis management approach based on austerity, deregulation of the labour market and downwards wage flexibility and moderation. In general, the long-term development of real wages in the post-crisis period (2010-2017) has lagged behind that of the pre-crisis period (2000-2009), leaving nine EU countries with real wage levels below what they were in 2010.

Minimum wage growth continued to outstrip average real wage growth in 2017, indicating that wages at the bottom of the scale grew faster than average wages and, moreover, grew faster in Member States where the minimum wage level is lower. However,

despite this growth, the minimum wage in most countries remains too low for even a full-time worker to sustain a decent living standard.

These results in real wage growth seem somewhat disappointing considering that growth has picked up, labour markets are tightening in some countries, and the European institutions are calling for a stronger wage growth in order to sustain the economic upswing. However, the fact that real wages are not increasing in line with productivity and that workers are not getting their fair share should in fact come as no surprise. This is a result of the past years of fiscal constraint, lack of investment, deregulation of the labour market and the destruction of institutions that ensured a solidaristic wage policy. In order for Europe to get back onto a sustainable growth path that ensures upwards convergence, a shift towards expansionary policies is needed which would raise demand through a reliance on higher public and private investment, higher public spending and higher pay levels, and would be based on a solidaristic wage policy. This would constitute a radical shift not only in rhetoric but also in action.

The uneven economic recovery is also 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 2017 than at the outbreak of the crisis and that unemployment is decreasing, a closer look at more detailed indicators reveals quite a different story. Many of these improvements are being driven by demographic processes rather than improved labour market performance. In 2017, the number of jobs finally reached the same level as in 2008, but the volume of work is still far below.

Furthermore, a look at the quality of jobs created and the real demand for labour shows that the situation has mostly deteriorated and that convergence between social groups has been achieved mainly due to worsening conditions for those who were in a better position before the crisis. The number of workers that are in atypical employment against their preferences is at an alarmingly high level, and underemployment is double the unemployment rate. Convergence between countries, meanwhile, can be seen mainly in the trend towards more precarious and atypical forms of work, but not in the improvement of working standards. A particularly worrying development has been the growing distance between the most struggling countries and the better performers. Income inequalities that shot up at the peak of the crisis have persisted at a relatively high level and have also been displaying a divergent trend since 2013, while there are no signs that the increase in employment has been able to reduce these rates, nor the in-work poverty rate. Considering the ongoing changes in work patterns, technology, migration and international competition, European labour markets can be expected to continue to face such challenges as precariousness, depressed labour demand, and the weakened ability of social protection systems to ensure adequate living standards for all.

Social protection systems seem to be struggling in the current period, with only very small increases in spending per capita since 2010 despite the growing levels of need, and a divergent trend between the southern Member States and the rest of the European Union. Moreover, the effectiveness of social protection systems in the EU has generally been diminishing since 2011 and, in addition, displaying a downwards convergence towards that of the euro area. Social protection seems to be following the general macroeconomic trend of there being a slight improvement but clearly not for all countries, resulting in divergence between southern and northern Europe. The small gains made prior to 2008 thus seem to be evaporating.

Social dialogue and workers' participation are ways of regulating and ensuring a democratic process at various levels. The European level has delivered rights to information, consultation and participation for workers across the European Union. However, many of these rights are difficult to exercise for various legal and practical reasons, and the time has come to take these challenges seriously and ensure that workers' rights are not being undermined by company mobility and bad implementation of the European directives. Evidence-based policymaking should be the foundation for assessing how to ensure that workers are represented, informed and consulted in the context of ever-stronger economic integration of companies in the European Union. 'Collective voice' contributes to the sustainability of the workplace as well as of society, as workers with access to this form of representation demonstrate greater enthusiasm and involvement in their work. Furthermore, the Employee Participation Index (EPI) correlates strongly with the Gini coefficient as regards the measurement of inequality, indicating that the better the quality of collective voice, the lower the income inequality in the economy.

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 upwards harmonisation of standards and outcomes. The policy options chosen over the past 10 years have weakened the chances of the economic upswing being sustainable and its ability to benefit all citizens and workers in the European Union. Inequalities remain high, wage growth is not taking off despite the indications that it should, and job quality is decreasing, breaking with the kinds of trends identified during former economic upswings. Furthermore, the southern European countries are finding it difficult to get back onto a path towards sustainable convergence. This cannot form a viable basis for the future of European integration, nor can it form a foundation upon which to engage with the tremendous challenges currently facing the economy, the environment, the labour market and social protection systems. The conclusions of this report draw attention to numerous deeply disturbing trends and call for a genuine reassessment of the direction currently being followed in both EU and national policymaking.

GDP growth is back, but under the current conditions it is not benefiting the citizens of Europe to the extent that it should, and the foundations upon which this recovery is built are fragile. Although the European Pillar of Social Rights is a step in the right direction, it is far from being enough. Political commitment to investment, wage increases and quality jobs needs to be backed up by real actions and not just paid lip service. To ensure a stable future for Europe, the EU needs to put in place a genuine and strong investment policy, to commit to social justice, to admit that labour market deregulation has gone too far and that reregulation is needed, and to tackle the lack of workers' voice and the consequent suppression of democracy in the workplace.

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*.

Luca Visentini

ETUC General Secretary

Maria Jepsen

ETUI Director of Research Department

Philippe Pochet

ETUI General Director