Introduction

Half-way through a lost decade? Taking stock of five years of crisis

As in previous years, this new edition of *Benchmarking Working Europe* presents a statistical portrait of Europe regarded from a predominantly macro-economic and social standpoint. Its chapters deliver few surprises, for the indicators examined in this framework reflect the social impact of five years of an economic crisis that was triggered, in the first instance, by a financial crisis. Aspects subjected to detailed analysis in the chapters of this edition will accordingly be the surge in unemployment – particularly among youth, as well as in long-term unemployment – alongside wage developments and the increase in precarious forms of work.

Since 2010, however, these indicators seem to have become also – if not indeed principally – the reflection of the austerity policies conducted both at the European level and in the member states. Successive annual editions of this report have tracked the indicators, as the crisis not only showed no signs of ending but actually worsened, generating recession in some countries, as well as an increase in social inequality, in conjunction with the weakening of national solidarity mechanisms alongside the dismantling of national social models, traditions and practices of consultation and social dialogue.

In 2013-2014 we hear reports that the financial markets are now displaying few signs of the earlier turbulence, that the risks of collapse of the eurozone have been removed, the fears of sovereign default allayed, the domino effect halted, and economic governance strengthened. Is it not astonishing then that the ailing economic and social condition of Europe should appear so chronic, that growth should continue to stagnate, unemployment to soar, and deflation to rear its threatening head?

This very mixed context, consisting of problems that have been – or are in the process of being – solved (the banking sector alone, in which the crisis originated, has not, at the time of writing, revealed its current state of health) at the same time as the socio-economic situation continues to worsen, inevitably forces us to pose the following question: is Europe still suffering the consequences of crisis, or is the current situation rather the outcome of inappropriate policy choices? And if the wrong policies have indeed been followed, is it possible to envisage more effective alternatives?

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One way of contributing some components of an answer to this question is to go back to the period frequently presented as the 'austerity turning point', namely, the year 2010. Whereas, during 2008 and 2009, the national and European authorities were busy taking steps to support the economy, industry, and employment, and to accelerate the transition towards a low-carbon economy, the situation underwent a *volte-face* in 2010 when restoring order and stringency to public finances suddenly became the number-one priority. This change of direction entailed the adoption, within the space of just a few months, of austerity programmes throughout the length and breadth of the European Union.

What explanation can be given for this about-turn? Is it something that was bound to happen? Several relevant factors have been put forward by way of explanation; they include the following: the general increase in public debts, overburdened by the rescue of the financial industry – between 2008 and 2012 'the total cash equivalent transfer from tax payers to the financial sector amounts to 1,839.5 billion euros or 14.2% of 2012 GDP' (Kloeck 2014; see also European Commission 2013) – and further stretched by the economic crisis; the sudden emergence of the economic and financial problems afflicting the so-called 'periphery countries'; the mistrust shown by the financial markets in relation to the eurozone's solidity – and solidarity – as well as to its system of governance; and the resulting increase in the costs of financing the periphery countries' deficits (De Grauwe 2011).

Yet these factors do not on their own suffice to explain the abrupt switch from the nascent European Keynesian-style policy in relation to climate change that was being followed in 2008-2009 (even if the environmental component of the recovery plans was to be regarded with some caution – HSBC 2009; Watt 2009) to an obsessive focus on austerity policies so extreme that the EU today finds itself on the brink of a deflationary precipice.

One of the central, and yet frequently omitted, explanatory factors is the arrival on the scene, in 2010, of The Creditors. Just at the point when it had become necessary to put in place aid plans for the countries in difficulty – Greece, Ireland, Portugal – in order to halt a domino effect in the eurozone that was given a further shove by the behaviour of the financial markets (Boyer 2013), these 'financial sponsors' put in their appearance, in the form of the Troika (Commission, European Central Bank and International Monetary Fund) and the large eurozone countries. By the concerted action of these creditors the change in European policy priorities was imposed and implemented. It was thus the appearance on the European stage of this new entity – consisting of those able and willing to put up the necessary funds to rescue the most seriously ailing economies and bail out the most severely indebted states – that brought about a complete change of course, plunging Europe into the adoption of policy options which, on the basis of the evidence provided by an increasing number of indicators (including those included in this edition of *Benchmarking Working Europe*), have manifestly inflicted severe damage on the European economy, on social models and business activity, on workers and citizens, as well as on the transition to a sustainable and low-carbon economy.

The idea of a joint IMF-EU aid plan was first discussed at the beginning of 2010 on the fringes of an official visit to Brussels by the IMF Managing Director who met, among others, the Presidents of the European Council and European Commission, Herman Van Rompuy and José Manuel Barroso, and warned against the hesitancy of European responses in the face of the risk of a rapid spread of the Greek crisis. But the Europeans were divided: the German Chancellor, initially opposed to a bail-out plan for Greece, finally agreed to it only on condition of a joint intervention with the IMF (an idea initially rejected by France and by the European Central Bank) and of a formal strengthening of budgetary discipline within the EU. The main purpose of insisting on IMF involvement was to circumvent the prohibition on EU rescue of a member state.

Such were the events that led, in the course of 2010, to the setting up of the Troika and to the launching of measures designed to strengthen budgetary discipline (the infamous Six Pack, which was followed by a series of other legislative, institutional and procedural innovations in the framework of what came to be called the 'European Semester' and which became, in actual fact, a 'European Year').

This was the context in which excessive public indebtedness came to be presented as the number-one problem. As Carmen Reinhart and Kenneth Rogoff have shown, the history of economics teaches us that crises of public indebtedness can be dealt with in five different ways: by economic growth; by austerity; by defaulting on or restructuring the debt; by inflation; or by a certain dose of financial repression and inflation (Reinhart and Rogoff 2013). In the case of the European crisis the creditors considered, from the outset, just one single option, namely, budgetary adjustment and austerity (the ECB was to oppose any 'non-voluntary' restructuring of the Greek debt). It is this policy choice that explains the about-turn of 2010.

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Yet this choice was far from being a matter of unanimity within the Troika. While differences of opinion were, at the time, kept relatively hushed up, recent publications today throw new light on aspects revealing a degree of internal controversy. It should be remembered, first of all, that since the beginning of the crisis in 2008 the IMF, rather than playing the policeman, had been admonishing the proponents of austerity. As early as December 2008, it called on the European governments to launch more ambitious recovery plans to support economic activity. The IMF's chief economist Olivier Blanchard pointed out that 'under normal circumstances we would have advised Europe to reduce its deficits, but the current circumstances are not normal'. 'It is essential', he added 'to boost and, if necessary, to provide a substitute for private demand, if we want to avoid a situation whereby recession turns into a Great Depression'. The chief economist accordingly called for budgetary expansion of 2 to 3%, stressing that it was surely better for recovery to be stimulated by an increase in public spending than by a drop in revenue (Le Monde 2008). The IMF Managing Director meanwhile proposed in 2009 that his institution become the world lender of last resort through the pooling of a share of the central banks' reserves. In 2010, when the Troika was being set up, he predicted that if monetary policy were to prove ineffectual in Europe, the 2% inflation goal would have to be raised to 4%. What was to be preferred, he asked: an additional 1 per cent of inflation or an additional 2°C of climate warming? On 8 March 2010 he proposed the creation of a Green Fund to enable the developing countries to invest in low-greenhouse-gas technologies to be funded to the tune of 100 billion dollars a year until 2020 (Faujas 2010). In 2011 the IMF was again the first to point out that the European banking sector was under-capitalised (IMF 2011); and at the beginning of 2012 it was the IMF that warned that the concerted application, at an unprecedented pace, of austerity plans in Europe would inevitably entail recessionary effects (IMF 2012). At the beginning of 2014 the European press revealed that the IMF had expressed doubts about the effectiveness of the aid to Greece as early as 2010, that non-European members of its board had been critical of an aid programme designed for the rescue of private creditors by the European institutions and had also expressed its reservations about the imposition of untenable budgetary stringency.

The only purpose of re-enumerating these points here is to stress that the policies adopted in Europe as from 2010 were actually subject to vehement controversy within the Troika itself. At the level of theoretical debate, austerity was not the only option available; nor did it – in the view of some of the parties involved at the time – constitute the best choice. Are we to believe that the international financial body may indeed have displayed greater clear-sightedness than the European elite? However this may be, since 2010 the economy has been stagnating and in the periphery countries there is no end in sight to recession, while public debts and unemployment continue to rise (ETUC 2014). If the failure of the 2000-2010 Lisbon Strategy could be – quite correctly – attributed in part to the crisis of 2008 (itself, however, exacerbated by the deregulatory strategies conducted during the second part of the Lisbon strategy), it will be the European elites who will alone bear responsibility for the – virtually already certain – failure of the Europe 2020 Strategy. The goals set in the framework of this strategy are receding one after the other; in the chapters that follow, the main causes of this failure stand revealed.

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The policies of internal devaluation have not achieved the expected results, in particular in the peripheral countries such as Greece, Portugal and Cyprus (Chapter 1). While having failed to promote a recovery of export-led growth, these policies have contributed to a collapse of domestic demand. They have exacerbated the crisis and prolonged the recession. A narrow vision of competitiveness based on lowering wages has led to underestimating the importance of investment, innovation and modernisation. The crisis has exacerbated inequality in terms of access to credit, in particular for small and medium-sized businesses, between the eurozone core where such firms experience no real difficulty in obtaining loans and the periphery where borrowing is problematic in terms of both access and interest rates. Such inequality exacerbates the crisis, helps to further reduce income, and causes increasing mistrust among creditors, among other ills. What is more, the reduction in public spending – presented by the European Commission as a success – is contributing to the stagnation of the economy. The drop in both private and public investment leads to unemployment and unexploited capacities within the economy.

These misguided policies take a heavy toll on the labour market (Chapter 2). The Europe 2020 policy targets in relation to employment rates (75% for the 20-64 age group) are still far away; the rate at the beginning of 2013 was 68%. What is more, labour market developments have generated increased inequality between men and women and this inequality becomes even more pronounced when the distinction is made between full-time and part-time jobs, for the percentage of women is much higher in the latter. Generally speaking, it is those with the least skills who have suffered most from the employment crisis which has swollen the pool of the unemployed by 10 million between 2008 and 2013 (from 16.2 in 2008 to 26.1 million in 2013). The worst affected categories are young persons, migrants, particularly non-EU migrants, and low-skilled workers. The incidence of long-term unemployment, what is more, is far greater than during the period preceding the crisis. While vocational training policies are certainly to be recommended, they will not provide a way to recreate the 10 million jobs that have been destroyed.

The chronic nature of this highly adverse labour market situation, and the trend towards a destruction of full-time in favour of part-time jobs, naturally have a serious impact on the development of inequality and poverty; it is those members of the population who are unemployed or inactive that are most exposed to the risk of poverty (Chapter 3). The worsening labour market situation increases the risk of poverty and other forms of inequality. One goal set by the heads of state and government in the Europe 2020 Strategy is to raise 20 million persons out of poverty by 2020. The means to be deployed to this end are social protection systems, increased employment rates and better education and training provision. But in 2012 the share of the population at risk of poverty was 16.9%, representing not a reduction but an increase of 2.4% since 2008. In relation to the policies conducted, a relevant fact to consider is that there is an increased risk of poverty among persons in work (11.4% increase between 2008 and 2012), not only in the 'new' member states but also in some of the so-called 'peripheral' countries (Greece, Spain, Italy) *and* in countries of the European core and/or northern Europe. An even more striking point is that this increase is proportionately strongest among workers on permanent and part-time contracts in comparison with temporary workers (although the latter are, in absolute terms, at greater risk of poverty). Another development to be observed is a relatively greater increase in precariousness among skilled workers than among the less skilled (even if the latter are, in absolute terms, more subject to precariousness than the more highly skilled). Is not this situation the direct consequence of the policies conducted? It raises questions, in any case, about the pertinence of the notion that employment is the best way of combatting poverty, at a time when wages are being reduced, the labour market is being deregulated, and unemployment is exploding. A further striking and noteworthy development is the increase in national wage inequality in no less than fourteen countries i.e. exactly half of the member states.

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The development of these, and other, indicators suggests that labour market and social protection reforms are key factors in determining the worsening poverty rates. The situation is compounded by the fact that, precisely at a time when citizens are exposed to increased risk of poverty, the mechanisms of solidarity are being undermined by the current reform policies (Chapters 4 and 5). Concealed behind the implementation of the ‘structural reforms’ recommended in the member states in the framework of the European Semester, the following are some of the developments currently taking place: direct political intervention in national collective bargaining outcomes and procedures designed to ensure wage restraint, as well as the decentralisation of collective bargaining for example by enabling local-level agreements to fall below the terms of sectoral agreements or of provisions or minimum standards enshrined in the law; the introduction of sub-minima wages for young people and the long-term unemployed; the relaxation of the rules governing redundancies and dismissals; the revision of rules governing atypical employment; the revision of unemployment benefit systems; and a weakening of occupational health and safety standards.

It is doubtless here that one can see most clearly some of the ways in which, for the last three years, the social indicators have been reflecting less the economic crisis than the political choices to dismantle a series of forms and institutions of social protection that constitute the European social model. This process of dismantling leads directly to an increased state of precariousness within the labour force and the population at large, in some cases to situations in which those in work are nonetheless living below the poverty threshold, and even to violations of the fundamental rights of workers as enshrined in the EU Treaty and in other European and international treaties. Some observers see the political design of the current European elites as constituting a desire to align Europe on the US model.

Over and above social policy considerations, what is to be said about the parlous state of climate policy? Here too commitments have been taken in the framework of the European 2020 Strategy and it is expected that the EU will indeed achieve its short-term climate targets (Chapter 8). The following single observation, however, enables this relative success to be seen in its true colours: in Europe the reduction of greenhouse gases is attributable principally to economic recession, whereas in other regions of the world it is the result of programmes designed to invest in renewable forms of energy and to strengthen the energy efficiency of the economy. This observation, taken alongside the awareness that European ambitions in this sphere appear likely to suffer a loss of steam over the medium and long term, represents definite cause for concern at a moment in the history of the planet where, for the first time in hundreds of thousands of years, the levels of CO_2 in the atmosphere in 2013 exceeded 400 parts per million, while extreme climate phenomena are becoming ever more frequent. On the basis of the climate policies currently being conducted, the increase in temperature previously estimated at between 3.6 and 5.3 degrees appears certain to be exceeded (the original goal having been 2 degrees for this century).

Europe, having given priority to austerity measures and to steps designed to ensure propriety in terms of public budgetary management, has made inadequate commitments on the path to a sustainable reduction in emissions, as will not fail to become manifest once the economy is back on its feet. Since 2011 it is in Europe that the drop in clean-energy investment has been most marked. The EU is losing ground in this field, above all in comparison with developing countries – e.g. China which, meanwhile, is improving its performance. Europe currently falls short of its targets for 2020 in terms of energy efficiency and a tremendous investment effort is required in the energy-saving field. The dividend of such investment, over and above its environmental impact, would be to fuel recovery in terms of economic activity and employment.

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So much for a rapid – and far from exhaustive – overview of the contents of this edition of *Benchmarking Working Europe*. Especially since 2014 is a year in which the political personnel of the European institutions is up for renewal, it is a good time to draw up a mid-term (2010-2020) balance sheet of its policy implementation and achievements so far. Such a stocktaking exercise reveals, alas, a truly calamitous state of affairs. When economic stability and the confidence of the markets is obtained at the cost of unemployment, precarious living and working conditions and inequality, then political instability can lie only just around the next corner. Martin Wolf, a journalist on the *Financial Times*, does not hesitate to speak of the 'failure of the economic, financial, intellectual and political elites who mostly misunderstood the consequences of headlong financial liberalisation'; of the failure of these same elites when they are viewed by the mass of the people 'as richly rewarded for mediocre performance and interested only in themselves, yet expecting rescue when things go badly'; of the failure also of the 'eurozone elites' within the eurozone where 'power is now concentrated in the hands of the governments of the creditor countries, principally Germany, and a trio of unelected bureaucracies – the European Commission, the European Central Bank and the International Monetary Fund' (Wolf 2014).

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The year 2014 – an election year that will see preparation for the mid-term revision of the Europe 2020 strategy – thus lends itself to a thoroughgoing stocktaking exercise in relation to the policies conducted and to a radical change of direction for a European Union that needs to get itself back on track in terms of its vocation to promote upward convergence of the living and working conditions of all its citizens. Proposals do exist to strengthen cooperation among member states, for the purpose of redressing the European economy, in areas that include tax cooperation, reform of financial markets, improvement of public services, the involvement of social partners in economic governance processes, or the promotion of labour standards. Detailed proposals have been drafted with a view to investing in sustainable growth and the creation of quality jobs. Implementation of the 'Plan for Investment, Sustainable Growth and Quality Jobs' drawn up by the European Trade Union Confederation (ETUC) would generate up to 11 million new jobs in Europe and would contribute to a sustainable economic and social recovery in the course of the coming decade (ETUC 2013).

Apart from the question of recovery as such, thought must be given, already now, within the European institutions and the member states, to the question of the future distribution of the fruits of the recovery when it happens. The political challenge is how to ensure that future gains are directed, as a matter of priority, towards those who have suffered most from the crisis. These are the categories of workers and citizens concealed within the statistical indicators in the chapters you are going to read: young people, migrants, workers suffering from the precarious conditions prevailing on the labour market, the unemployed, and persons of all ages and varying categories living, and struggling for survival, below the poverty threshold.

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