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Foreword

Inequality: new dimensions to an old problem

It has almost become a cliché to say that the Covid-19 pandemic has exacerbated pre-existing inequalities while also generating new ones. However, the following pages of this year's *Benchmarking Working Europe* clearly reveal that, far from being a platitude, the nexus between the pandemic and rising inequalities is both increasingly measurable and alarming. But they also stress that inequality is not just a one-off historical incident linked to a particular crisis. It is in fact the product of an economic model that, for the past three decades, has progressively redistributed less and less wealth to the bottom percentiles of society, while accumulating more and more at the top. In other words, it is a structural problem. Given the corrosive impact that inequalities are having on the social and economic, let alone political and democratic, fabric of our societies, the policy responses to the problem of inequality must be equally structural in character.

We raised similar concerns all the way back in the 2012 issue of *Benchmarking*, noting how a toxic policy 'cocktail', whose main ingredient was inequality, had 'created a bubble-economy which burst in 2007', leaving a legacy of even greater social and economic distress and polarisation. But the difference with this crisis is that, as noted in last year's issue of 'the Bench', it has generated a novel policy approach to addressing the very social and economic challenges it has produced. In last year's issue we already highlighted that 'policymakers, at both national and European levels, [were] approaching this challenging juncture in a way that departs from the austerity-driven responses deployed a decade ago, in the aftermath of the previous crisis'. We also forcefully advocated in favour of this new approach as crucial to ensuring a safe passage to the post-pandemic world. This important point now deserves to be further explored and reinforced: the policy reorientation that we are currently witnessing needs to become a permanent feature of our systems of economic, financial, and social governance.

The following chapters (two of which have been written by Professor Kate Pickett and Professor Simon Deakin) together offer one of the clearest and most compelling set of data-driven arguments for tackling inequalities in Europe, both to mitigate the effects of the pandemic and also, crucially, to redress some of the more structural failures of the economic model that has dominated European policymaking for the last few decades.

Inequality before and after the pandemic

Inequalities may have been aggravated by the pandemic but, as set out in Chapter 1 (and of course by a number of highly respected scholars in recent years, including Piketty 2013; Atkinson 2015; Stiglitz 2012; Pickett and Wilkinson 2009; to name just a few), they very much predate it. They are in fact the product of a structural process of unequal distribution of income, resources, and power, that – in Europe at least – dates back to the 1980s.

Since the 1970s – the most equal decade since statistics on inequality have been compiled – the labour share of income has steadily declined in many OECD countries, whereas the share of wealth going to profits and to the so-called 'top 1%' has kept rising, while taxes for the wealthy and corporations have kept being cut at unprecedented rates. The upshot, as it is increasingly being reported, has been 'weak growth, low investment, stagnating living standards and a backlash from voters' (Elliot 2021). The hubris of economist Friedrich Hayek's disciples had perhaps the benefit of discrediting neo-monetarism even among some of Europe's conservative and right-wing parties, but at a tragic cost to our social and democratic fabric. The sharp rises in inequality, populism and right-wing extremism are just some of the offspring of neoliberalism and a decade of austerity.

The following chapters explore how the more structural inequalities that are currently rife in Europe intertwine with those that have been generated by the pandemic. Chapter 1, on this year's macroeconomic developments in Europe, shows that the Member States that were the most affected by the previous recession in Europe's southern periphery have once again suffered some of the greatest losses, not least due to their ongoing reliance on the low-skill, low-pay tourism sector. The shock of the pandemic has also resulted in a downwards divergence in income per capita between Member States. Chapter 2, on labour market and social developments, stresses that 'the impact of the crisis has not fallen equally on everyone, instead accentuating existing fault lines and potentially entrenching structural disadvantages – in particular, for the young, migrant workers, and the lower educated'. It also points out that 'European countries did not enter this crisis on an even footing', with marked differences in terms of the 'scope and reach of their pre-existing labour market policies', and that, in spite of the unprecedented level of public support schemes, they are likely to exit the crisis marked by new and even deeper divisions. The chapter also indicates the extent to which 'different trends that were already deepening divisions between workers such as new technologies, ever greater flexibility, or the green transition' have been accelerated by the pandemic.

Chapter 3 offers a detailed analysis of recent trends in wage inequalities in Europe and argues that 'an increase in wage inequality is associated with a decrease in the share of workers covered by a collective pay agreement. By the same token, higher bargaining coverage is generally associated with a more equal distribution of wages'. Recent work carried out by the ETUI's researchers has also unveiled the contribution of performance-related pay schemes to wage inequality, as the beneficiaries of these schemes are typically workers that already receive high earnings (Zwysen 2021). There is a distinctive message here about the individualisation of pay-setting mechanisms producing greater inequalities in labour markets and society at large, and about the collective approaches available to reduce them. And while the chapter acknowledges the potential for nominal wages to recover in 2021, it cautions against assuming that this would necessarily translate into real wage growth, partly due to the unpredictable nature of the ongoing pandemic and partly in consideration of steep rises in energy and commodity prices.

Chapter 5 provides an analysis of how pre-existing inequalities and regulatory failures to prevent or address occupational health and safety hazards at work have intersected with new OSH-related risks (including psychosocial risks) that have emerged during the pandemic, creating new divides and cleavages, such as the 'non-teleworkability' divide, itself exposing some workers to greater risks of Covid-19 contagion than others. It also points to a distinctive 'public health' divide, where the most socially deprived have often been exposed to the virus in the performance of their work on the back of longstanding disadvantages in terms of health, nutrition, and chronic illness. Finally, the chapter considers the emergence of a third divide pertaining to 'the social and economic consequences of the pandemic', whereby 'the risk of unemployment is higher among low-income earners and workers with atypical or precarious employment conditions, as they serve in sectors that have been hit the hardest by the pandemic'.

These are just a few examples of the nexus between the pandemic-related dimensions of inequality and its pre-pandemic, structural dimensions. These dimensions develop on a continuum and are likely to continue do so in the post-pandemic world. If this is so, then inevitably the nature of the policy response to the current pandemic needs to be closely analysed. Here we are referring to measures such as SURE and the dozens of job-retention and income support schemes that have proliferated across Europe since spring 2020 (Drahokoupil and Müller 2020); the temporary suspension of certain elements of the Stability and Growth Pact; the relaxation of some rules on state aid and competition law; the unprecedented injection of liquidity into the real economy under the ECB's Pandemic Emergency Purchase Programme (PEPP) and other targeted lending schemes to banks to facilitate the flow of credit; and, finally, Next Generation EU and its national counterparts; all of which were first assessed in last year's *Benchmarking* issue, and whose analysis is systematically updated in the following pages. Equally important, however, are the review processes of EU economic governance and of the ECB's monetary policy strategy that were launched prior to the pandemic and have now concluded or been resumed. These are producing proposals that point to important (albeit incomplete or still politically uncertain) shifts, which could be positive steps in the direction of tackling inequalities and supporting the climate transition. Along these lines, it is also important to highlight the growing, if incremental, role of international cooperation in the fiscal domain, including green and corporate taxation (Valenduc 2021; OECD 2021).

Structural problems require structural answers. There is a strong case to be made for ceasing to consider these policy responses to the Covid-19 crisis as temporary and contingent, and reinterpreting them instead as structural answers to a series of long-standing deficiencies of the neoliberal model of economic and financial governance.

The ‘drag effect’ of inequalities

A second important consideration in respect of the relationship between increasingly ‘entrenched and intersecting inequalities’ – to borrow a term used by Professor Kate Pickett in her Guest Editorial – and Europe’s post-pandemic future, is the extent to which inequality may be emerging as a powerful handbrake on the unprecedented efforts by national and European institutions, including of course social institutions and actors, to steer us out of these tragic times and onto safer waters.

For instance, there is growing evidence of the existence of a nexus between vaccine hesitancy and socioeconomic disadvantage, hampering public policy efforts aimed at immunising the largest possible share of the European population (Cascini et al. 2021). Taking a global perspective, Chapter 7, this year’s foresight chapter, postulates that hopes of a total eradication of the SARS-CoV-2 virus have gradually faded due to the difficulties of achieving a global vaccination rate sufficient to slow and then prevent the circulation of the virus itself. There is also emerging evidence of correlation between exposure to the virus and low wages and precarious and unsafe forms of work, not to mention overcrowded and underfunded public transport (Gkiotsalitis 2021). This is of course precluding a full reopening of European economies, to the extent that any significant relaxation of social distancing and teleworking rules seems to lead, almost invariably, to a rise in the number of infections and new waves of the disease (Matilla-Santander et al. 2021).

These examples are developed further by the sophisticated analysis carried out by ETUI researchers in Chapters 1, 2 and 5, which together offer a comprehensive assessment of the nexus between structural inequalities, the pandemic, and the post-pandemic trajectory. They all point to a need for a sustained commitment to labour market and income support measures and expansionary, growth-oriented, fiscal and economic policies, as do some of the recent ETUI publications on post-pandemic labour market scenarios (Jestl and Stehrer 2021). These are just some of the most immediate examples of the ‘drag effect’ procured by the unprecedented levels of inequality affecting our societies. But their impact on Europe’s exit velocity out of the current crisis pales compared to the long shadow they cast over a much more existential threat: climate change.

Chapters 4 and 7 jointly offer a fresh and original overview of the nexus between inequalities and climate change policies. Chapter 4 unveils one of the many paradoxes affecting our unequal times: the fact that those least responsible for climate change (in Europe and beyond) are, and will continue to be, those most affected by it. But it also points forcefully at an additional paradox: that the growing levels of social and economic disadvantage characterising our current times are likely to slow down and even hamper a decisive reorientation of our system of production and consumption towards a carbon-neutral future. To simplify a much more sophisticated message, since climate mitigation policies affect energy and food prices, they are likely to slow down progress in energy access and disproportionately affect the poorest, who spend a higher share of income on these goods, thus provoking resistance and discontent. From this standpoint it is hardly surprising that the recently concluded COP26 conference has failed to deliver on its initial targets and hopes (Masood and Tollefson

2021), with India's climate and environment minister stressing 'that richer nations should not expect poorer countries to stop subsidizing fossil fuels such as gas. The lowest-income households rely on these to keep energy costs down'. Chapter 7, meanwhile, posits that the increasingly likely emergence of a scenario whereby the virus becomes 'endemic' could lead to an 'even more polarised society', while also calling into question the logic underlying European and national economic recovery plans, especially if a return to the 'new normal' means in effect a return to pre-pandemic levels of consumption and exploitation of natural resources.

The ETUC and ETUI have repeatedly stressed that climate change mitigation policies cannot be devised and introduced in the absence of a more radical sustainable and equitable reorientation of our economic and welfare systems (ETUC 2020; Gough 2021; Bollen et al. 2021; Laurent 2021). The transition to a carbon-neutral economy can only be a 'just transition', and this issue of *Benchmarking* reinforces the point.

Reconstruction after the pandemic

The analytical verdict of this year's *Benchmarking* is quite clear: inequality is a deep-seated structural feature of our economic system and needs to be tackled both during and well beyond the current pandemic timeframe. But its more normative message is just as strong and significant. Besides the point already made in respect of retaining and consolidating – including, where necessary, through EU treaties and national constitutional reforms – the current expansionary and redistributive fiscal and economic framework, and the importance of emphasising the 'just' in the just transition slogan, this year's *Benchmarking* places trade unions, collective bargaining, industrial and economic democracy, and decent wages and incomes at the centre of these policy and reform debates.

We have noted how the post-1970s decline in labour's share of national economies coincided with regressive tax reforms and a steep rise in the wealth accumulated by a privileged few. But this is not the only 'coincidence'. At the same time, trade union membership has been declining, along with collective bargaining coverage. Correlation is not causation, but as Kristal points out, it is highly arguable that 'the common trend in the dynamics of labour's share of national income is largely explained by indicators for working class organisational power' in the economic and political spheres (Kristal 2010).

These points are elaborated upon in a novel way by Chapters 3 and 6. Chapter 3 addresses the importance of underpinning the processes of wage determination and centralised collective bargaining with effective regulatory institutions, echoing the current efforts by the ETUC to ensure that the EU adopts a suitable instrument to guarantee decent and adequate wages for all European workers. Chapter 6, written by Professor Simon Deakin, establishes a most compelling, and methodologically robust, link between the rules regulating industrial democratic institutions and greater equality (as measured by labour's share of national income) but also improved productivity and innovation, thus leading to higher levels of employment.

Not your usual 'interregnum'

The Covid-19 pandemic has precipitated Europe, along with the rest of the world, into an unprecedented crisis. It undoubtedly represents a clear fracture in the linear course of history. The Gramscian concept of 'interregnum' is possibly one of the most used, and often abused, metaphors that one can deploy to describe any point in time in which 'the old is dying' and 'the new cannot be born'. The concept is so captivating that it often lends itself to describe – albeit perhaps only superficially – almost any event where past policy failures become apparent and questions are raised about what should be done to mitigate their effects and deal with any of the 'morbid symptoms' that are never in short supply during economic or political crises. The end of the 'cold war', the decline of the American global hegemonic position (Cohen 2013), the crisis of the liberal international order (Babic 2020), the rise of populist movements in the aftermath of the financial crisis (Solty 2013), the 2009 crisis itself (Stahl 2019), and Brexit (Craig 2017) are just some examples demonstrating the malleability that this concept entails and its potential for accommodating very different phenomena.

It is certainly tempting to refer to our current period as yet another 'interregnum': a delicate phase in which the Covid-19 pandemic has swept away a number of long-established dogmas in national and EU-level policymaking, and we are now seeing some experimentalism take place in terms of alternative policy recipes, from enhanced public support schemes for the unemployed to a suspension of certain (but not all) neoliberal and neo-monetarist policy recipes.

However, we should perhaps look to Zygmunt Bauman for a more qualified and challenging understanding of the idea of 'interregnum' (Bauman 2012). He posits that the concept applies to those 'extraordinary situations in which the extant legal frame of social order loses its grip and can hold no longer, whereas a new frame, made to the measure of newly emerged conditions responsible for making the old frame useless, is still at the designing stage, has not yet been fully assembled, or is not strong enough to be put in its place'. These are exacting conditions, and while it would be very tempting to refer to our current period as yet another 'interregnum', we feel we need to warn against complacent assumptions. Neoliberalism has not lost its grip, though admittedly it is less tight than it was before the pandemic. Tragic as this would be, we cannot write off the possibility that some may be tempted to tune up neoliberal policies and even return to a new age of austerity.

An age of prosperity

It would also be incorrect to suggest that a new conceptual, political, and policy framework that is radically different to the old discredited system is yet to be born, or is still at the designing stage. Many of the policy interventions adopted in recent months have in fact already had significant distributional effects and greatly benefitted vast swathes of Europe's most vulnerable, as also evidenced by the data reported in Chapters 1 and 2. Redistributive politics concretely deliver, they are not an abstraction. Beyond this, as the following pages suggest, and as the work of the ETUC and ETUI tirelessly points out and will continue to do so in the coming months, there is a large and coherent body of policy proposals that clearly anticipate a more sustainable, resilient, and equitable future. A new age of prosperity, shaped by a just distribution of economic and natural resources, and a fair share of the fruits of progress for all.

It may, therefore, be more appropriate to refer to the current phase as a phase of 'condominium', rather than one of 'interregnum'. For better or for worse, there is no policy vacuum, no hiatus, no disintegration of the social order. There are instead two fully fledged and radically different visions for the future of humanity, coexisting and at the same time competing with each other – for legitimacy, public support, and ultimately for hegemony. This is a state of 'condominium'. As also alluded to in the Guest Editorial by Professor Pickett and in this publication as a whole, on the one hand, we have inequality and climate change, the strongest indictments of the old system. On the other, social justice and sustainability are arguably both the promise of and the premise for a new age of prosperity. We can conclude, then, by borrowing Pickett's words: 'We know what we need to do, and we know that this is the time to do it. Let us begin by taking every action we can, big or small, to dismantle the structures of economic inequality – and look forward to the benefits'.

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