

Foreword

As the great recession persists on its course and the European Union adjusts its expectations to cope with a period of – at best – subdued growth, governments are reacting by pushing for more austerity in the hope that such an approach will serve the goal of a better future for the population of Europe. Meanwhile, though inequality is rising – as joblessness becomes the everyday reality of many Europeans, job creation is tainted by sub-standard conditions, and social protection systems are being cut back – the widening gap between affluence and poverty does not appear to constitute a major concern of the European governments in the context of their efforts to reduce debt levels and public deficits.

Yet inequality was one of the root causes of the great recession. Over the past decades income inequality has slowly but steadily increased, paving the ground for a growing instability within the economy. The stagnation in income affecting some sections of the population, while other sections enjoyed a rapid increase in – especially – capital income, led to a constantly expanding demand for credit, thereby fuelling the growth of an unsustainable credit bubble. While ways could have been found of containing this phenomenon had it developed in isolation, the simultaneous deregulation of the banking system allowed financial institutions to create new instruments – their workings impenetrable to the rest of the population – in which those who continued to get richer could invest their increasing assets. This cocktail created a bubble-economy which burst in 2007.

This financialisation of the economy is, however, far from being the only dimension of rising inequality that gives cause for concern.

Growth in inequality leads to an accumulating sense of injustice and lack of social cohesion both within and across countries. The fair distribution of resources is something that matters to people, within their own countries especially, but also across borders and within the world at large; when gaps in income distribution are perceived as becoming too wide, the sense of injustice can generate mistrust and even lead to unrest between individuals and groups within society. The need to forestall such outcomes is one of the main reasons why governments have put in place redistributive

welfare states based on progressive taxation and insurance against social risks.

Yet another aspect of which it is important to be aware is that inequality, in its varying manifestations, leads to a loss of human potential in its broadest sense as societies fail to provide equality, or structures that would serve to promote greater equality, thereby undermining the foundations for equal opportunities. The disadvantaged groups in society, in other words, are so far from enjoying the same opportunities as the advantaged groups that society at large stands to miss out on the development of the human potential present within the former groups while, at the same time, the negative spillover effects of the inequality suffered entail widespread adverse consequences for society at large.

There are thus several reasons to justify a belief that inequality should be at the heart of all concerns about the future direction of the European Union. A forward-looking approach would be one that supported and reinforced policies and institutions designed to ensure that equality – and not income equality alone – is the foundation of any short, medium and long-term strategy. Building a common future on austerity and deregulation, and thereby laying the ground for a vicious downward spiral of deteriorating social and labour rights, is certainly not the right way forward for a prosperous and more egalitarian Europe.

Benchmarking Working Europe, which first appeared in 2001, represents a contribution to the EU Spring summit by providing a genuine benchmarking exercise applied to the world of labour and social affairs and grounded in effective labour and social rights. It aims at establishing what progress – or lack of it – has taken place in selected areas of importance to the trade unions and of significance for a social Europe. This year's edition of *Benchmarking Working Europe*, in choosing to focus on the single issue of inequality, nonetheless takes in a wide range of areas extending far beyond the question of income inequality alone. While raising serious concerns as to the direction currently being taken by social and labour rights in the European Union, this report points also to ways in which policies, institutions, and the political will to contain market inequalities and provide ways of offsetting other forms of

inequality generated by the market, could come to form a positive strategy for the future of the European Union and ensure that 'Social Europe' was not merely one brief moment in history but that, on the contrary, it continues to represent the underlying foundation on which European integration can build its future.

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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