

Policy brief

A labour-friendly Europe

Alternative policies
for labour, employment
and wages

Lunaria

1/2018 March



This project has received funding from the European Union Horizon 2020 Research and Innovation action under grant agreement No 649186

This Policy Brief is the result of the consultation carried out by Lunaria with the Civic Action Network, the network of the civil society organizations created within the ISIGrowth's project.

The context

In spite of the Europe 2020 strategy's goal to raise 20 million people out of poverty, the risk of poverty or social exclusion has been increasing since 2010 for the population as a whole in the EU28, the euro area and even in the EU15. The weak performance of the European labour markets is a key determinant to understand the deterioration of living conditions and the increasing risk of social exclusion. As highlighted by the World Inequality Report 2018 more equal access to education and well-paying jobs is key to addressing the stagnating or sluggish income growth rates of the poorest half of the population.

As discussed in the ISIGrowth's report "[How can Europe change. Civil society proposals for policy alternatives on socially inclusive and sustainable growth](#)" despite some progress over the 2014-15 period has been made, **unemployment and particularly youth unemployment rates still remain exceptionally high**. 17 millions are the total European unemployed people and 3 of them are youth. When looking at EU28, these figures increase reaching 22 millions of unemployed whose 4.5 are youth.

However, huge divergences across countries persist and the effects of austerity are still long-lasting. In fact, among the member states the Mediterranean countries, theatres of the fiscal consolidation, are those experiencing the highest unemployment and youth unemployment rates, which in Greece and Spain reach the peak of more than 20% (total) and more than 45% (youth). These trends have been accompanied by a rise in the rates of long-term unemployment, implying that a large number of unemployed face increasing difficulty in finding a job, while the danger of their sliding into poverty and material deprivation correspondingly increases. This is complemented by a lack of public sector opportunities. On the contrary, cuts in public spending are accelerating this trend.

The quality of jobs is worsening almost everywhere. The incidence of temporary contracts in the EU28 has been on the rise for the past two years. Women are more likely to work in temporary jobs than men in the vast majority of member states, with the widest gender gaps observed in Cyprus, Finland and Slovenia. Not only does the prevalence of short working hours mirror income and class inequality, but recent trends in part-time work suggest that it is also likely to widen such inequality further (ETUI, 2016).

In-work poverty rates – which measure the incidence of what is commonly called 'working poor' – **continue to rise**. The average in-work poverty rate for employed people stood at 9.6 per cent in 2014, up from 8.3 per cent in 2010 – a 15.7 per cent rise.

The emergence of high risks of poverty and social exclusion faced by unemployed people should be a major concern of the European social agenda, particularly in light of self-defeating policies, decreasing expenditure to provide income support for excluded categories. In fact, those member states most affected by the crisis registered an increase in public social spending per capita below the EU average.

Given the adversarial conditions of the labour market, **structural reforms** aimed at increasing flexibility and imposing wage restraint are exacerbating the vulnerability of many categories of workers in Europe, further widening forms of inequality observed over the past decade. The Europe-wide focus continues to be on internal devaluation (i.e., the reduction of wages) and neoliberal structural reforms (i.e., flexibilisation of labour markets and reduction of collective bargaining rights). This strategy – which entails constant pressure on wages and the relentless pursuit of reforms aimed primarily at increasing the downward flexibility of wages – has exacerbated the already depressed levels of domestic demand, exacerbating the negative effects of fiscal austerity on employment level (on the effects of labour market reforms upon unemployment and income inequalities see Dosi et al., 2016a, 2016c).

Proposals from civil society

Trade unions, political forces and civil society groups have developed several proposals for action on labour policy. Policy proposals have been summarized in the report “How can Europe change”, released within the ISIGrowth project. The organizations which have developed alternative policy proposals include the ETUI (European Trade Union Institute), the ETUC (European Trade Union Confederation), the EuroMemorandum and the Italian campaign Sbilanciamoci!. All of them are members of the ISIGrowth Civic Action Network.

A systematic proposal for building an alternative industrial policy in Europe includes the following aspects:

• A wage led growth strategy

A demand-and-wage-led growth strategy, based on more expansionary wage policies, would provide an equitable strategy for economic and social recovery (see, for example, ETUI, 2015, 2016). Alongside increased investments and a departure from contractionary fiscal policies, a more expansive wage policy could be a key component of a macroeconomic reorientation with a stronger focus on internal demand and social cohesion.

According to the traditional concept of expansionary wage policy, nominal wage growth should not only follow the combined growth of inflation and productivity but also include a redistributive component so as to increase the wage share and, in so doing, boost aggregate demand.

In the context of this strategy, member states should coordinate themselves to promote upward – not downward – wage convergence.

• A European minimum wage

A more expansive European wage policy should take the form of an equitable European minimum wage standard which, in order to fulfil its two-fold function of combating poverty and fostering internal demand, should ideally be close to two thirds of the national median wage, this being the OECD’s definition of the low-wage threshold. The implementation of a European minimum wage standard should furthermore take account of the fact that statutory and collectively agreed minimum wages are functional equivalents for the purpose of ensuring the comprehensive application of minimum wages; as such, the European minimum wage standard should not only specify a certain relative level but should also incorporate a range of measures to improve collective bargaining coverage.

It is also noted that wage-setting should remain a national matter and should be dealt with according to national practices and industrial relation systems. Of course this implies a complete reversal of the neoliberal structural reforms implemented in the context of the crisis management and which have essentially undermined the regulatory function of collective bargaining in many European countries (ETUI, 2015).

• Greater and more stable employment

As highlighted also by the ISIGrowth first Policy Brief, structural reforms aimed at increasing the flexibility of labour market do not improve firm competitiveness, productivity or GDP growth. On the contrary, by weakening workers’ consumptions, they increase inequality and unemployment, leading to higher economic instability and

occurrence of deep downturns. Such negative effects spill over into the long term. In this regard specific alternatives have been developed in the context of national campaigns. In 2015, for example, the Italian civil society network Sbilanciamoci! published the *Workers Act* (Sbilanciamoci!, 2015), an in-depth critique of the government's 'Jobs Act' outlining an alternative public policy based on the strengthening of the rights and protections of employees and the extension of those protections to self-employed workers. Moreover, tackling the climate change with a combination of ambitious and binding targets, of incentives and of public investments into green technologies and services would help create millions of green jobs in Europe.

• A EU wide social security system

The importance of an EU-wide social security system (such as an en EU- or EMU-wide joint unemployment insurance scheme) has long been recognised as a crucial tool to enhance social protection and labour mobility as well as aiding. As the former European Commissioner for Employment and Social Affairs László Andor said: 'A basic European unemployment insurance scheme would provide a limited and predictable short-term fiscal stimulus to economies undergoing a downturn in the economic cycle – something that every country is going to experience sooner or later. With its automatic and countercyclical character, a basic European unemployment insurance scheme could boost market confidence in the EMU and thus help to avoid repeating vicious circles of downgrades, austerity and internal devaluation in the euro area. It would help to uphold domestic demand and therefore economic growth in Europe as a whole'.

• The role of new technologies

Many organization, especially the ETUI, stress the importance of seizing the opportunities offered by new technologies – such as participatory, transversal, digital-technology-based systems that steer communicating networks of machines, workers and algorithms – to achieve greater involvement and transparency in the workplace and to promote stakeholder-based governance, with the aim of ensuring sustainable companies and sustainable labour markets. The contribution of board-level workers to ensuring sound, stakeholder-based decision-making must remain a key pillar of the European social model.

• Strengthening the role of welfare states and increasing progressivity of tax systems

Welfare state expenditures for social security, health and education have to be seen as investments in the future of Europe. Besides extending the coverage of social protection, benefit levels have to be increased in order to effectively combat poverty. Welfare states via taxation and spending policies are an essential tool to reduce inequality in market incomes and to stabilise growth. Overall, current tax structures in European countries are less progressive today than twenty years ago. Increased progressivity in the taxation of incomes is not only a question of introducing higher marginal tax rates on high incomes; also the tax base has to be considered. Most of the tax exemptions and deductions in place today disproportionately benefit high-income and wealthy households. With the aim of broadening the tax base, these exemptions should be abolished.

REFERENCES

[‘Investing out of the crisis’](#), by Giovanni Dosi, Dario Guarascio, Mariana Mazzucato, Andrea Roventini, ISIGrowth’s policy brief, March 2017

Dosi, G., Pereira, M.C., Roventini, A. and Virgilito, M.E. (2016a). [When more Flexibility Yields more Fragility: the Microfoundations of Keynesian Aggregate Unemployment](#). ISIGrowth Working Paper 5/2016.

Dosi, G., Pereira, M.C., Roventini, A. and Virgilito, M.E. [What if supply-side policies are not enough? The perverse interaction of flexibility and austerity](#). ISIGrowth Working Paper 1/2018

ETUC (European Trade Union Confederation) (2012). [A Social Compact for Europe](#). Resolution adopted by the Executive Committee on 5-6 June. Brussels, ETUC.

ETUC (European Trade Union Confederation) (2013a). [A new path for Europe: ETUC plan for investment, sustainable growth and quality jobs](#). Brussels, ETUC.

ETUI (2015). [Benchmarking Working Europe 2015](#). Brussels, ETUI.

ETUI (2016). [Benchmarking Working Europe 2016](#). Brussels, ETUI

EuroMemo Group (2016). [Addressing Europe’s Multiple Crises: An agenda for economic transformation, solidarity and democracy. EuroMemorandum 2016](#). Berlin, EuroMemo Group.

Eurostat. Public data, accessible at <http://ec.europa.eu/eurostat/data/database>.

Fana M., Guarascio D., Cirillo V. [Labour market reforms in Italy: the effects of the Jobs Acts](#), by, ISIGrowth Working Paper 5/2015

Fazi T., [How can Europe change](#), ISIGrowth Working Paper 33/2016

OECD (Organisation for Economic Co-operation and Development) (2012). [Employment Outlook 2012. Chapter 3: Labour Losing to Capital: What Explains the Declining Labour Share?](#) Paris, OECD.

Sbilanciamoci!, [Workers Act](#), August 2015

[World Inequality Report](#), 2018