

Reflection Paper on the Social Dimension of Europe - ETUC Assessment (position)

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The European trade union movement is primarily concerned with protecting workers from the more damaging effects of unbridled free markets and abusive working conditions. An economic system based on a Single Market necessitates a similar push toward convergence in the social sphere, and while economic reforms always take inspiration from the best performing economies so should the design of social rights. Into this discussion must now be acknowledged the Commission's reflection paper on the social dimension of Europe. The ETUC welcomes this as a contribution to driving forward a long-neglected policy field – though we have some different ideas on the paper itself and on how it can be used to further the Social Europe agenda.

As the Commission's reflection paper¹ emphasises (perhaps over-emphasises), European societies remain some of the best places in the world to live – *'Europe is home to the most equal societies in the world'*. This is a perfect *riposte* to the neo-liberal charge that Europe is spending excessively in terms of social security in relation to the global competition. However, important challenges lie ahead. Providing answers to these challenges will inevitably entail providing a comprehensive approach to different issues usually addressed separately, by notably linking up the social with the macroeconomic and financial dimensions. A vision of a 'Future of Europe' worthy of the grand name must be ambitious on a social vision.

Yet, the reflection paper of the Commission has three fundamental flaws which run through the following pages of this ETUC response. Firstly, the macroeconomic analysis is absent and while we accept that the purpose of this reflection paper is to explore the social dimension *instead of the economic, nevertheless the complete neglect of reference to the economic weakens it. It risks placing the social dimension permanently in a silo over which the economic dimension continues to take precedence. Secondly, the analysis of the important role of collective bargaining in delivering the—indeed any worthwhile—social dimension is totally lacking. This incorporates an absence of adequate reflection on the need to increase wages. Thirdly, the employment analysis is misleading because the claims on improvements in labour markets are hugely overstated – precarious work continues to proliferate across Europe. This is explored in more detail in the sections below.*

The current state of affairs on this social vision in Europe is insufficient and inconsistent. While the success of the European project in facilitating the longest period of peace for the continent is reasonably justified, it is overplayed in the reflection paper. This can give an impression of triumphalism or, worse still, complacency. It sends a message that expectations of what Europe can and should deliver is limited to not fighting one another. There must be much higher ambitions for Europe. Now is the time to appeal to the workers of Europe by bringing forward ambitious proposals to improve living standards. While we share the positive affirmation of what Europe has achieved broadly, since the Treaty of Rome, policies implemented in social dimension during the intervening 60 years have not always proven to be socially fair or ecologically sustainable – particularly in recent years. Intervention is therefore required now to signal a direction for the next 60 years.

Too many Europeans have witnessed their social institutions being dismantled, as if politics as the tool of socialisation was becoming a tool for individualisation. Social dialogue has been undermined and collective bargaining dismantled in many Member States and in many once-strong sectors. Nation states have of course declined in

¹ Reflection paper on the social dimension of Europe: https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-social-dimension-europe_en.pdf

importance but have not been replaced by a European Union with a bold and confident narrative of the social vision that should replace it. Solidarity principles have been gradually interpreted as obstacles to economic development; economic regulation as a prejudice to competitiveness; and financial regulation as an impediment to the optimal allocation of capital. This must end.

In this respect, the reflection paper lacks a proper macroeconomic analysis of roots of the crisis and its consequences on the social dimension, especially with regards to gender issues. All-out austerity measures had a disastrous effect on social investment and social protection systems. Attacks to social dialogue and industrial relations, together with structural reforms programmes, had real negative consequences on labour market fragmentation and wage development. This led to increasing divergence and imbalances between Member States. The social dimension of Europe is useless if it is not grounded in an analysis of what went wrong at the macroeconomic level.

Today's social reality

The patterns of economic development in Europe before the crisis were already unsustainable. Regardless of the vital role played by EU funds in boosting integration and cohesion, global imbalances, including between regions in the same Member State, developed because of the lack of responsibility in the financial sector and the absence of suitable regulation. Sound common macroeconomic policies within the Single Market were also sorely lacking. While the roots of the crisis are to be found in inadequate regulation of the financial sector, the wrong reading of the crisis led to the implementation of widespread austerity policies which acted as a catalyst for the development of imbalances.

As a result, the number of people at risk of poverty and social exclusion is on the rise at nearly a quarter (23,7%) of the EU population and is above its 2008 level by 1,6 million persons, with women being more affected than men. That is almost 119 million people in total. Children's at risk of poverty or social exclusion rate is also on the rise and reaches 26,6% of the under-16 population in the EU.

Additionally, as pointed out by the Commission's reflection paper, real disposable income has only recently regained its 2008 levels. With the start of the crisis in 2009, the pattern of real wage development changed completely. Stagnating or even decreasing real wages became the dominant feature in the crisis period. A total of seven EU Member States show negative annual growth rates. In another 14 Member States the annual average growth rate of real wages is below 1% and only seven countries show a fairly strong real wage development of 1% or more on average per year during the crisis period. At the same time, real wages didn't keep pace with productivity in most EU member states in the last decade. The prolonged weakness in real wage development throughout the EU systematically curbed internal demand and fostered deflationary pressure on prices. Even the European Commission now acknowledges that domestic demand is the most important component of economic growth in Europe.

In the reflection paper published by the Commission, which is generally a positive contribution (if a little pedestrian) the passages on convergence are weak in that they seem to be written in a vacuum:

“Europe has always meant convergence towards higher living standards. In the past, this convergence took place almost automatically through the internal market and support from EU funds, so much so that the World Bank dubbed the EU as ‘the convergence machine’. Yet, in recent years, convergence has slowed down considerably, if not come to a halt, as the best performers progress faster. Why has this happened and why is it a problem?” (p.8).

The answer to this rhetorical question is simple: in recent years, the EU moved away from a social agenda and adopted a hard version of austerity as an answer to the economic challenges faced by advanced economies. This is directly responsible for the divergence in not only labour markets but living standards more broadly. This has been as-much-as-admitted by recent changes in tone from the Juncker Commission in recognition of the devastating effect this has had on demand.

On employment, this is particularly pronounced when we compare the undisputed levels of employment and the decrease in the numbers of hours worked. What this logically portends is that an increasing proportion of the jobs created are not full time, facilitating more precarious forms of work. This is exceptionally damaging to more vulnerable sectors of the labour market (not least the young, but also women) and Member States on the periphery of economic governance. These labour market vulnerabilities manifest differently in different countries and sectors but the fundamental challenge is that there are currently insufficient quality jobs to go around a growing pool of labour, as social security has been reduced, pension ages have been delayed and refugees are integrated in European labour markets. These challenges have not even begun to be addressed by the EU. They require a far more comprehensive plan than has currently been entertained to boost investment significantly.

The passages in the reflection paper on labour markets are particularly delusional, as jobs created are not good quality jobs: "Most of the newly created jobs [in Europe] are good quality jobs, in the sense that they provide adequate income, labour market security and a supportive working environment." (p.10). This is in direct contradiction to the experience of a great many of our affiliates, just as it is to Eurofound's recent Sixth European Working Conditions Survey, which found that up to half of workers across Europe (depending on contract type) were struggling to make ends meet.

The in-work at-risk-of-poverty rate is also increasing. Additional studies from the ECB also raise the point of the slack in the labour market and points to an unemployment rate reaching 18% of the active population. Upward convergence is not automatic. Positive economic trends, good will and non-binding recommendations towards ambitious ideal goals are insufficient. The results of the past years of such an approach on coverage and adequacy of welfare and social protection prove this. Labour market flexibilisation hasn't been accompanied by social "securitisation", and welfare systems across member states have not undergone much convergence, and certainly not upward, for decades. The "modernisation" of social protection system has basically meant a reduction in coverage, adequacy and efficiency of the provisions, worsened by blind labour market and privatisation policies which hampered their sustainability. This trend must be reversed and actions are needed at the EU level. In the light of all this, the analysis provided by the reflection paper regarding demographic challenges and sustainability of pension and social protection systems in the medium and long run is therefore rather misleading. Public and private investment supporting a sustainable growth model, quality job creation and a push towards internal demand through real wage increases in line with productivity, are completely neglected. On the contrary it's clear that without sound economic recovery, continued decline in unemployment and better wages, the European social model will never be sustainable.

The friction between existing economic governance institutions and the standing of the social dimension is perfectly demonstrated by experience within the framework of the European Semester. Here, the consequences and effects of economic governance ideology is felt by workers as country-specific recommendations (CSRs) have delivered on "European guidelines", which have often resulted in government measures adapting and lowering of their rights in and out of the workplace. CSRs have also pushed the issue of downward pressure on wages (especially minimum wages), which was one of the reasons that the ETUC has been so proactive in launching the well-received Europe Needs a Pay Rise Campaign. In pointing toward the European Semester however, the ETUC welcomes the efforts to make CSRs more social over recent years and particularly

in the latest 2017 round. Though remains much more to be done to address both the damage done in the past and conflicts that arise when socially oriented CSRs clash with economic constraints. There is only ever one winner in these scenarios and this cannot continue. These conflicts require a more concerted effort on the part of the Commission to use the European Semester and CSRs to rebuild social dialogue and collective bargaining institutions where they have been dismantled and build them in the places they have never been before. This is what a Social Europe looks like.

Preparing for the future

Life expectancy has improved yet healthy life expectancy at birth, and at 65, have declined since the crisis, and was, for the most part on a decreasing trend beforehand. This means people are living longer but their period of life with good health is conversely decreasing at the same time. Therefore, a simplistic approach to pension reforms cannot be tackled through age-of-entitlement only. Nevertheless, important transfers of wealth will have to be continuously maintained from the active population to retired and sick people. With positive growth prospects, this means that more is produced with less labour, and that productivity gains have also to be distributed to pensioners.

We do not see a risk of “divide between younger and older people”, if the right policies are implemented. The missing link in all policy proposals is investment. Investment is too often seen as a cost when it is rather a source of present employment opportunities and future flow of revenue. Seen through this perspective, ageing societies, can become an opportunity from the modernisation of the economy rather than simply a cost holding it back.

Good investment can lead to the quality job creation Europe desperately needs. It is the essential factor to address unemployment, fragmentation in the labour markets, and the sustainability of pension and social protection systems. Proper progressive macroeconomic policies, based on ambitious investment, must be mobilised to boost demand. Real wages must grow in line with productivity to tackle inequality and social dumping, ensure mobility is fair and doesn't lead to brain drain from more vulnerable economies. This is the only way to make the European social model more sustainable in the long run, by increasing cohesion and prosperity for all.

A forward-looking view on investment is therefore required. We do not see the main issue of unemployment as a lack of skills but rather as a lack of quality employment opportunities. Of course, there is a role for expanding the opportunities for workers to advance their skills and to develop as workers and as citizens. This should lead to policies enforcing the right to quality education and lifelong learning, as to more investment in this area, which is currently not the case because of austerity. But the fact remains that labour markets that are increasing employment rates while decreasing the total number of hours worked, which are themselves embedded in wider economies that are not investing anywhere near enough, means that logically there is insufficient employment opportunities being created. An ambitious investment plan is essential and in this sense the ETUC's 'New Path for Europe' remains both relevant and accurate. Additionally, the implementation of a European Treasury to raise bonds for public investment would be a valuable outcome and could complement a more comprehensive investment plan².

The EU budget, and in particular the European Structural and Investment Funds, should back up extraordinary investment plans at European level aimed at fostering sustainable growth and employment. Such plans require fresh resources but existing EU funds should also be available. Regular assessments should be run. All this should be linked to the need of an autonomous and sound EU budget.

² See the ETUC's position paper on a European Treasury for Public Investment

The approach to digitalisation in the reflection paper is quite a simplistic one, over-optimistic and looking only at the positive side – admiring the “pace of digitalisation” with some jobs disappearing while new ones are being created. There are winners and losers, opportunities and risks. The approach of the Commission is one-sided, treating different forms of employment as equal: precarious jobs are jobs just as valuable as standard jobs.

Preparing for the future means from the Commission’s perspective updating digital skills as half of the population ‘lacks adequate digital skills’ and we see a ‘poor performance in basic skills among the young.’ This statement is not wrong but reflects only a piece of the mosaic. Stressing the need of digital upskilling is more a slogan than a serious policy recommendation as never before have so many qualified young people go to the market to find an employment. It also neglects the pressing need to open up access to skills acquisition and lifelong learning to those who are working but want to develop themselves as workers and as people.

When coming to the ‘collaborative economy’, the Commission gives the impression that it provides clear EU rules and policy recommendations, whereas in reality, the Commission recommends that Member States abstain from regulatory action and the Commission itself has adopted a laissez-faire policy approach. The challenge of the future of work related to online platforms and crowd-work is not addressed properly.

Some trends that have already had a significant impact on EU labour markets, will be amplified in the coming years and some of them are not even mentioned in the reflection paper (specifically climate change). Decarbonisation, globalisation as well as digitalisation will massively change the world of work. Addressing these changes requires first a better understanding of the challenges they entail on the number of jobs, on the quality of employment, on skills and on social protection systems. In addition, a wide portfolio of instruments, including financial tools, should enable the anticipation and proper management of labour transitions. A ‘just transition’ approach for climate change, as in fields like digital economy, automation and digitalisation is urgently needed, and this entails massive investment for quality job creation, together with social dialogue and collective bargaining at all levels.

By committing countries to promoting a just transition of the workforce and quality jobs, the Paris agreement on climate change paves the way for cross sectoral strategies ensuring that the decarbonisation will not happen at the expense of workers’ rights. The EU should build its macro-economic policies as well as its employment policies on a similar forward-looking approach. The EU must implement targeted support schemes for categories of workers particularly at risk because of these trends, including workers from regions or sectors relying on carbon intensive activities are under threat because of decarbonisation.

Empowering citizens to create strong societies

The new world of work that is emerging is more flexible for employers. This is not necessarily a bad thing for workers but it certainly will be without the necessary provision put in place so that the price of that flexibility is not borne solely by workers. Employers and policy-makers at every level have the responsibility to develop a future that is adaptable but also secure. There needs to be a fundamental rethink about the distribution of risk in European societies as well as the rewards that this risk can lead to. The recent decline in collective bargaining coverage, particularly pronounced in southern and central-eastern Europe, is a matter of concern, especially its impact on job quality and industrial democracy. It is also unclear whether the weak collective bargaining systems in these countries will be able to generate the wage-driven demand stimulus that is badly needed for their economic recovery.

The ETUC fully appreciates the emphasis put in the document on the need to relaunch social dialogue at all levels, and waits for the Commission and the Council to propose

measures for implementation of the 2016 Joint Declaration. However, we would have expected same emphasis to be given to the role of robust industrial relations in addressing changes in the economy and labour market, as fundamental macroeconomic tools supporting sustainable growth, internal demand and competitiveness. Collective bargaining is to be encouraged and supported by both the Commission and Member States, as an essential part of the social dimension of Europe.

The ETUC contests the view that shifting taxes from labour is necessarily the right way to increase employment. The security that European labour markets need for workers must be paid for and therefore a simple correlation that taxes on labour are equivalent to suppressing labour demand is risky. The ETUC also contests that modernising pension systems necessarily implies increasing retirement ages. While this may be desirable for some workers, it is absolutely not for others. Particularly when the poor health that many older people face is a direct consequence of long and hard working lives, as the reflection paper notes:

“The increase in life years is, however, not always matched by healthy life years: almost 50 million people in the EU-27 suffer from chronic diseases and nearly half a million people of working age die prematurely from these every year. Those deaths are avoidable through more effective public health and prevention policies, or more timely and effective health care.” (p.14)

The ETUC demands a realignment of real wages at least according to productivity developments so long as a much larger share of the wealth created is committed to workers and pensioners. This is essential for any worthwhile social dimension to be realised. Furthermore, the ETUC is opposed to any limitation on the weight of public spending in the economy as the right tool for economic development. Such figures just relate to the way social expenditure is financially managed, and refer therefore to a political choice rather than an economic certainty.

Workers’ participation is part of the European Social Model and needs further strengthening. The European landscape of information, consultation and participation is fragmented. There is Europeanisation of company law ongoing and pushed for by the European Commission, however, the cornerstones of workers’ participation look quite scattered. A distinctive influence on company decision-making is at the core of workers’ participation, which can be exercised through workers’ representation bodies or trade unions active at the workplace, from shop stewards through national and European works councils to workers’ board-level representation. The ETUC has proposed a new integrated architecture for information, consultation and board-level representation. Workers’ participation should enlarge substantially the impact of trade unions on company decision-making. It can serve as multiplier and it can make a difference. This empowers citizens and workers, and would be big step forward.

Promoting fair and freely-chosen mobility for all

The reflection paper underlines the fact that “The Treaty of Rome already included fundamental principles such as equal pay for women and men and the right of workers to move freely to another Member States. Detailed rules have been put in place to make the right to move to another country a reality” (p. 24) However, several obstacles still stand in the way of EU citizens moving to another Member State, particularly related to work, despite the existing EU legal framework for the free movement of workers. Mobile workers often experience discrimination or unequal treatment in fields such as social security, working conditions and wages, access to welfare and education, as well as taxation.

Low wages and poor working and living conditions are key drivers to the serious phenomenon of forced mobility. Baltic countries and Western Balkans are particularly affected by these phenomena. The ETUC stands for fair and freely-chosen mobility for

all. Under free and fair conditions, mobility is a great opportunity for personal, economic and social development of EU citizens and workers. It should never be forced upon workers wanting to work. The contribution that migrants, and hopefully refugees, bring to the European economy, labour market and society, while contributing to address demographic challenges and to make social protection systems sustainable through taxation and social contributions, must be recognised. The need for a sound asylum policy, together with efficient integration paths for both economic migrants and refugees, are to be properly addressed by any reflection on the social dimension of Europe, and they should be based on equal treatment and active involvement of social partners. A fair approach to mobility and migration is the only way to tackle social dumping in the EU, which is one of the clearest drivers of populism and xenophobia.

Going forward

In the context of the previously published '5 scenarios' for the future of Europe, it is crucial that the ambition of the EU is to mobilise the legislative tools, guidance, funding and co-operation at its disposal to buttress the social dimension of Europe. If Europe is allowed to drift through inertia towards a free trade (and possibly free movement) zone only we will all be poorer. If different speeds in social fields are introduced this will increase divergence, inequality and fragmentation, so in the end also undermine the potential of the Single Market itself.

The reflection paper proposes three options: limiting the social dimension to free movement; some doing more while others stagnate; or deepening the social dimension together as a reinvigorated EU27.

The first option is no option at all; rather it is an alternative to Europe having a social dimension. The third option would be the best but only as a point-of-departure on the social dimension for the ETUC because on the one hand it doesn't go far enough for some (particularly newer) Member States, while on the other it fails in providing assurance that working conditions in better performing Member States with well-functioning labour markets will not suffer in the name of convergence. The third option would make a progress under the condition it includes a clear push for upward convergence, in line with President Juncker's proposal for a competitive 'triple-A social Europe', and that an effective non-regression clause for more advanced countries is included. The point of a reflection paper should have been to put a more considered range of options on the table so that Europe can reflect on both the ideal and the realistic futures that are attainable to us. A social dimension must mean ensuring fundamental rights, promoting collective bargaining and developing quality public services. It also means that there should be no more liberalisation of such services and that existing EU liberalisation Directives should be evaluated in terms of the principles set out in the SGI Protocol³ and for their impact on workers, their families and communities.

In addition, the ETUC needs to have more clarity in how these reflection papers interact. What, for example, is the relationship between the scenarios spelled out in the social dimension paper and those in the overarching Future of Europe white paper? How do each of the reflection papers relate to the European Pillar of Social Rights, including the proposed legislative initiatives and social scoreboard? We have our own ideas on this and have had some inconsistent feedback but this needs to be made clearer and communicated far more consistently by the Commission.

We stand ready to work with social partners and policy-makers to deliver a social dimension of Europe that is fair for all. This cannot be minor tweaks or concessions but a bold and ambitious package that safeguards the future by strengthening existing social rights and developing new ones for the challenges of the future. It is in nobody's interest to shirk this challenge.

³ Protocol on Services of General Interest

Financing the future

EU funding (EFSI and ESIF) is essential to back the social dimension of Europe as described above. The ESF in particular is specifically aimed at promoting employment, labour mobility, education and training measures, as well as combating poverty, social exclusion and discrimination. At the same time, the ESF has been charged recently with too many tasks to be delivered with too little money available. Therefore, to ensure a political coherence as well as sole management and monitoring of the use of the different existing funds and programmes, the ETUC proposes to group them under the ESF, amending the future ESF Regulation after 2020 and to increase the ESF budget up to at least 30% of the ESIF envelope (minimum share of the cohesion envelope). This should go hand in hand with a reinforced and more autonomous EU budget, regularly assessed with the involvement of social partners, together with additional funding for social investment, a just transition and shock-prevention, to be provided through new and innovative financial instruments at both EU and EMU levels.

Social dialogue and collective bargaining must be supported. We would therefore encourage launching a discussion to explore proposals for a specific EU fund (in the framework of the current EU budget) dedicated to building up structures for strong, independent and effective systems of social dialogue in the Member States that need it to renew their industrial relations institutions for the future challenges. The Commission could also appoint a Special Representative who could supervise this capacity building. Nomination to the post would be handled by the European social partners. The Commission could support Member States in building up and strengthening transition support systems and social security, in countries where it's needed the most.