

SUMMARY



International
Labour
Organization

**STUDIES ON
GROWTH WITH EQUITY**

The European Union flag, featuring a blue field with twelve yellow stars arranged in a circle, is the background for the title text.

**BUILDING
A SOCIAL
PILLAR FOR
EUROPEAN
CONVERGENCE**



Executive summary

The economic crisis has raised the degree of socio-economic heterogeneity among EU Member States...

The promotion of economic and social convergence among EU Member States is at the heart of the European integration project. Yet a thorough analysis of key indicators shows that EU Member States are either diverging in terms of socio-economic performance or converging towards deteriorating outcomes, such as worsening inequality and widening structural imbalances. These trends were exacerbated by the economic and financial crisis of 2008 and the European sovereign debt crisis of 2010. For instance, while in 2007 the ratio of the highest to lowest unemployment rates in the EU was roughly 3 to 1 (between Slovakia and Denmark), the most recent figures indicate a ratio that exceeds 5 to 1 (between Greece and Germany). Likewise, despite a positive trend towards convergence in income inequality and poverty before the crisis – due mainly to improvements by the Member States that joined the EU in or after 2004 – the overall trend over the past 15 years suggests there has been a convergence towards higher levels of poverty and inequality for the EU as a whole. These developments were underpinned by a high degree of heterogeneity in economic growth among the Member States over the period.

...aggravated by imbalances in structural factors that could intensify in the future.

The changing nature of work may bode poorly for Member States. If not well managed, the intensification of new technologies and increased fragmentation of production could exacerbate both income polarization within countries and income divergence across EU Member States. Already, over the past decade, there has been a decline in manufacturing jobs in a significant number of European countries, which has partly been associated with an observed decline in the employment share of middle-skilled and middle-waged occupations. Simultaneously, the incidence of workers with temporary and part-time contracts has increased considerably – often involuntarily – with the risk of poverty among these workers being on average two to three times higher than for permanent and full-time employees. Furthermore, traditional work patterns are being challenged by an increase in the diversity of non-standard forms of employment, and new forms of work are emerging that are blurring the boundary between dependent employment and self-employment. The result is a need for increased legal clarity on workers' employment status and employers' responsibility. Positive actions to tackle these issues could be achieved – at least to a certain extent – through the leadership of the EU itself.

These trends point to some degree of imbalance in the European socio-economic governance process. Unlike the procedures established to monitor and correct Member States' macroeconomic situations, which are binding, the so-called "soft" coordination mechanisms used in the employment and social fields have failed to achieve upward convergence. Policy coordination in these areas would be more effective if it were built upon common social conditions in all Member States. By bringing the employment and social performance of the Member States to the fore, the European Pillar of Social Rights offers an opportunity for a more balanced EU governance framework.

Finally, socio-economic divergence is also a function of the heterogeneous nature of Member States' asymmetric resilience to shocks, either due to their contrasting labour market institutions or their differing abilities to respond to weakening aggregate demand. For example, despite the positive countercyclical functions of active labour market policies (ALMPs), their prominence – as well as the coverage and adequacy of unemployment

benefits – is uneven across the EU. Similarly, in the absence of fiscal capacity at the EU level, member countries of the Economic and Monetary Union (EMU) that are facing deteriorating economic conditions only have a limited margin for manoeuvre as their fiscal policy options are constrained under the strict rules of the Growth and Stability Pact. An EMU-wide approach to support euro area members confronted by weak growth would help to increase the resilience of all members, while preventing the weakest ones from facing the cascading internal devaluations that often result in higher unemployment and increased social disparities.

The establishment of a European Pillar of Social Rights could foster upward convergence of socio-economic outcomes...

People living in the EU benefit from a range of social rights conferred by national legislation and EU law as well as regional and international Treaties that Member States have ratified, including the European Social Charter and ILO Conventions. By facilitating a common approach at the EU level, the European Pillar of Social Rights proposed by President Juncker could help ensure that people living in the EU fully enjoy their rights.

Convergence towards better socio-economic outcomes, underpinned by such a Pillar, could be the foundation for a more integrated and stable Europe and a fully functioning EMU. Moreover, fostering upward convergence of socio-economic conditions is a necessary condition for political and societal support for the continued construction of the EU. It is therefore imperative that the EU continue to strive collectively towards economic, employment and social improvements for all its members.

...by strengthening existing rights and improving social standards in the EU...

A range of policy and institutional levers at the EU level, many guided by international labour standards, could strengthen existing rights, improve social standards and foster upward convergence in the social and employment fields. A number of critical areas, neither exclusive nor exhaustive, that could be considered in this regard include the following:

- *Minimum wage:* A balanced approach to minimum wage policy based on the principles enshrined in ILO instruments could limit in-work poverty in the EU and help reduce the extent of low-wage competition, while also promoting sustainable enterprises and economic development. Ensuring the participation of social partners in the fixing and adjusting of rates for minimum wages can lead to better outcomes, outcomes that are enforceable and, in turn, maintain and promote social cohesion.
- *Minimum income:* The establishment of national adequate minimum income guarantees covering as many people as possible, based on obligations arising from European and ILO treaties and assessed as part of comprehensive national social protection systems, would help make sure that no one is left behind in the EU. Taking account of the great diversity in existing schemes across EU Member States, a common approach could focus on ensuring that: (i) there is effective coverage of everyone in need, (ii) the levels of benefits provided are adequate to allow life in dignity and (iii) social partners and other relevant organizations participate in the design and review of the schemes.
- *Work and family reconciliation:* Increased policy coordination at the EU level to reconcile work and family life in line with relevant ILO standards could raise living standards, reduce inequalities and narrow gender gaps. Work–family policies have been found to be effective in increasing women’s labour market participation in several EU Member States and in influencing longer term trends in population and labour supply. Key principles on which to promote a common approach at the EU level could focus on encouraging men’s involvement in care, investing in care services and promoting workplace arrangements through social dialogue and collective bargaining.

- *Employment promotion and unemployment protection:* Stronger linkages between ALMPs and unemployment benefits provide much needed income support, improve skills attainment and act as an effective economic stabilizer. As such, enhancing the effectiveness of unemployment benefit schemes while promoting employment and employability is an important objective of EU Member States. A smart benchmarking strategy for ALMPs and unemployment benefits at the EU level should be demand driven and flexible, both across economic cycles and country characteristics and circumstances. It would require focusing on the level of expenditure and, consequently, on the coverage across countries, as well as on the quality of the services provided. A set of principles strengthening upward convergence of unemployment benefits could be set up, structured around both a qualitative and a quantitative framework, incorporating relevant ILO standards, which are widely ratified by the EU Member States.
- *Skills development:* The speed and nature of globalization, technological evolution, changes in work organization and demographic trends have profound effects on the world of work. Policies focusing on human capital and skills development are essential to turn these structural changes into an opportunity for all, by increasing productivity levels and quality of life in the EU. In addition to technical skills, education and training can enhance social capacities and hence are central elements in combating poverty and social exclusion. Based on relevant ILO standards, key principles on which to build upward convergence at the EU level could include anticipating skills needs and adapting policies, reinforcing the role of training and work-based learning and enhancing the adaptability of workplaces.

...while offering a unique opportunity to embed effective and inclusive social dialogue as part of the governance of the EU.

As a central component of the European integration project, social dialogue remains essential for consensus building. While the dynamism of social dialogue is uneven across the EU Member States, investing in effective and inclusive dialogue is in the interests of a common European future. As emphasized by the EU social partners, more attention should be paid to recognizing, promoting and respecting social dialogue processes and outcomes. Additionally, building political consensus for a more convergent Europe could help to restore public confidence in the European project.