
Introduction

This first report on The State of Working Europe focuses on Europe's progress in achieving the most basic goals set out in the European Treaty – namely to raise the living standards of all its citizens.

This is a story of success, which can be expected to continue after the enlargement of the Union. But it could be so much better. While enlargement represents an important new source of growth, how far this potential is realised will depend on the policies followed, not only in the new Member States, but in the existing ones too.

The central and eastern European countries clearly have tremendous scope for growth but substantial problems to overcome. Their entry provides a golden opportunity for rethinking existing EU economic policies so that they are better adapted to fulfilling Europe's potential.

Europe has enormous economic and social strengths and its model of society is widely admired by people around the world. Yet it seems locked into a pattern of economic under-performance and under-achievement. Economic aspirations fell in the recessions of the 1970s and 1980s, and have remained low – often pathetically so – ever since.

Finance ministers and European central bankers, in particular, seem far too easily satisfied. They routinely pronounce themselves happy if economic growth approaches 2%, even when that only stabilises employment in the European economy at a level close to 10% recorded unemployment, which equates to an under-employment of its potential workforce of closer to 20%.

Their standard response - that the EU's sluggish performance is due to inflexible labour markets, bloated welfare states, and a general lack of competitiveness - may be a convenient get-out for them, since it throws the blame onto the unreasonable demands, behaviour and expectations of the rest of the population.

However, such explanations do not stand up to closer scrutiny. There is no compelling evidence that any such weaknesses, real or imagined, have actually been a constraint on growth during the past 20 years – indeed any structural weaknesses that do exist are just as likely to be the consequence of sluggish growth.

Yet negative comparisons with the US record on growth and job creation generally focus exclusively on supposed ‘structural weaknesses’ and overlook the more tangible, and rather obvious, reason for US success – the way its economic policy is managed.

In contrast to US economic dynamism and a genuine concern to maintain growth, Europe’s political and administrative establishment has consistently failed to recognise, let alone exploit, the potential of the enlarging, and increasingly integrated, European economy.

And while standards of literacy and education are higher in most parts of the EU than in the US, the economic potential this implies is clearly not being fully exploited. Too many people are not given the chance to develop their skills or even to develop a rewarding career at all.

The governing establishment, at EU and national level, seems to have got accustomed to setting low performance targets. Not only can those concerned not conceive of aiming higher, they see no reason to do so. It is easier and more comfortable for people who have climbed to the top of the political and social pole to play it safe when they get there, rather than try harder.

This is especially true since it is not they who suffer from poor performance, but those who at the bottom of the ladder – whose voice is not loud enough, in political terms, to count for much. The result is a vicious circle of low expectations, low investment and poor performance.

It is here that the United States political model – with its much more blatantly popularist democratic basis – has proved more successful.

While US administrations may be highly self-interested and generally insensitive to the impact of their policy decisions on the rest of the world – as is evident with their consistent disregard for the niceties of international trade agreements – they cannot ignore popular interests in the US itself.

If US politicians want to stay in or gain power, they have to give precedence to economic performance – ‘it’s the economy stupid’ in the words of the last Clinton campaign. Thus the complex and highly inter-dependent apparatus of US governance – including its central bank – is mobilised in order to achieve high levels of output and low levels of unemployment, and to meet the rising living standard aspirations of the vocal majority.

There could be no greater contrast than with Europe. Its more developed social security systems protect those most badly affected by economic recession much better than is the case in the US. On the other hand, the fact that economic policy in the EU has not been so actively focused on generating growth and maintaining high levels of employment, puts both financial and political pressure on national welfare states – which are central to the European model of society.

Indeed, instead of the maintenance and development of the social model being seen both as a key objective of economic policy, and a means to maintain its success, the social model is often regarded by the economic authorities as an obstacle to achieving economic aims, which are increasingly couched in financial terms, rather than in terms of real economic and social results.

Financial stability and the avoidance of inflation are desirable policy aims. However they are at best means of attaining *real* objectives – raising living standards and full employment. They are not ultimate objectives in themselves. ‘Laying the foundations for sustained economic growth’ has become such a preoccupation that it has diverted attention from attaining growth itself.

This is not to deny that enterprises, and the way they behave, are key determinants of sustained growth. But it is to challenge the view that actions to hold down inflation and government borrowing are, in themselves, sufficient to stimulate growth – especially if achieving this involves restricting demand in the economy, and thereby curtailing the growth of markets on which the investment and performance of firms depends.

Worst still, too many politicians and media commentators have fallen into the habit of turning the blame for Europe’s economic failures, directly or

indirectly, onto working men and women – notably for failing to accept poorer working arrangements and conditions of employment which would supposedly increase labour market flexibility, in order to better safeguard company profits if sales start to fall. This may help to appease financial markets, but it is hardly the way to build a stronger and more vibrant economy, or to secure and develop European society.

Europe should certainly not adopt all aspects of the current US administration’s approach to economic policy making and management, which leaves aside consideration of the external consequences, and of the long-term risks of burgeoning deficits, both internal and external. But European policy-makers should recognise the undeniable expansionary effects of fiscal stimulus in periods of sluggish growth, and the longer-term benefit of pursuing a monetary policy that is not solely targeted on keeping inflation low.

In this respect, taking much greater account of Europe’s position in the global economy and its shared responsibility is important. Moreover, the European economy would certainly be helped to perform a great deal better if the ‘shareholders’ were better informed about the true facts of economic life and made more political noise in support of their views, and if the ‘board members’ were less isolated from the pressures of everyday life.

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In order to present the facts and arguments, the report proceeds in stages.

- Firstly it looks at income trends; at the EU’s achievements – the long-run growth of living standards in the EU and the progress of the weaker Member States and regions in catching up in terms of income and productivity; but also at its weaknesses – the scale of income inequalities across the Union, including the extent of poverty in household income across the different parts of Europe;
- Secondly it looks at the competitiveness of Europe and its place in the global economy – where it considers Europe’s strength and importance, relative to the US and other developed economies, to be grossly under-estimated and largely misrepresented. Here there is clearly an urgent need for a more outward looking policy, which

builds on the establishment of the euro, and which consciously develops its role as an international currency in support of growth in Europe and the rest of the world;

- Thirdly it looks at Europe's success in improving its relatively poor job creation performance in the past, and at the potential impact of EU enlargement on overall progress. It draws attention to the need to take a long-term financial perspective, and to develop enlightened EU policies to support the new Member States in tackling the problems caused by decades of neglect of basic infrastructure and the environment;
- And finally it asks, not only whether a well-earned, and comfortable, retirement is still, and will remain, a realistic prospect for EU citizens who reach the end of their working lives, but whether the current focus on increased savings is not worsening the long-run chances of this being possible, given its likely further negative impact on birth rates.

As appropriate, the report addresses the EU as a whole, individual Member States, or groups of countries, and data on the new Member States of the Union is included in the coverage where possible. Giving greater coverage to the latter will be a key challenge for this report in future.

In addressing the various issues, it emphasises the links and interactions between economic, social and political developments, and the need for policies that reflect and strengthen them. Nevertheless there are many issues which have a direct impact on peoples' lives and the performance of the economy, and which the report does not address.

These include:

- The changing nature of jobs and the organisation of work, and the multiple challenges they imply for ordinary people who have to balance other interests and responsibilities with the need to earn a living, as well as the opportunities they give for pursuing a rewarding and fulfilling career.
- The effectiveness of investment in Europe in developing the education, skills and abilities of its people – not only in terms of the

scale of the resources devoted to the task, but the ability of the institutions to keep pace with the changing needs of society and the economy.

- The increasing globalisation of production, and how far this is enabling all regions of the world – and all the people living in them – to share in the benefits of increased growth and productivity, as opposed to being merely a means of enabling some multinational companies to search out new locations with ever lower wages and non-existent labour standards..
- Collective bargaining, environmental stability, public services: the list of elements that make up or influence the economic and social well-being of working people in the European Union is a long one!

The aim is progressively to address these and related issues in future years, as well as to keep an eye on developments in the areas addressed this time round. A further intention is to extend the analysis to include more relevant qualitative as well as quantitative evidence of economic and social performance within Europe and elsewhere.