Foreword

Nicolas Schmit

Inequality was not created by the crisis, although it was perhaps one of its triggers. Joseph Stiglitz and Patrick Artus in particular stress how, especially in the United States – where the crisis began – elements such as work inequality, wage stagnation and the working poor have allowed the infernal mechanism of sub-prime mortgages to develop due to the unequal and unregulated redistribution of growth between wages and capital that has been taking place for more than 20 years.

This phenomenon of increasing inequality is also affecting Europe, even Luxembourg, although here we have tried to counter such trends through a national minimum wage, tax incentives and social transfers. It is also important to identify those who have suffered most from globalization. It is the least qualified, who were traditionally employed in industry where they enjoyed fair wages and also a high degree of unionization and social protection, whose jobs started to disappear with globalization and increasing relocation. Even where they managed to keep their jobs, downward pressure on wages increased dramatically.

Globalization has thus led to a new distribution: between industrialized countries and emerging countries, on the one hand, and – within our own societies – between the highly skilled and those with low or no skills, on the other. The latter were already the most vulnerable, receiving the lowest wages.

The risk of poverty has become a reality everywhere, even in a rich society such as Luxembourg which is also under strict budgetary discipline – although its deficit remains below the 3 per cent threshold. The risk of poverty in Luxembourg in 2009 was 14.9 per cent, particularly affecting young workers and people on short-term contracts. The key element here is precariousness, although this remains undeveloped in Luxembourg. Nevertheless, we observe the same trend, with short-term contracts increasing in both absolute and proportionate terms. We are careful – notably through social dialogue – not to let this process develop further, but there are increasing external pressures. Although Luxembourg’s economy is based primarily on services – banking and...
finance – these generally highly qualified jobs have also been under attack due to relocation. In particular those involving more mechanical tasks, such as accounting and computer processing, are coming under threat.

To these problems there is no single solution. First, Europe must return to the path of growth because this is the only way to boost employment. Germany’s good employment performance has been led by export growth, but this should not be concentrated in one or a few countries but rather extended throughout Europe. This also involves proper management of budget consolidation which should not become destructive to growth and employment as this would increase inequality between European countries and, consequently, also inequalities within countries. Rights at work – such as social dialogue, decent working conditions and social protection, all part of the European Social Model – are also important. We must ensure that such minimum standards are not dismantled but rather promoted within our competitiveness model, as Jacques Delors emphasized. Coordination is important, however, because we will not be able to do it alone. If we progressively accept the dismantling of basic labour rights and let atypical forms of work dominate, one country after another will succumb.

Among these basic rights, wages are also crucial. In Luxembourg, the minimum wage is the highest in Europe, in line with higher average wages. At the end of 2010 we increased the minimum rate (increase that was applied from 1st January 2011), a decision which the employers criticized, warning of job losses. But if wages are so low that people cannot live, then what is the added value and the contribution to enhanced productivity? It is vital to ensure that proper living standards are maintained.

Some groups are more vulnerable than others, even in Luxembourg. While young people in general are not particularly vulnerable in Luxembourg, unqualified ones are. This is why the European ‘20–20 Strategy’ is aiming to reduce, at all costs, the number of early school-leavers and to ensure that more young people go on to higher education. People with qualifications will have a better chance of finding a job. But the most vulnerable young people are often those of immigrant parents. Some 45 per cent of the Luxembourg population are immigrants. Many have no qualifications and have been mobile during the crisis in search of better employment conditions. This again has implications for wages and highlights the value of a minimum wage policy around Europe.

Education and training are key. There is a vicious circle in all European societies because inequality creates poverty, and poverty creates inequality.
We all know that children whose parents—often immigrants—are in poverty, as the Pisa study has shown for Luxembourg and France, tend to be trapped in inequality. We must ensure that there is proper access to education and training to break the inequality cycle, both at the global level and within the European context.

Nicolas Schmit
Minister of Labour, Employment and Immigration
Luxembourg