Foreword

On 29 February 2016 in Brussels, on the occasion of the Conference jointly organized by the ILO and the European Commission on the ‘Long term in the world of work: Effects on inequalities and middle-income groups’, I had the great privilege to host seven ministers and state secretaries in a round table about the future of the middle class in Europe. The policy debate was very rich and, as an introduction to this volume, we decided to publish a number of quotes from our honourable guests, extracted from their answers to three basic questions.

1. What are the main trends in the world of work which you believe have influenced inequalities in your country and, in particular, the evolution of the middle class?

Mr Ivailo Kalfin, Deputy Prime Minister and Minister of Labour and Social Policy, Bulgaria
‘The reasons we have high inequalities at work in Bulgaria are related to a lack of qualification and education; they are also related to a very unfair tax system which is a flat-rate tax for personal income of 10 per cent, and also regressive taxation with regard to social security.’

Mr Thorben Albrecht, State Secretary in the Federal Ministry of Labour and Social Affairs, Germany
‘In Germany, inequality is not as bad as in other countries, but that is only after redistribution through the tax and social systems. We have to look at primary wealth distribution and equality in the labour market. In contrast with some other countries, the middle class in Germany is not only concentrated in the public sector, but also in manufacturing, where we have middle-skilled workers who are rather highly paid. But this model has come under pressure due to the growth over the past 25 years of non-standard forms of employment, which are often associated with lower wages and social security. These trends have not been as effective as they should have been. Women’s employment increased, of course, but it is often confined to involuntary part-time and low-paid jobs. People with migrant backgrounds go through education but do not always succeed in
acquiring the skills that are necessary in the German labour market to really get into the middle class.’

Mr Georgios Katrougkalos, Minister of Labour, Social Security and Welfare, Greece

‘Inequalities have been exacerbated and the middle class has been squeezed in Greece for a series of reasons. Starting with the decline of the welfare state – and its provision of public goods in sectors such as education, social policy, and social security and health – and a decline in trade union membership which, of course, reduces the relative bargaining power of labour, we have experienced in the crisis the most massive deregulation of collective agreements in Europe – a reduction in the minimum wage and a higher share of part-time and temporary employment. The progressivity of tax systems also declined from 59 to 30 per cent from 1980 to 2009.’

Ms Algimanta Pabedinskiene, Minister of Labour and Social Security, Lithuania and also a former President of the EU Labour Minister Council

‘One factor that is important for the growth of the middle class in Lithuania, as in other Central and Eastern European countries, is the education system. At the same time – and it is a paradox in Lithuania – although 60 per cent of the population has a high level of education, the middle class represents only 20−25 per cent. Other factors are also important, such as wages, and also the tax system – income tax but also taxes on SMEs as a constraint on the middle class. In Lithuania, significant emigration has also limited the growth of the middle class.’

Mr Nicolas Schmit, Minister of Labour, Luxembourg and also former President of the Labour Minister Council

‘Luxembourg is a small country, and a typical middle-class society. Generally, we have been able to maintain this very strong middle class but, nevertheless, we also notice an increase in inequality; the gap between those who are unskilled and those who are at the upper level of the economy is increasing. There is a risk of an intergenerational gap, because young people suffer the most from unemployment, from precarity and from the increasing price of real estate, which makes it difficult to become a home owner.

The model now is not one wage earner, but two; furthermore, these two wage earners are having more and more difficulties in buying a property and this is something which is contributing to the feeling: “if I am not able to buy my own apartment or house, do I belong to the middle class or not?”’
Mr Miguel Cabrita, State Secretary in the Ministry of Labour, Solidarity and Social Security, Portugal

‘There are several reasons behind inequalities in Portugal: a structural deficit in the educational level of the workforce associated with low wages and a labour market segmentation due to the rapid growth of non-standard forms of employment, further exacerbated by fiscal consolidation programmes. The proportion of minimum wage earners has increased rather than decreased over recent years and collective bargaining has been weakened.’

Mrs Renata Szczech, Deputy Minister in the Ministry of Family, Labour and Social Policy, Poland

‘Inequalities in Poland are not coming much from the bottom but rather from the growth of temporary work and part-time work. Today 80 per cent of young people work under a temporary contract and we would like to change this, with additional rules in terms of social security contributions associated to temporary contracts.’

2. What are the policies in the world of work that you believe may help to reduce inequalities and favour the development of the middle class?

Mr Ivailo Kalfin, Deputy Prime Minister and Minister of Labour and Social Policy, Bulgaria

‘To fight inequalities we first need a long-term strategy for increasing wages that should start by stopping the limits on the increase in the minimum wage – they are low enough in Bulgaria and lead to low pay and poverty. This should then be complemented by collective bargaining on wages. We should also invest in professional and vocational training’.

Mr Thorben Albrecht, State Secretary in the Federal Ministry of Labour and Social Affairs, Germany

‘Our government – also to stimulate domestic demand – decided to implement a number of reforms to strengthen wages and wage formation in Germany. First, and probably most important, is the introduction of a mandatory minimum wage, which was introduced last year to put a bottom floor into the wage-formation system. Something that is less known by the public is that the same law makes collective agreements legally binding for a whole industry and sector, to strengthen wage collective bargaining. We are also trying to re-regulate temporary agency work since this also influences wage formation in Germany.’
Mr Georgios Katrougkalos, Minister of Labour, Social Security and Welfare, Greece
‘We must change our orientation. For us, the basic imperative is the return of collective bargaining – notably through a new law on collective bargaining – and social dialogue. Pension reforms are also key to guaranteeing a fairer redistribution despite generally smaller pension levels. But it will not be possible to have socially friendly solutions in one country if we cannot address the general social deficit in Europe, if we cannot balance the economic dimension of the European Union with equal respect for its social dimension.’

Ms Algimanta Pabedinskiene, Minister of Labour and Social Security, Lithuania
‘While the middle class is growing in cities, it is stagnating in less developed regions. In Lithuania, which has 60 municipalities, we are trying to develop a regional policy for local development in all sectors as one lever of middle-class growth, with a combination of horizontal and vertical policies.’

Mr Nicolas Schmit, Minister of Labour, Luxembourg
‘We have to guarantee young people good education and good skills, and help them to enter the labour market on a good footing. And I think that we have done well with the youth guarantee and so it is a positive step in the European Union.

We in Luxembourg have now decided to have free childcare from 2018 onwards, to give free and high-quality childcare to everybody, because quality childcare is essential in terms of skills, of education and also of finding a good job later on.

Coming back to some kind of wage indexation is not a bad idea to prevent the erosion of purchasing power; it has not destroyed the competitiveness of our Luxembourg companies, but has maintained the purchasing power. We also need to come back to some sort of a normal labour contract.’

Mr Miguel Cabrita, State Secretary in the Ministry of Labour, Solidarity and Social Security, Portugal
‘The Portuguese middle class is traditionally – even if not exclusively – connected to the public sector and this middle class has been affected in the past few years by early retirement agreements, wage cuts, heightened fiscal pressure, suspension of new recruitment and also freezes in career progression.

Specifically for the middle classes, wages are the core revenue source. We must promote the middle class through a number of fundamental pillars: a
comprehensive national anti-poverty strategy – also based on social allowances and benefits for the most vulnerable groups – a sustainable growth of the minimum wage to be determined through an agreement with social partners and job creation through a set of macroeconomic and sectorial policies, but also good quality jobs by restraining the use of temporary contracts and regulating self-employment and other atypical forms of employment.’

_Mrs Renata Szczech, Deputy Minister in the Ministry of Family, Labour and Social Policy, Poland_  
‘The Polish economy is taking part of its competitiveness from low wages. This is an orientation that we might need to modify to evolve towards a more modern economy, based on higher quality and value-added products and services, and which will generate the future growth of the middle class.

Ensuring the middle class in the future also requires strong demographic and family policies, alongside the reduction of the labour force and an increased number of pensioners.

As in other countries, one major issue for the growth of the middle class in Poland is education. In 2014, we put in place a national training fund to support employers willing to train their labour force (80 per cent being paid by the state and 20 per cent by the employers), a fund that has achieved great success, with a rapid growth of workers benefiting from this system.’

3. In this policy agenda, what role could social partners and social dialogue play in cooperation with the government?

_Mr Ivailo Kalfin, Deputy Prime Minister and Minister of Labour and Social Policy, Bulgaria_  
‘The income strategy and labour market issues should be decided together with the social partners. Beyond that, inequalities and the middle class are rarely discussed, at least in Bulgaria, when discussing different macroeconomic parameters such as poverty, wages and minimum wages. We thus thank the ILO and the European Commission for bringing this topic to the centre of the policy debate, because inequalities should always be taken into consideration when discussing social and economic policies.’

_Mr Thorben Albrecht, State Secretary in the Federal Ministry of Labour and Social Affairs, Germany_  
‘Social dialogue should play a crucial role. While the digitalization of the workplace will require our labour markets to adjust to these new forms of work, tailor-made solutions to combine flexibility with workers’ protection
for different industries can best be made by the social partners and through collective agreements.’

Mr Georgios Katrougkalos, Minister of Labour, Social Security and Welfare, Greece
‘We hope to return to collective bargaining and social dialogue in Greece, notably through a new law on collective bargaining that we are preparing in consultation with the ILO.’

Ms Algimanta Pabedinskiene, Minister of Labour and Social Security, Lithuania
‘We also believe that social dialogue is key and we are changing the law to strengthen the role of the social partners in decision-making in areas such as employment and social security policies.’

Mr Nicolas Schmit, Minister of Labour, Luxembourg
‘We have to rethink our wealth distribution model, especially concerning wages.’

Mr Miguel Cabrita, State Secretary in the Ministry of Labour, Solidarity and Social Security, Portugal
‘We believe that social dialogue should support the development of an income policy based on a decent work perspective, without undermining competitiveness. Although the dynamism of collective bargaining strongly depends on the engagement of the social partners, we understand and believe that the government can, and should, act in order to stimulate collective bargaining – for example, through the extension of collective agreements and other legal instruments – and make negotiations more appealing both to trade unions and companies.’

Mrs Renata Szczech, Deputy Minister in the Ministry of Family, Labour and Social Policy, Poland
‘We have set up a new tripartite social council with the aim of formulating constraining opinions on new legal provisions and initiatives.’

The above collection of ministerial quotations highlights three elements that we believe are essential for both national policies and the work of international organizations.

First, middle-income groups should become a policy target to be taken into account in policy discussions, including those on macroeconomic and budgetary issues.
Second, a new policy mix to reach that target, and to cover inequalities issues more broadly, is required; one which would include policy areas such as education, social protection, taxation and regional policy, but also real estate, capital markets, and public investment and services.

Third, the world of work reveals itself to be a determinant for the future fate of the middle class in Europe, not only in terms of job availability, but also in terms of the quality of employment and work contracts, redistribution through wages and incomes policies, the enhanced participation of women in the labour market, collective bargaining and tripartite social dialogue, and the active involvement of the social partners in policy-making.

Obviously, the evidence and messages we could deliver on the role of the European Social Model in reducing inequalities and strengthening the middle class in Europe also provide useful lessons at the global level, as, at the moment, middle classes are developing in the BRICS and other countries in the world.

We are happy that the present volume can help place this topic at the core of policy-making, a debate that should continue, and that the ILO will strengthen its efforts with national actors and other international organizations.

Heinz Koller
Assistant Director-General,
Regional Director for Europe and Central Asia, ILO
In memory of Jean-Jacques Paris,
for his friendship and his commitment to a stronger Social Europe.

We would like to thank James Patterson for his copy-editing work
and Boroka Gergely for her cover design.