

# From Europe to the World: The Global Race to the Bottom

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**The acute hardship European workers are facing is part of an international process of impoverishment.**

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Unemployment has reached unprecedented heights in Western Europe, wages are declining, and attacks on organized labor are intensifying. Nearly a quarter of Western Europe's population, about 92 million people, was at risk of poverty or social exclusion in 2013. That's nearly 8.5 million more people than before the crisis.

The poverty, material deprivation, and super-exploitation traditionally associated with the Global South are reemerging in the rich parts of Europe.

The crisis is undermining the "European social model," and its assumption that employment protects individuals from poverty. The number of working poor — employed workers in households with an annual income below the poverty threshold — is growing, and austerity is going to make things much worse in the future.

Critics of austerity argue that it is absurd and counterproductive, but European leaders disagree. During the latest round of negotiations with Greece, German Chancellor Angela Merkel argued, "This is not about several billion euros — this is fundamentally about how the EU can stay competitive in the world."

There is some truth in this. What Merkel does not mention is that workers in Europe, in Europe's South in particular, increasingly compete with workers in the Global South. Increasing impoverishment and austerity in the EU are two sides of the same coin, and both reflect structural trends towards impoverishment and profound changes in the global economy.

In a capitalist society profits come from workers' living labor, so increasing productivity is not aimed at improving living standards, but rather at lowering the relative wage — that is, the difference between the value produced and the value retained by the workers.

Capital accumulation thus tends towards an increasing polarization between relative wealth and poverty, which can coexist with increasing living standards for some sections of the working class.

This dynamic, and the social relation between workers and capitalists that underpins it, is not confined within national borders. For Marx impoverishment was not just a question of the real wages of the working classes in the North: impoverishment involves both quantitative and

qualitative aspects of workers' labor and living conditions on a global, rather than a national scale.

Economic and military expansionism is part and parcel of capital accumulation — it permits the growth of the global reserve army of labor exploitable through foreign investment or migration. A greater supply of labor enables capital to lower wages and prolong the working day, reducing the demand for new workers and further increasing the labor supply, in a vicious circle of overwork and under/unemployment played out on a global scale.

## **Integration and Globalization**

These dynamics help explain how it is that amid one of the greatest revolutions in information and communication technologies since the mid-1970s, the world has experienced a rapid increase in global poverty.

Even the World Bank admits that, when China is excluded, between 1981 and 2004 extreme poverty (people living on less than \$1.25 a day) increased in every “developing region.” A recent study by the Pew Research Center found that despite glowing reports of an emerging global middle class, if we take the US poverty line as a metric, in 2011 84% of the world population was poor (living on less than \$20 a day).

Moreover, the wage share of GDP fell in most countries over the past thirty years — indicating a worsening position of labor vis-à-vis capital — even in regions where extreme poverty has more recently declined, like China, Latin America, and Eastern Europe.

These processes of impoverishment have to be seen in the context of the rise of neoliberalism since the mid-1970s, and the structural adjustment programs imposed by North-led financial institutions like the International Monetary Fund and the World Bank. Along with imperialist wars and ecological catastrophes in some countries, neoliberalization has led to accelerated processes of rural dispossession, privatization, and production restructuring, swelling the numbers of “vulnerable” and unemployed workers. According to the International Labour Organization, this global industrial reserve army of labor now comprises roughly 2.4 billion people.

In 2010, an estimated 942 million working poor — nearly one in three workers worldwide — lived below the US \$2/day poverty line. It was only a matter of time before this growing impoverishment began to be seriously felt in Western Europe.

There are a number of factors at play in this process. Responding to falling profitability, the revival of the EU integration process beginning in the mid-1980s and the eastward enlargement of the EU in the 2000s contributed to the internationalization of west European capital. Another major push came from China's opening to the world market and its joining the WTO in 2000.

The introduction of the euro not only prevented southern member states from using competitive devaluation to support their exports; it also lowered transaction costs and eliminated exchange rate uncertainties, accelerating capital flows to the new member states in Central and Eastern Europe and, increasingly, towards Asia. At the same time, net immigration to the EU-15 increased and, with it, the labor supply.

The resulting increase in unemployment in Western Europe has been only partially and initially compensated for by the much-celebrated expansion of atypical employment and the service sector.

Deregulation, privatization, and workfare and pension reforms have all contributed to increasing the

labor supply, while legal reforms reducing the scope of trade union activity have eroded union density and collective bargaining coverage, leading to increasing wage inequality and low pay.

Restrictive and racist immigration policies never sought to stop immigration to “Fortress Europe,” but produced illegality and a differential system of rights aimed at stratifying and dividing the working class.

Thatcher’s Britain showed the way to the rest of Western Europe. Following a profound transformation towards a service-based economy, in the UK poverty and low-paid employment (employees earning two-thirds or less than the national median gross hourly earnings) rates almost doubled.

Unlike the rest of Europe, in-work poverty started to increase in Britain in the 1980s, and working times became extremely polarized — it still has the longest actual working week of full-time employees in Western Europe (in 2008: 42.4 hours/week versus 37.3 hours/week collectively agreed).

Germany followed a similar path after reunification. Although it has retained a higher share of industrial employment than most other Western European countries, since the end of the 1990s capital internationalization played a major role in Germany’s export growth, and so did immigration. In 2003–05, moreover, the Hartz I–IV “reforms” introduced workfare policies in Germany, forcing the unemployed to accept any job under any conditions.

As a result of all these factors, Germany’s low-wage sector rose from 13% in the mid-1990s to 20% in 2005, along with in-work poverty. The previous trend towards the reduction of working hours also reversed: between 2003 and 2008 the actual working time of full-time employees increased on average by 0.8 hours.

Italy has experienced similar trends of production restructuring and immigration, increasing atypical employment, and a polarization of working hours since the late 1980s; in 2008 full-time employees worked on average 39.2 hours a week, 0.7 hours per week more than in 1995.

Until recently, Italy had not undergone as profound a labor market deregulation as Britain and Germany. Low-wage employment in the Italian formal sector (9.5%) remained lower than in Germany, which exhibited in 2008 the second highest share of low-wage employment in the EU-15 (20.2%) behind the UK (20.6%). But Italy had one of the highest, stable populations of working poor in Western Europe, at around 10% and mostly concentrated in the South.

The stability and size of Italy’s working poor stem from the imposition of neoliberal policies of labor precarization and privatization without corresponding welfare compensation, and also reflect the international specialization of the Italian production system.

### **Uneven Consequences?**

The eastward reorganization of European industry, German in particular, spurred a redirection of trade from the southern periphery towards the eastern one. Southern member states continued to import from northern and central-eastern European countries without finding alternative outlets for their own exports. As a result, capital-intensive production and services became progressively concentrated in Europe’s north, while southern member states experienced a process of production downgrading.

The European Monetary Union thus widened rather than alleviated the divergence in the specialization models of northern and southern countries, leading to increasing imbalances between countries with export surpluses and countries with deficits.

Many scholars, including on the Left, interpret these imbalances as signaling a lack of competitiveness of south European economies vis-à-vis the northern ones.

This argument, however, limits its gaze to within Europe, and overlooks that what a country produces and exports matters. The point is that, because of their productive structures, southern member states like Greece, Portugal, Spain, and, partially, Italy increasingly compete with developing countries, not with northern Europe.

Facing increasing pressure both in low- and high-tech production, since the early 2000s the EU has lost market share to the BRICS, and China in particular, which has become the largest exporter of goods and is moving up the value chain. So, even though production relocation to low-wage countries is fundamental for western European firms' competitiveness, the rise of China and other Asian countries is squeezing the weaker EU economies hard.

This helps explain the acute but uneven consequences of the recent financial and economic crisis on sectors and countries in the EU-15. The EU manufacturing sector is one of the most badly affected, with 4.5 million jobs lost between 2008 and 2012 (corresponding to 12% of manufacturing employment).

Deindustrialization levels vary greatly among and within countries, and foreign direct investment (FDI) flows from the EU-15 are increasingly shifting to emerging markets in Asia. While business investment in the advanced economies is low, emerging markets have become the main destination of global FDI flows, absorbing 54% of global FDI flows in 2013.

To remain competitive and profitable in this climate, since 2011 the European Union has increased its surveillance of the fiscal policies of its member states and has started intervening directly in new policy areas, such as wage setting.

This interventionism is directly linked to the imposition of austerity and structural reforms in Western Europe — shrinking the public sector, cutting public spending, dismantling collective bargaining systems, and increasing working hour polarization are all aimed at strengthening EU capital in the face of increasing competition from the global South.

These structural and policy factors undergird the unprecedented differentials in unemployment and real wages trends in the EU-15 since the outbreak of the crisis. In the first quarter of 2015 unemployment ranged from 4.7% in Germany to 5.4% in Britain, 12.4% in Italy, and 25.6% in Greece.

Germany was the only EU-15 country where average real wages declined between 2000 and 2009. But since 2010 the situation has nearly reversed: average real wages increased by 4.4% in Germany, while declining by 2.3% in Italy, 4.1% in Britain and 23.6% in Greece.

The example of Italy is particularly striking. With China as its second main competitor after Germany, in Italy profitability started falling long before the Great Recession. Since 2008 Italy's industrial output has declined by at least 25% and its industrial capacity by 13%.

The Italian employment system is going through a corresponding process of downgrading, with greater growth in atypical and low-paid employment, and declining top-paid jobs.

EU interventions in 2011 further eroded collective bargaining and supported the implementation of workfare policies. Reinforcing Berlusconi's attacks on labor, the governments of Monti and Renzi have abolished the right for workers to be reinstated in case of unfair dismissal and have generalized precarious working relations.

In Britain, manufacturing output is still below pre-crash levels, and the crisis and austerity have put an end to the long-term capacity of the public sector to compensate for job losses in the private sector.

Increases in private sector employment have concentrated in involuntary part-time, temporary, and self-employed jobs, while austerity has put pressure on wages, working conditions, and welfare spending.

In Germany, the relatively more favorable evolution of employment and real wages is mainly the result of its manufacturing industry's specialization in high-value-added products, which is expanding its market in the BRICS.

But even in Germany wages are expanding at a rate well below that of productivity, and temporary and low-paid employment is increasing. This wage compression explains why in-work poverty in Germany nearly doubled between 2005 and 2013 from 4.8% to 8.6%.

In the UK, in-work poverty levels are higher, but relatively more stable. This picture mainly depends on the fact that EU poverty rates are calculated relative to median disposable income, which is declining in many countries, thus pushing down the poverty threshold.

The UK trend is worse if we look at severe material deprivation. Between 2007 and 2013 the percentage of employed persons facing conditions of severe material deprivation increased by 250%, from 1.9% to 4.8%.

In Italy rates of severe material deprivation doubled from 4.3% to 8.6% between 2007 and 2013, while in-work poverty levels are nearly 11% — higher than the EU-15 average and increasing despite a falling poverty threshold.

This unitary but uneven process of impoverishment is accompanied by a clear trend towards longer working hours for full-time employees. In Germany these have returned to the pre-crisis level of just under 41 hours/week, while Britain is witnessing a return of the "long hours culture" — while nearly one in five employees works for low wages, one fifth of full-time employees regularly works more than 45 hours/week.

In Italy the percentage of full-time employees working more than 45 hours/week (16.3% in 2011) almost doubled since 2002.

## **From Europe to the World**

Increasing impoverishment and exploitation is essential for EU-15 capital to raise profitability and maintain its position in the world economy. That's why austerity must continue undisputed and uninterrupted, and that's why the troika has been so relentless with their demands on the Syriza government.

The EU must make an example of workers in Greece who are guilty of standing up and saying "no" to austerity, particularly in a context of growing opposition in Spain, and also to some extent in

Germany and the UK.

What the EU ruling class fears most is the radicalization and linking together of workers' struggles across Europe, and beyond. At the same time, the lack of a radical program for breaking with the eurozone led to moderation and retreats on the part of the Syriza government, which did not seize on the potential for struggle existing among workers.

The movements that emerged in countries like Greece and Spain have shown the possibility of breaking down divisions within the working class and developing alternative forms of power to institutional politics. But these movements have remained isolated and received little support from workers in the rest of Europe.

More recently, solidarity with Greece has remained limited in scope, and has not become part of proper trade-union mobilizations. The few attempts to develop Europe-wide trade-union actions (like the general strike in November 2012) remained confined within southern Europe, and the scattered initiatives for bargaining coordination at the EU level have been largely unsuccessful.

But international solidarity is not something secondary that can be postponed until later stages of struggle. This is an international, structural crisis and so must be our response. Workers in Europe are facing a unitary, but very uneven, process of impoverishment that is happening even in high-performing countries like Germany and the UK.

The struggle for the reduction of the working day at the same pay is essential for tackling the roots of impoverishment, and for building solidarity between employed and unemployed, precarious and less precarious, male and female, immigrant and native-born workers.

This is not a purely economic demand. In order to realize it, the labor movement needs to reject the logic of national competitiveness, and address head on its own stratifications and divisions. This requires understanding that the condition of workers in Western Europe is directly linked to that of workers and popular classes in Eastern Europe and the Global South.

Opposing European imperialism is essential for strengthening working-class resistance in Western Europe itself. And so is the fight against harshening state racism and Islamophobia, and for the abrogation of the racist legislations that facilitate the super-exploitation of immigrant workers.

All these demands can realize the potential of increasingly "multinational" working classes, unifying the labor movement within and across national spaces.

**Lucia Pradella**

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\* "The Global Race to the Bottom". Jacobin. 9.1.15:

<https://www.jacobinmag.com/2015/09/merkel-austerity-globalization-eu-poverty/>

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