

# Labour market and social developments

## Introduction

Digital economy, the fourth industrial revolution and new forms of work have been much debated developments across the EU and beyond. Whether heralded as drivers of renewed economic growth opening up opportunities for job creation in new and emerging sectors, or dreaded as threats to the European social model and regulated wage labour, these developments undoubtedly pose new challenges to be faced – and, in the coming years, met – by social actors across the EU. In its latest Annual Growth Survey, the European Commission called for ‘social protection systems that should be modernised to efficiently respond to risks throughout the lifecycle while remaining fiscally sustainable in the light of the upcoming demographic challenges’ (European Commission 2015a: 5). This chapter offers an analysis of the main employment and social trends, evaluating them against recent social policy responses. Against this background, it will be asked whether Europe is preparing to face the challenges ahead and successfully tackle the social dimension of European integration.

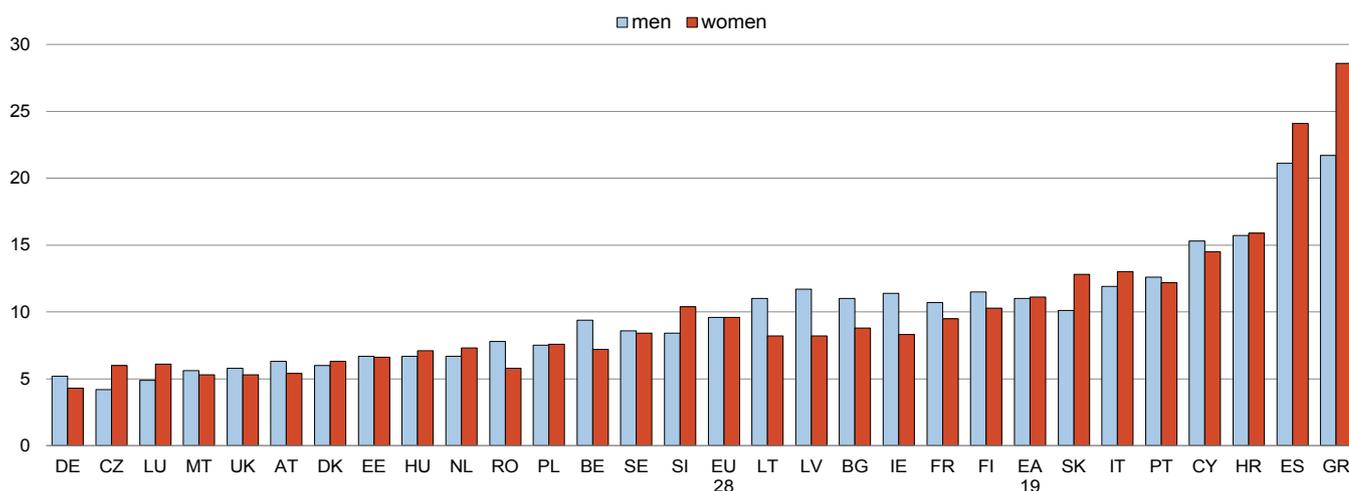
In order to provide an encompassing picture of recent labour market trends and challenges, the chapter first describes employment and unemployment developments, as well as changes in the skills structure. Secondly, the analysis explores how vulnerable groups are affected by changes in employment and social protection. This applies, in particular, to women – who continue to have much lower employment rates and are overrepresented in non-standard employment with negative implications for their earnings and pensions – as well as to older workers, the lower-skilled and migrants. Finally, we show how spending on labour market and social protection policies has evolved and what consequences this will have for social standards across member states.

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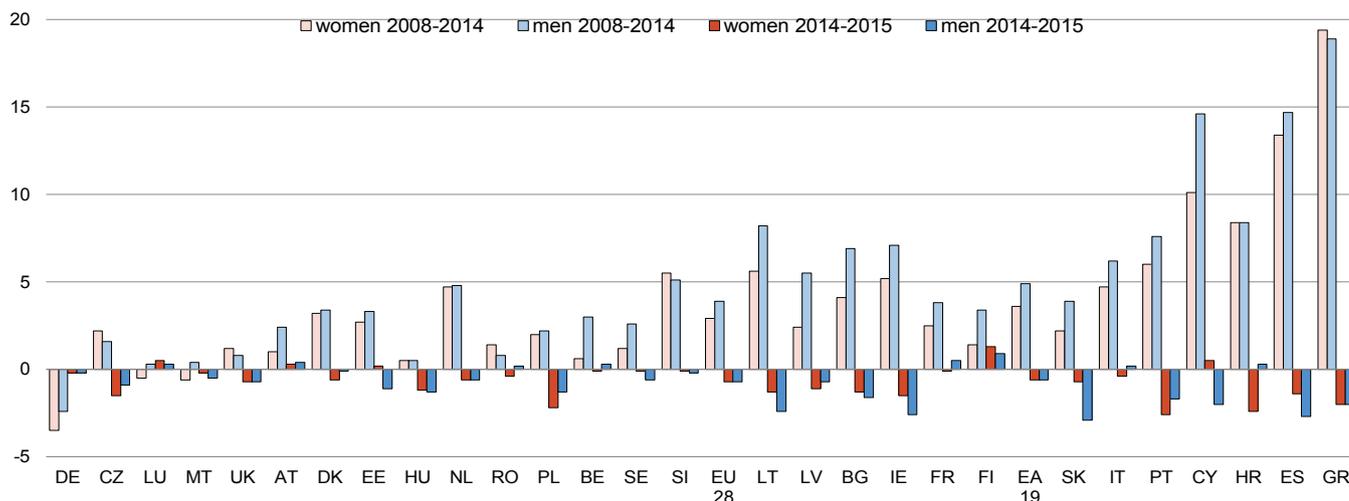
# Overview of labour market developments

**Figure 2.1 Unemployment rates by gender in 2015 (second quarter), age 15-64 (ordered by total unemployment rate)**



Source: Eurostat (lfsq\_urgaed).

**Figure 2.2 Changes in unemployment rates by gender (in p.p.), 2008-2015 (comparison of second quarters), age 15-64 (ordered by total unemployment rate in 2015Q2)**



Source: Eurostat (lfsq\_urgaed), own calculations.

## Unemployment tamed but a long way to recovery

The unemployment rate in the EU28 has been falling slowly for the second year in a row; in 2015Q2 it stood at 9.6% (22.9 million people) for the working-age population (15-64). This is a slight

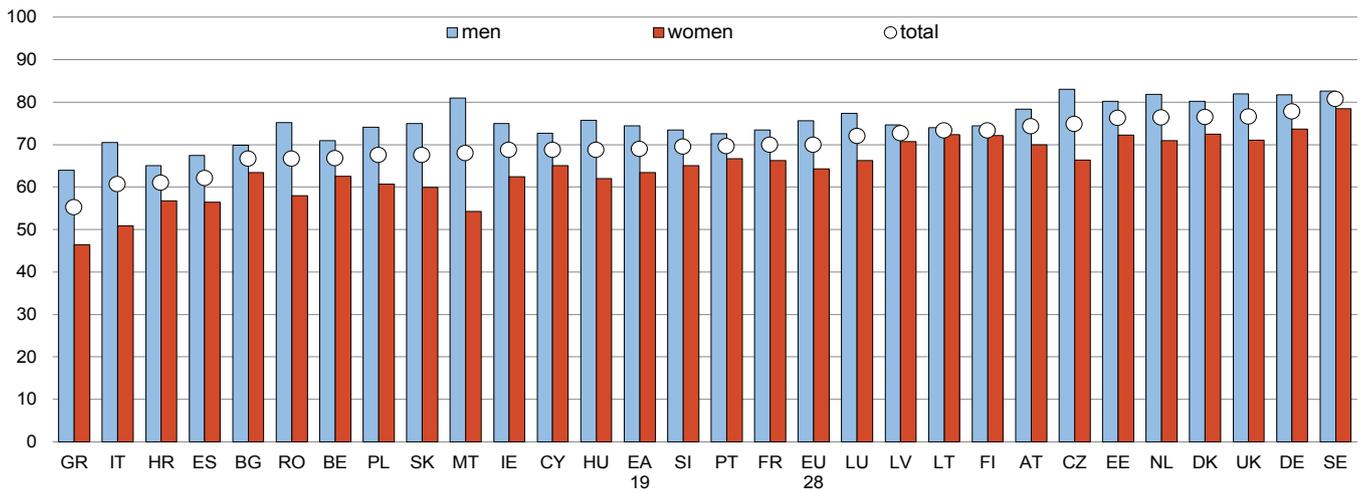
improvement on the 10.3% recorded a year before, but still way above the 6.9% unemployment rate (16.1 million people) registered before the onset of the crisis (2008Q2). Huge divergence across countries remains, with unemployment rates in Germany and the Czech Republic at or below 5% while in Greece and Spain they are well above 20%.

In the EU28 on average there was no gender difference in unemployment rates in 2015. Yet gender gaps do persist at a country level. In Greece, with the highest overall unemployment rate in the

EU in 2015, women's disadvantage was most pronounced, amounting to nearly 7 percentage points compared to men (28.6% and 21.7% respectively). On the other hand, in 16 EU countries – including Latvia, Lithuania, Bulgaria, Romania, Belgium and Ireland – higher unemployment rates were found among men. In the last year, the most pronounced drops in unemployment rates among women were recorded in Portugal, Croatia, Poland and Greece, while for men they were recorded in Slovakia, Spain, Ireland and Lithuania.

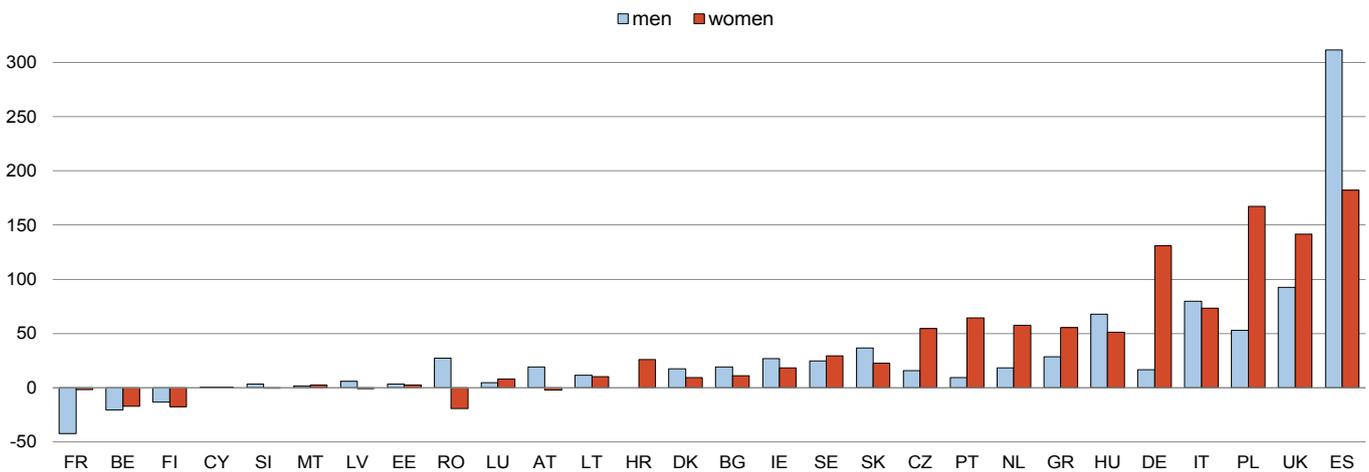
# Overview of labour market developments

**Figure 2.3** Employment rates by gender in 2015 (second quarter), age 20-64 (ordered by total employment rate)



Source: Eurostat (lfsq\_ergaed).

**Figure 2.4** Change in employment by gender (in thousands), 2014-2015 (comparison of second quarters), age 20-64 (ordered by overall change)



Source: Eurostat (lfsq\_egan), own calculations.

## Female employment remains a challenge

In 2015Q2, 69.9% of the EU28 population aged 20-64 was employed, the average employment rate being 75.6% among men and 64.3% among women. This gender gap in favour of men recurs across

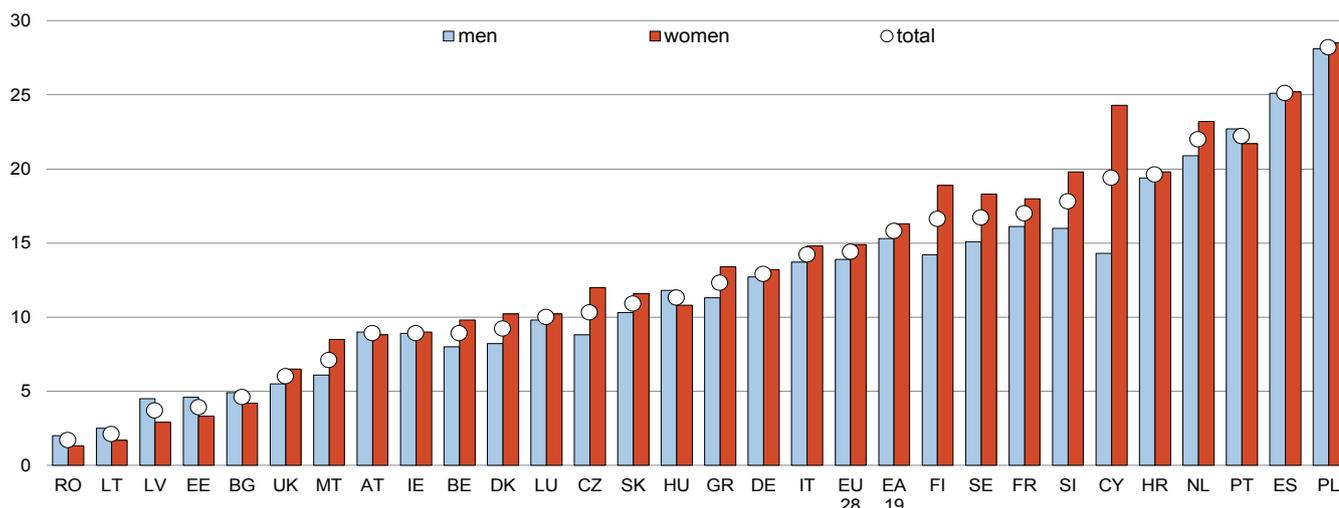
all EU member states, ranging from the lowest difference of 1.6 percentage points (p.p.) in Lithuania to a strikingly high 26.7 p.p. difference in Malta. Average employment rates in the EU28, as well as in the euro area (68.9%), thus remain below the Europe2020 target of 75%, despite some improvements over the last year. Only one EU country – Sweden – had female employment (78.5%) above the 75% target, while male employment rates met this target in half of the EU countries. Moreover, 18 EU countries currently have lower shares of 20-64 year-olds in employment

than in 2008, but only 4 countries (Belgium, Luxembourg, Finland and Austria) saw a decline over the last year.

In 2013, at the peak of the post-2008 jobs crisis, total employment loss in the EU28 amounted to 6.6 million jobs. So far, 4.2 million jobs have been recovered (2.4 million in the 2013Q2-2014Q2 period and 1.8 million in the last year 2014Q2-2015Q2). Job growth was faster among women and most visible in Poland, Germany, the UK and Portugal, while Spain took a lead in the increase of men in employment.

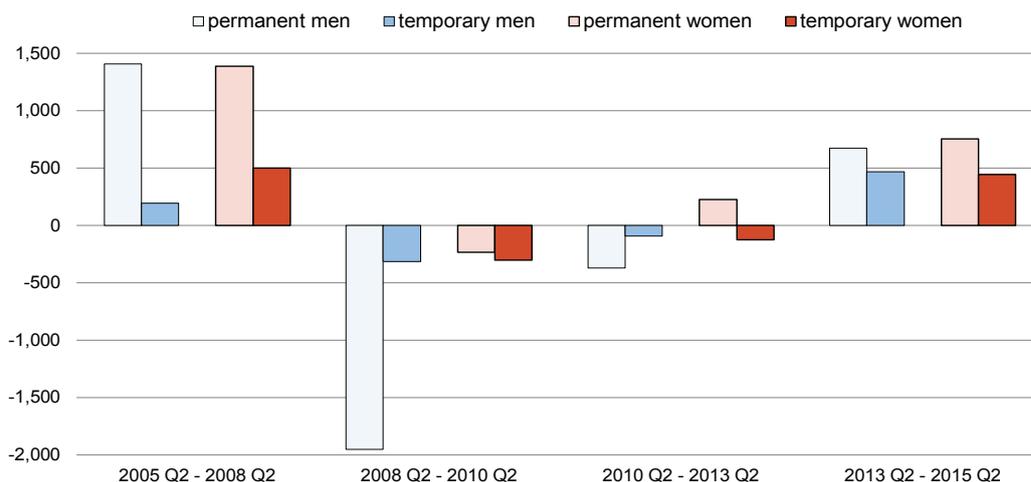
# Overview of labour market developments

**Figure 2.5** Temporary employment rate, by country and gender, 2015Q2 (15-64)



Source: Eurostat.

**Figure 2.6** Job growth by contract type and by gender, 2005-2015, EU28 (15-64), annual averages



Source: Eurostat, own calculations.

## Shift towards temporary work accelerates

The incidence of temporary contracts in the EU28 has been on the rise for the past two years—from 13.7% in 2013 to 14.4% in 2015 (second quarters). Women are more likely to work in temporary jobs

than men in the vast majority of member states and with the widest gender gaps observed in Cyprus, Finland and Slovenia. In countries where temporary work is uncommon (e.g. the Baltics, Bulgaria and Romania), its share tends to be higher among men.

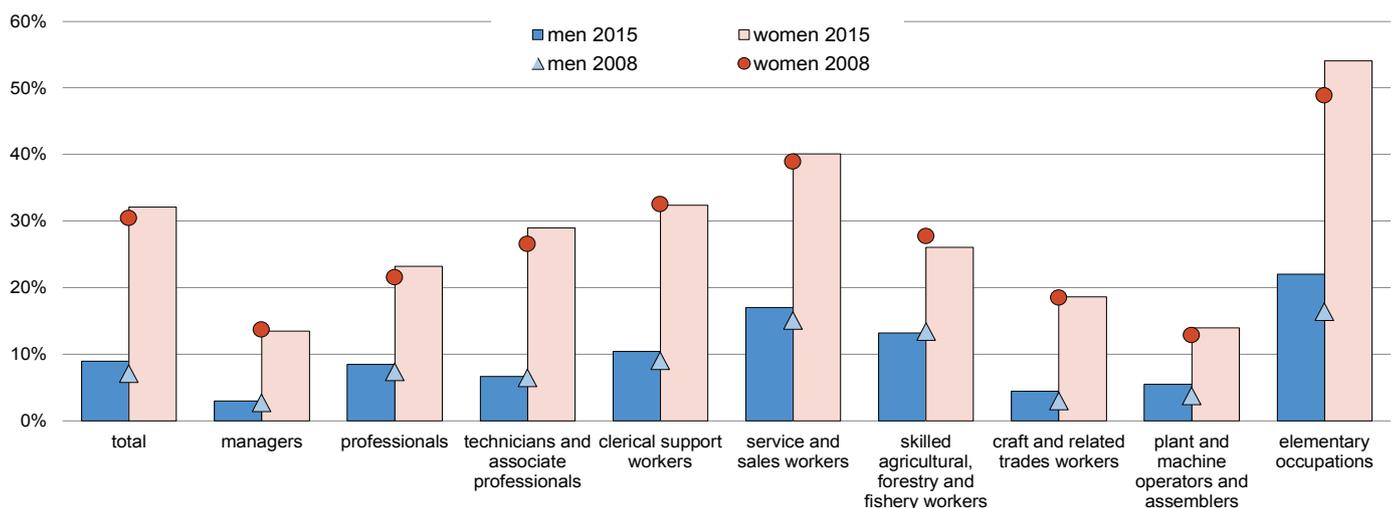
Between 2014 and 2015, the temporary employment rate increased in 17 EU countries, most markedly in Croatia and Slovakia. In 2015Q2, the highest incidence of fixed-term contracts was found in Poland (28.2%), followed by Spain (25.1%), Portugal (22.2%) and

the Netherlands (22%). In Romania and Lithuania, by contrast, only some 2% of workers had fixed-term contracts.

A comparison of job creation patterns before and after the crisis reveals that a growing proportion of new jobs are temporary. While in the period 2005-2008 temporary employment accounted for around 20% of the job growth, the rest being permanent, in the period 2013-2015 the share of temporary jobs in the net annual job growth nearly doubled, to 39%, the shift having been more acute among men.

## Overview of labour market developments

Figure 2.7 Part-time employment rates, by gender and occupation, (2008Q2 and 2015Q2, EU28)



Source: Eurostat.

### Part-time growth in low-paid work exacerbates inequality

In contrast to temporary employment, which saw a sharp decline after the outbreak of the crisis, part-time work has been steadily rising over the last decade with the steepest increases shortly after 2008. In the EU28, the part-time rate among men increased from 7.1% in 2008 to 8.9% in 2015 (second quarters). Among women the upward trend was less pronounced: from 30.5% in 2008, to a peak of 32.5% in 2013 and 32.1% in 2015.

There is a marked cross-country variation in part-time employment rates, ranging from 2.2% in Bulgaria (2015Q2) to 50.2% in the Netherlands. Nevertheless, part-time remains a feature of female work. In fact, gender gaps in part-time work are most pronounced in countries with the highest rates of part-time: in the Netherlands the gender gap reaches 50 p.p. (76.8% for women and 26.8% for men), in Austria 37.6 p.p., in Germany 37.5 p.p., and in Belgium 31.5 p.p.

Overall, in the period between 2008 and 2015, the share of part-time

employment increased the most in countries with a high or medium incidence of part-time work, while in those countries where part-time work has been traditionally less common, its share either remained fairly stable or declined. For instance, in Poland the share of part-time in total employment fell from 7.6% in 2008 to 6.7% in 2015, while in the Netherlands it rose from 46.7% to 50.2% in the same period.

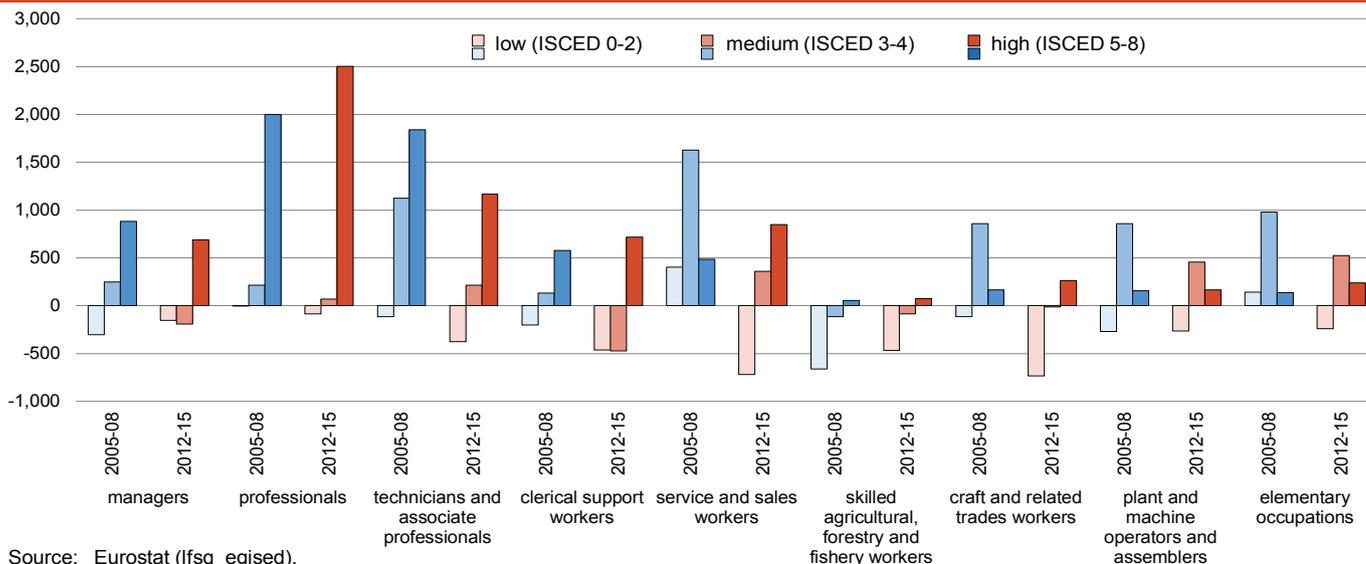
Part-time work is unequally distributed across different segments of the labour force defined by occupational rank. Shorter working hours are traditionally concentrated in routine and low-skilled service occupations, located at the bottom of the occupational ladder, female-dominated or characterised by low wages and little collective interest representation (Parent-Thirion *et al.* 2012; O'Connell and Russell 2007; Smith *et al.* 2013). In the EU28 in 2015Q2, part-time work was most commonly found among elementary occupations (reported by 54% of women and 22% of men), and service and sales workers (40% and 17% respectively). In addition, the post-2008 growth in the part-time employment rate was concentrated in elementary occupations where the increase was 5 p.p. among women and 6 p.p. among men. On the other hand, in high-skill jobs (e.g. managers, professionals), part-time work is far less frequent. This holds true for both men and women employed in these occupations (Smith *et al.* 2013).

Moreover, there is a stark divide in the quality of part-time work between the managerial class and routine workers in terms, for instance, of task complexity and training (Tilly 1992). Reduced working hours among low-skilled and manual workers are also a predominantly employer-led solution, allowing for little to no employee autonomy (Piasna 2015). They thus hardly represent a work-life balance solution for workers with caring responsibilities.

Not only does the prevalence of short working hours mirror income and class inequality (Jacobs and Gerson 2004), but recent trends in part-time work suggest that it is also likely to widen such inequality further. The future of (good quality) part-time work depends on the extent to which skilled jobs can be divided into smaller working time units without penalty in terms of occupational status or future career chances (Ibáñez 2011).

## Patterns of job growth in Europe: skills

**Figure 2.8** Job growth by occupation and education level, comparison of two periods, in thousands, EU28



Source: Eurostat (lfsq\_egised).

### Skills mismatch taking a turn in a tight labour market

In the context of technological change and digitalisation, raising the skills and competences of the workforce has become a policy priority (e.g. European Commission 2015a; 2015b). An analysis of job growth patterns suggests that high levels of education provide relative insurance against unemployment. The share of professionals in total employment in the EU increased from 14% in 2008 to 19% in 2015. Over the last three years (2012-2015), the number of jobs filled by workers with higher education increased by over 13 million. This is in stark contrast to a feeble increase in medium-educated workers in employment (1.7 million) and a sharp decline of those with low education (by 7 million).

Nevertheless, a supply of highly skilled labour does not necessarily signify a supply of highly skilled positions. In fact, the tight post-crisis EU labour market with increased competition for jobs has resulted in an exceptional increase of highly skilled workers across all occupational grades. This is clearly visible in a comparison with a pre-2008

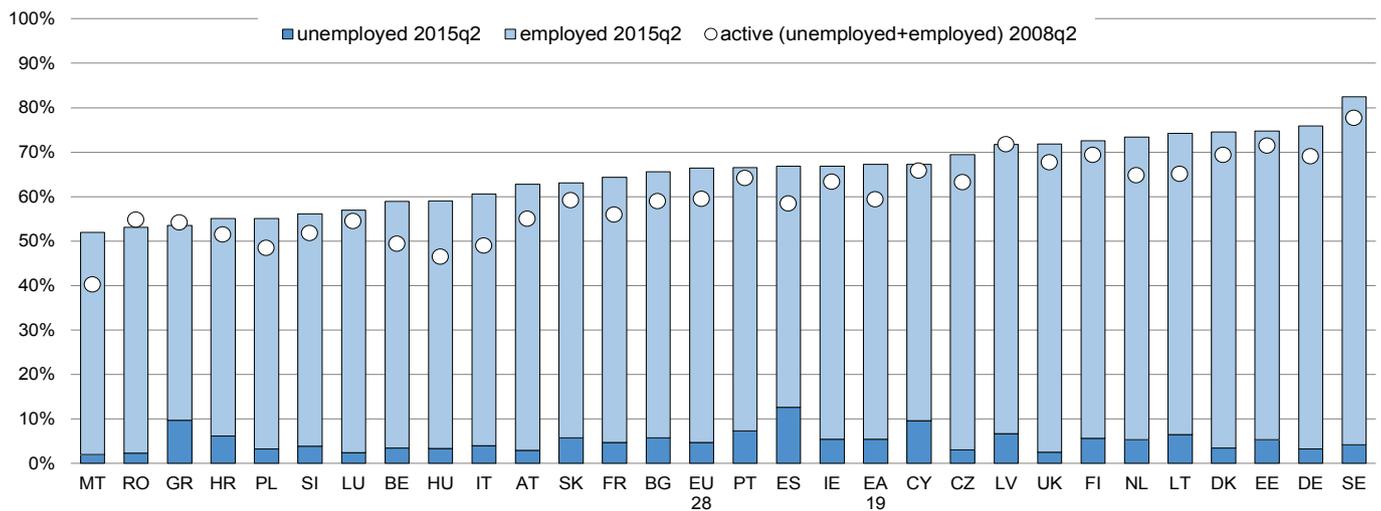
period of net job growth (Figure 2.8). Before the crisis (2005-2008), job growth across the EU28 in manual and routine clerical occupations was mainly driven by medium-skilled workers, with some increase of low-skilled workers in elementary occupations (including jobs such as cleaning, selling goods, performing simple tasks connected with construction and manufacturing). By contrast, in the post-2008 period of net job growth (2012-2015), a considerable share of employment generated in low-skilled manual occupations (e.g. plant and machine operators), as well as in elementary occupations, was taken up by highly educated workers. While in the 2005-2008 period, less than 11% of jobs generated in elementary occupations were filled by highly educated workers, in the 2012-2015 period this increased to 31%. Moreover, between 2012 and 2015, a majority of new positions in routine clerical occupations, service and sales work, agriculture, and skilled manual work were also filled by highly educated workers.

Therefore the issue of a skills mismatch is a more complex one, for which improving the educational attainment of the workforce provides only a partial solution. It should not be overlooked that, in 2010, 32% of workers in the EU27 reported that they have skills to cope with more demanding duties than those required by their current job, while 13%

declared that they need further training to cope well with their duties (5th European Working Conditions Survey). Therefore, a flipside of the skills mismatch is underemployment, a situation in which workers accept work below their skill and educational levels, and employers show a preference towards employing those with higher education, even for positions with typically low-skill requirements. This may provide an – at least partial – explanation of why an increase of in-work risk of poverty after 2010 in the EU28 was steepest among workers with high educational levels (ETUI and ETUC 2015: 36; see also Figure 2.17 in this chapter).

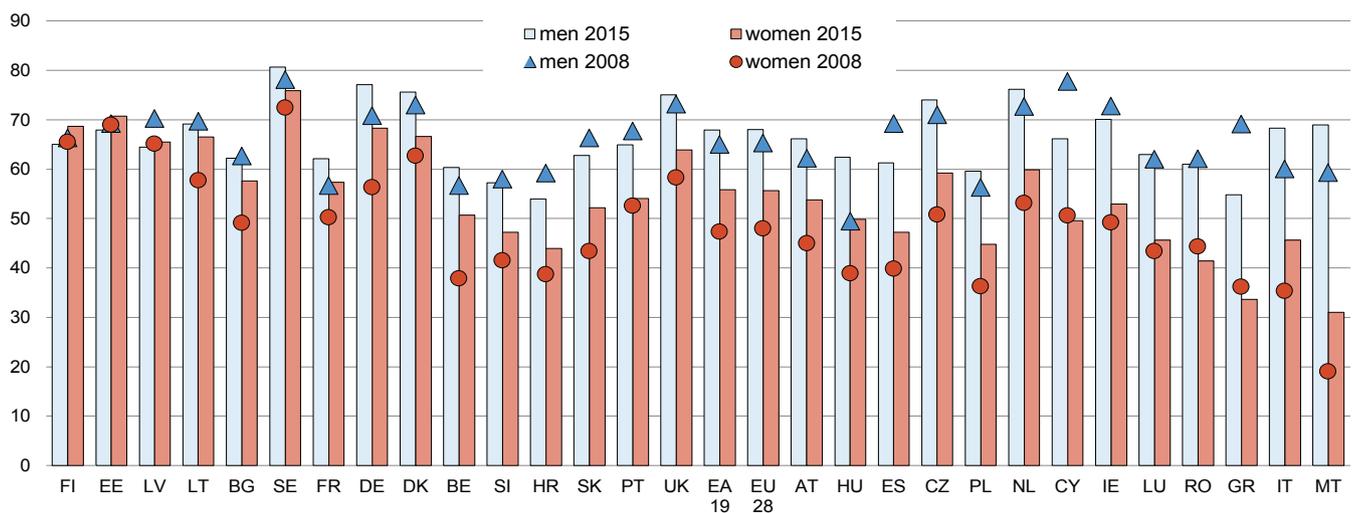
## Older workers in the EU labour markets

**Figure 2.9 Population by labour market status and by country, age 50-64**



Source: Eurostat (lfsq\_pganws).

**Figure 2.10 Employment rates by gender and country, 2008Q2 and 2015Q2, age 50-64, arranged by difference in 2015**



Source: Eurostat (lfsq\_ergan).

### Older workers postpone retirement

In 2015Q2, 66.4% of the population aged 50-64 in the EU28 were economically active, with an employment rate of 61.7% and an unemployment rate of 7.1% (Figure 2.9). The highest activity rates were

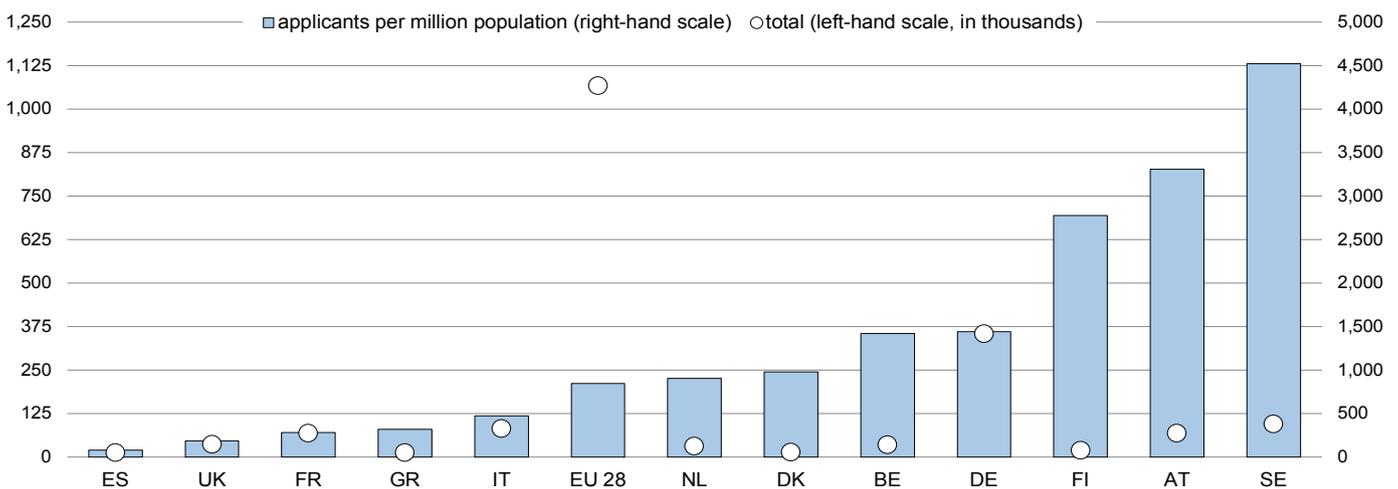
in Sweden, Germany, Estonia and Denmark, while Malta, Romania, Greece and Croatia ranked lowest. Considerable disparities can be observed regarding the gender gap. In most EU countries (except Finland, Estonia and Latvia), the female employment rate was lower than the male rate, with the widest gaps in Malta (38 p.p.), Italy (23 p.p.) and Greece (21 p.p.) (Figure 2.10).

Age is a major factor in labour market behaviour and the economic crisis can be expected to exert conflicting pressures on older workers. On the one hand, if older

job-seekers have difficulty finding work, they may retire earlier than expected. On the other, cutbacks to retirement benefits and increases in the statutory retirement age may lead workers to delay retirement. The data suggest that the latter effect prevailed as there has been a considerable increase in the activity rate among 50-64 year olds since 2008 (59.5%) (see Figure 2.9). Between 2008 and 2015, activity rates for this age group increased in almost all EU countries (except Romania and Greece), while remaining considerably lower than for the prime-age group.

## Europe's refugee crisis

Figure 2.11 Asylum applications of non-EU nationals in selected member states in the twelve months until November 2015



Source: Eurostat (2015). Note: Hungary with 204,595 applications in last 12 months (per million population: 11,085) not indicated (over 90% of registered asylum seekers left the country).

### New fault-lines in Europe

With over one million asylum seekers from the Middle East, Asia and Africa, in 2015 Europe was facing the greatest inflow of refugees since World War II. The external shock posed by the unprecedented refugee wave and the uneven absorption of asylum seekers by member states has created new fault-lines in Europe.

With the collapse of the Dublin III regulation on the responsibility of member states for examining asylum applications, the statistical coverage of the refugee flows is far from delivering an up-to-date and exact picture of events, but, insofar as one is aware of the many contradictions, the major processes can be tracked.

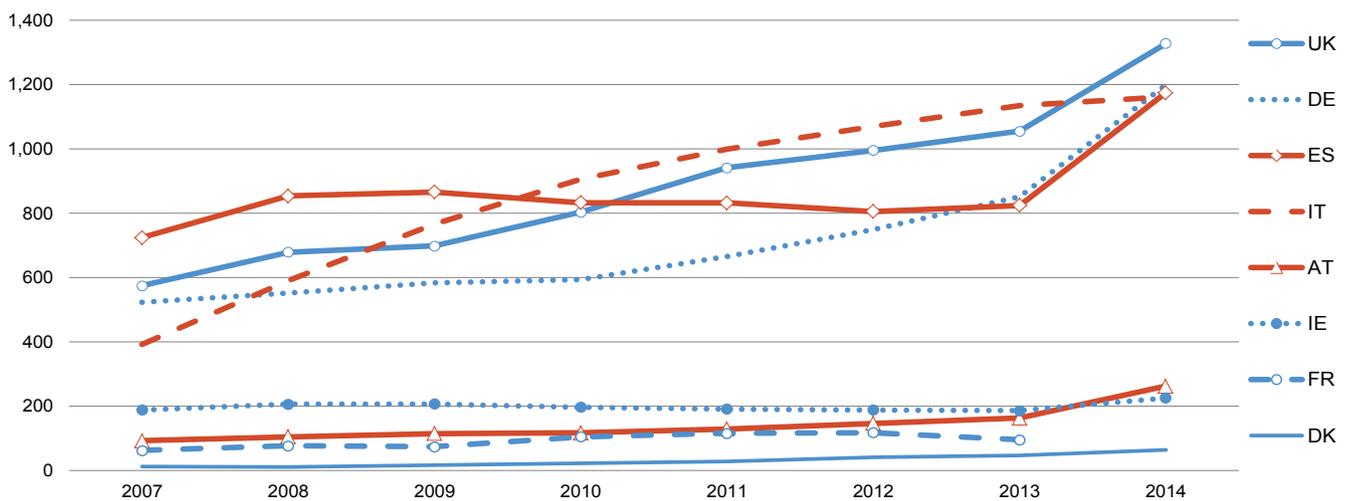
For 2015 the International Organisation of Migration (IOM 2015) reports total arrivals of irregular migrants and refugees to Europe as 1,005,504 by the end of the year (821,000 entered the EU via Greece, 150,000 through Italy). Based on the latest Eurostat data, Figure 2.11 shows asylum registrations of third-country nationals by member state, bringing the total number of registered persons for the 12 months up to

the end of November 2015 to 1.06 million. The distribution of registrations by member state gives an indication of the absorption of asylum seekers by individual countries, but these data need to be regarded with caution because of the lack of a common registration practice on the European level. Due to asylum seekers' fear of being registered in a member state *en route* to their destination country and the frequently obstructive strategies of transit countries which actively seek to forward refugees westwards, registration figures by transit country do not reflect the absorption of asylum seekers. Although Bulgaria and Hungary (not shown in the Figure) appear in the Eurostat statistics with high registration numbers (18,000 and 204,000 respectively), over 90% of registered asylum seekers leave these countries within days. Registration numbers by country, as indicated in Figure 2.11, provide a tentative picture of the distribution of asylum seekers by receiving member state. Accordingly, Germany is on top with 353,800 completed registrations by November 2015, followed by Sweden (94,000), Italy (80,000) and Austria (67,700). Belgium and Finland also registered asylum seekers at a comparably high level compared to their population, but all the other member states show marginal absorption of asylum seekers. CEE new member states that are net emigration countries were rejecting any co-operation in providing asylum for refugees.

To complicate the picture even further, it must be added that destination countries fail to cope adequately with the registration of refugee arrivals, so that the current figures are an underestimate. This is particularly true for Germany which is by far the main destination for refugees. Data from the German Office for Migration and Refugees (BAMF 2015) report a million arrivals by December 2015, with 442,000 completed registrations.

## Shifting patterns of intra-EU labour mobility

Figure 2.12 Population of EU10 citizens in selected EU member states (2007-2014)



Source: Eurostat.

### Continuing east-west labour flows

After signs of saturation during the crisis, east-west intra-EU labour mobility seemed to gain further momentum in 2014. Figure 2.12 shows the main trends of EU10 (CEE new member states of the 2004 and 2007 enlargement rounds) mobility by showing the share of EU10 population by main EU15 countries for the period 2007-2014.

The United Kingdom continues to be the main destination with over 1.3 million EU10 citizens. Though a traditional destination for CEE migration, Germany was lagging behind for several years as an effect of the transitional measures imposed on CEE mobile workers (in effect until 2011 for EU8 and until 2014 for EU2). After some delay, labour mobility from the new member states to Germany started to pick up and has gained further momentum lately making Germany now the second destination with 1.2 million EU10 nationals. After a period of decline during the crisis, the EU10 population in Spain also started to grow again reaching 1.175 million while Italy, which with 1.162 million EU10 citizens is still the fourth destination for EU10 mobility, shows signs of saturation.

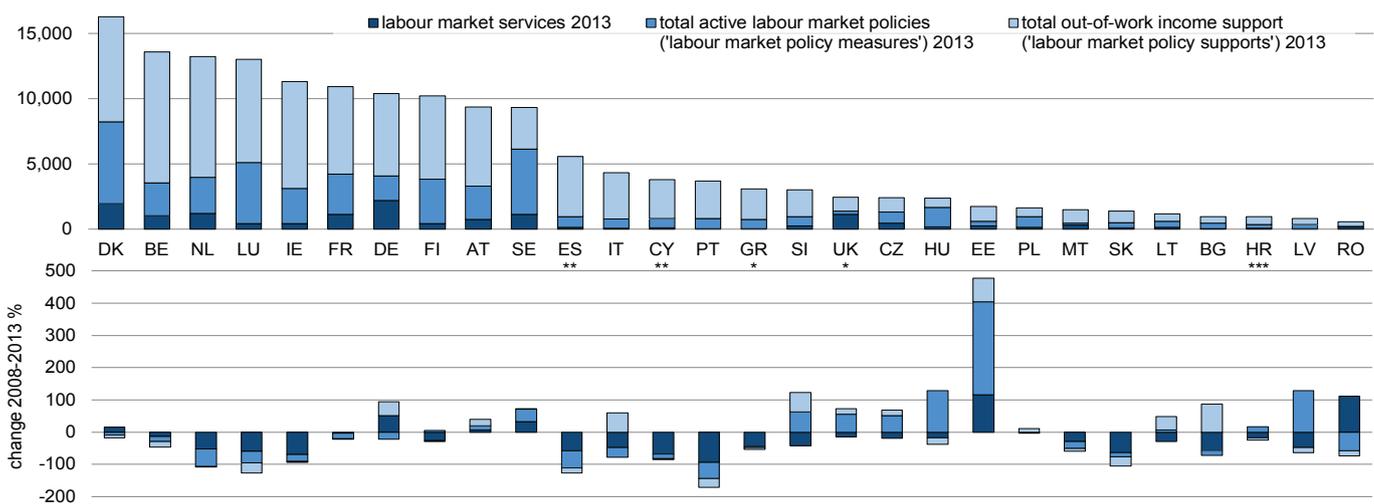
Germany has become the top destination of asylum seekers and at the same time a main receiver of mobile workers from the new member states. Italy has also received a considerable number of refugees and is, furthermore, an important destination for mobile workers from new member states. Austria is the third country facing a twofold challenge, as it has received, compared to its population, the highest number of refugees while having, at the same time, a proportionally high EU10 population. While the UK and Spain are top destinations for east-west intra-EU labour mobility, they have absorbed refugees in marginally low numbers. France is the least affected major EU15 country in terms of both refugees and east-west labour mobility.

Intra-EU labour mobility is a basic freedom of all EU citizens and non-discrimination in labour rights – including access to benefits – applies. While the legal status of EU mobile workers and asylum seekers is entirely different, the political effect they have on receiving country labour markets and welfare systems is not necessarily distinguishable. New tensions are appearing in several member states and it is not the UK government alone that aims to restrict access by EU mobile citizens to social and welfare services. There is consensus in the literature (Blauberger *et al.* 2014; Clark *et al.* 2014) that EU10 migrants are net fiscal contributors in EU15 countries.

A recent study (Tassinari 2015) suggests that, even when individual characteristics are taken into account, the propensity to live in social housing accommodation or receive unemployment benefits or income support is lower for EU10 migrants than for UK nationals. The refugee crisis and its concentration within a limited number of member states, some of them also primary destination of intra-EU labour flows, has created new fault-lines in Europe. An urgent European response is necessary to contend with the historical challenge represented by the need to integrate a large number of refugees into the European labour market. At the same time, the free movement of labour is not only a basic freedom but also a major asset with great potential. Policy effort should accordingly be concentrated on unlocking its full potential, while paying attention to the full implementation of the principle of equal treatment.

## Labour market policies and their challenges

Figure 2.13 Expenditure in labour market policies by function, EU28, 2013 and 2008-2013 (%)



Source: Eurostat (Imp\_ind\_exp), own calculations. \*GR, UK: 2010, \*\*ES, CY: 2012, \*\*\*HR: 2012-2013.

### Expenditure cuts per person wanting to work

Figure 2.13 above shows expenditure on labour market policies per person wanting to work. The figures are expressed in a unit of measurement (PPS) that allows meaningful comparison across different countries. A distinction is made among the following three types of policy intervention: labour market services; active labour market policies ('labour market policy measures' – ALMPs), that is, activation measures for the unemployed and other target groups; and out-of-work income maintenance and support ('labour market policy support') that is, financial assistance that aims to compensate individuals for loss of wage or salary, in the form of, most commonly, unemployment benefits or benefits facilitating early retirement.

In 2013, when the unemployment rate reached its peak since 2008 in both the EU28 and the euro area, there were large disparities in the level of total expenditure devoted to each person wanting to work across the EU. Figure 2.13 above shows that there was a clear divide between north-west European

countries, which – with the exception of Ireland – have not been or have been far less severely affected by the crisis, and the south and central-eastern Europe, and the UK.

Looking into the growth of expenditure between 2008 and 2013, the data suggest that in 17 member states, spending per person wanting to work was reduced for active labour market policies and out-of-work income support. Expenditure on labour market services per person wanting to work was reduced in 22 member states. The group of member states in which expenditure per person wanting to work increased include mostly member states with low spending, while for all types of measure there appears to have been an overall convergence in spending. A recent study by the ILO suggests that cuts in labour market policy expenditure have been mostly driven by considerations of public finance consolidation (ILO 2015).

Expenditure cuts in active labour market policies and out-of-work income support were slightly more concentrated in member states with high levels of spending and relatively less affected by the crisis. However, by far the biggest reductions in ALMP spending relative to 2008 took place in countries, including Spain and Portugal, with some of the highest levels of and increases in unemployment since 2008 (spending per person in these two countries reduced

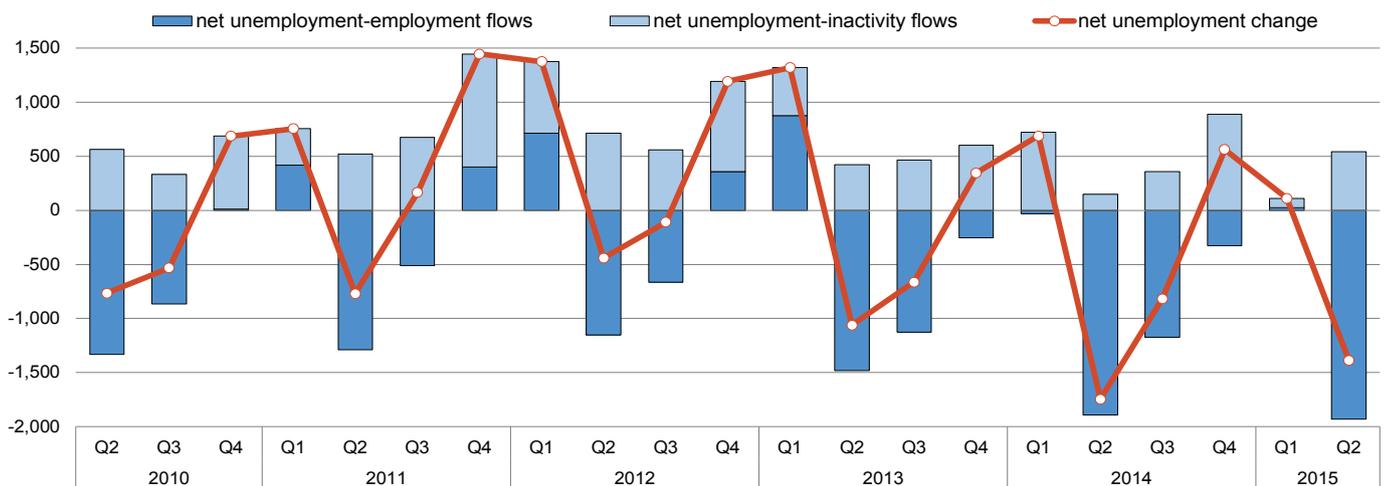
by 53.2 and 51% respectively). By far the largest reduction in ALMP spending per person wanting to work between 2008 and 2013 took place in Romania (58.2%), while the Netherlands also saw a cut of 54.8% during the same period. Greece, Italy and Ireland also cut down on their ALMP spending per person, the latter two quite sizeably. In all three, the retrenchment is even more sizeable when it is considered that unemployment rose massively after 2008 and was particularly concentrated in certain sectors and groups (Myant *et al.* 2016), making ALMPs even more necessary for reversing increases in unemployment.

Expenditure cuts per person wanting to work in income-support labour market policies were greatest in Luxembourg (31.3%), Portugal (27.1%) and Slovakia (28.4%); such cuts also took place in Spain and Greece (both countries with relatively low levels of spending at the outset) and Ireland.

Spending per person on labour market services was reduced everywhere but a handful of cases (Denmark, Germany, Austria, Sweden, Romania), all of which – bar Romania – have been traditionally high spenders on labour market policies.

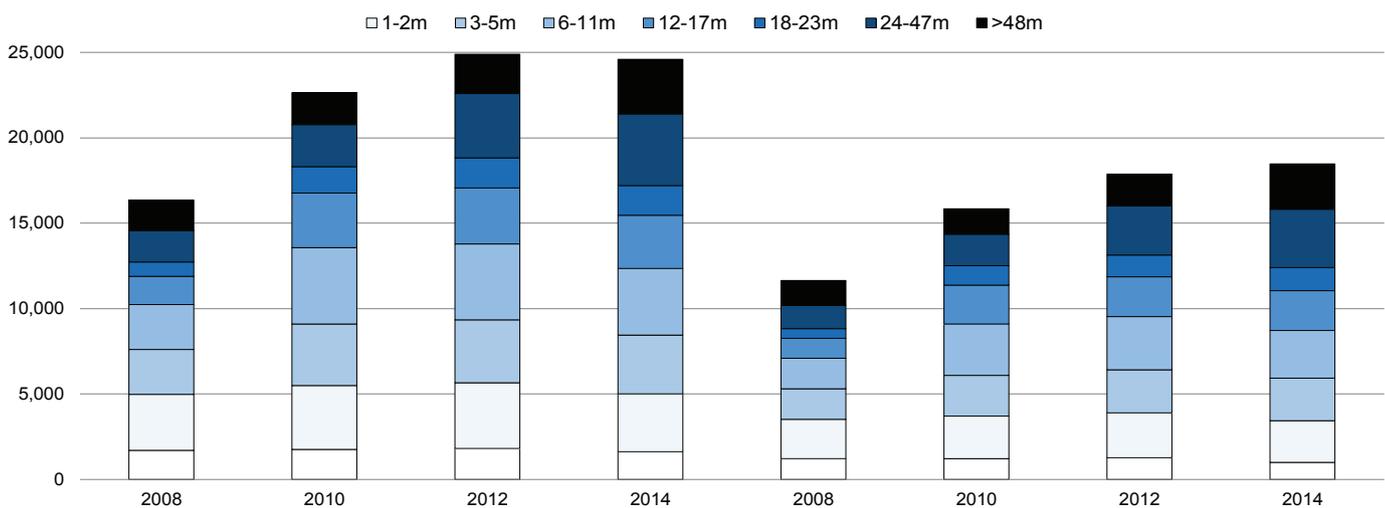
# Labour market policies and their challenges

**Figure 2.14 Net unemployment flows (from employment and inactivity) and net unemployment change (000s persons), EU28, 2010Q2-2015Q2**



Source: Eurostat (Ifsi\_long\_q), own calculations.

**Figure 2.15 Unemployed persons (000s) by duration of unemployment, EU28 and EA19, 2008, 2010, 2012 and 2014**



Source: Eurostat (Ifsi\_long\_q), own calculations.

## The hard core of unemployment

Labour market services and ALMPs are meant to help people move from unemployment to employment and to encourage them to remain active in the labour market rather than slip gradually into inactivity. Figure 2.14 above suggests that, in the EU28 as a whole, the numbers

of people moving, in 2014-2015, from unemployment to employment have been higher than the numbers of those moving from employment to unemployment, more so than was the case in 2011-2012. As a result, unemployment has been slowly falling.

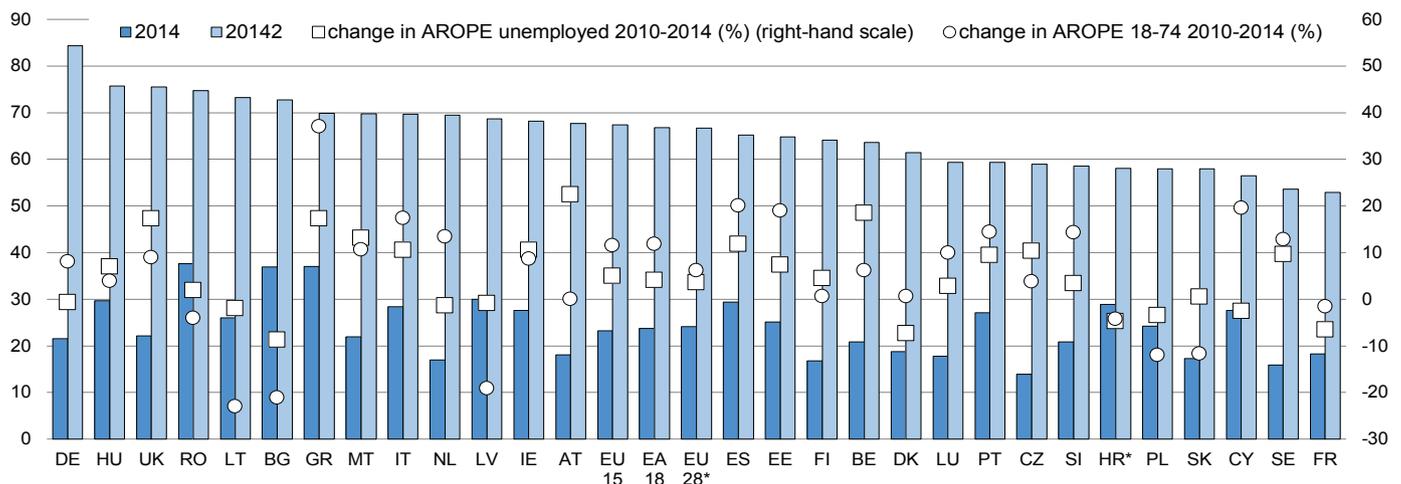
However, Figure 2.15 suggests why the cuts in ALMP expenditure per person wanting to work should be a matter of concern for the fight against unemployment (as seen in Figure 2.13).

As Figure 2.15 shows, the cohorts of unemployed who have been jobless

for longer than 12 months and especially for more than 18 months have increased by far more than those unemployed for much shorter periods of time. In fact, even though the cohorts of the short-term unemployed began to shrink after 2010, those of the long-term unemployed kept on growing, building up the aforementioned hard core of unemployment. The long-term unemployed are those most in need of supportive active labour market policies for returning to employment because recovery alone will not be sufficient to help them find a job.

## Labour market policies and their challenges

**Figure 2.16 At-risk-of-poverty-or-social-exclusion (AROPE) rate, population 18-74 and unemployed, EU28, 2014 and relative change 2010-2014 (%)**



Source: Eurostat (ilc\_peps02), own calculations. \* EU28, HR: 2010.

### Risk of poverty or social exclusion for the unemployed is high and still rising

Contrary to the aims of the Europe 2020 strategy, the risk of poverty or social exclusion (henceforth AROPE) has increased since 2010 for the population as a whole in the EU28, the euro area and even in the EU15, in spite of the strategy's ambition of raising 20 million people out of poverty. In 2014, 24.1% or almost 1 in 4 persons among those aged 18-74 in the EU28 lived in a household at risk of poverty or social exclusion, compared to 22.7% of that group in 2010. The AROPE for those in that age group who have been unemployed has been much higher, with about 2 out of 3 people in that age group who are unemployed living in households at risk of poverty or social exclusion. The increases in AROPE for those unemployed have increased by about half as much as in the general population aged 18-74.

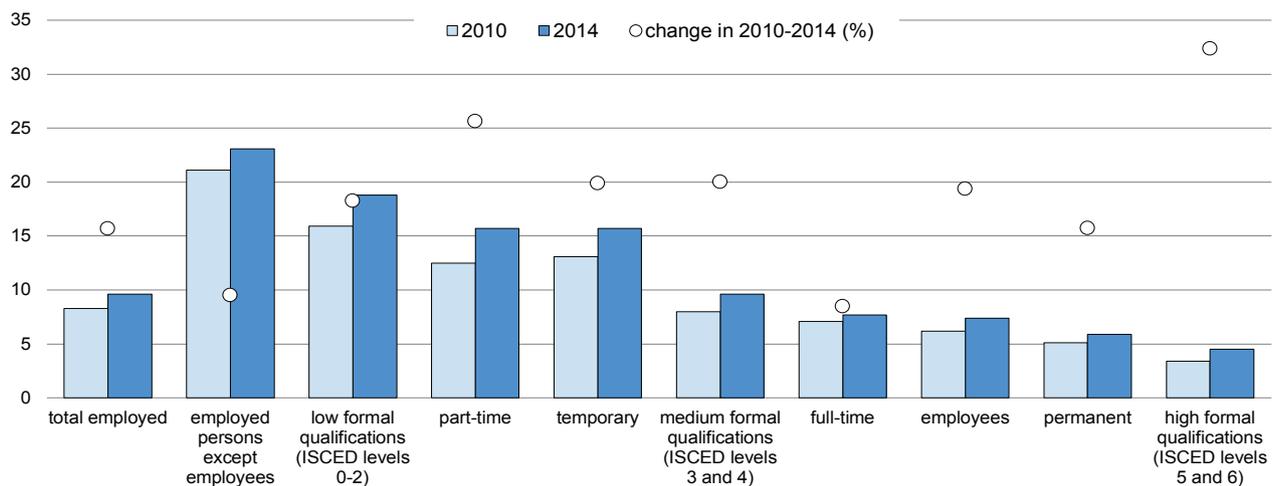
However, the very high risk faced by the unemployed should be cause for concern also in relation to the decreases in expenditure for labour market policies

and services per person wanting to work that we saw in Figure 2.16, especially those concerning income support for persons not in work. For example, Slovakia is one of the member states where cuts in expenditure per person for income support has been the highest, as well as one of the relatively few member states where the risk of poverty or social exclusion for the unemployed rose by more than for the population aged 18-74 between 2010 and 2014.

As far as the systems of income support for the unemployed are concerned, a recent report by the ILO (2015) pointed out that there was a reduction in the coverage rate (that is, the number of unemployment benefit recipients over the total number of persons unemployed) in the unemployment benefit systems of most member states between 2008-2013, following the increase in long-term unemployment rates and the higher numbers of employees with temporary contracts losing their jobs. These two factors meant that greater numbers of unemployed persons were not eligible to receive benefits.

## In-work poverty

**Figure 2.17 In-work poverty rates (level and relative change) by type of employment, contract, working hours, and qualification level, EU28, 2010, 2014 (%)**



Source: Eurostat (ilc\_iw01, ilc\_iw03, ilc\_iw05, ilc\_iw07), own calculations.

## In-work poverty continues to rise

Figure 2.17 illustrates the in-work poverty rates for the EU28 for the years 2010 and 2014, as well as the relative change during that period. The in-work risk of poverty measures the incidence of what is commonly called ‘working poor’. The measure is defined as the share of population in employment whose household income falls below 60% of the median average household income. This indicator combines individual activity characteristics (income from labour) with a measure of income that is calculated at the household level (the poverty line). For this reason, interpretation of its evolution over time and across countries cannot point unequivocally to the causes of this evolution, which could be developments in the labour market, structure of households, social and fiscal policies or some combination of these factors (Pontieux 2010: 28). To counter this difficulty, the data presented here refer to the EU28 average for different types of employment, categories of employment contract, working hours and levels of formal qualifications. The implicit assumption is that across the EU and over the course of a relatively short period of four years,

household structures did not change substantially and that any changes cancelled each other out on average, so that the question is whether we can observe any indications of shifts in the in-work poverty rate that may suggest labour market, social and fiscal policy changes.

In terms of levels, the average in-work poverty rate for employed people stood at 9.6% in 2014, up from 8.3% in 2010, a 15.7% rise. Looking into the different types of employed people, those that were not employees faced the highest in-work poverty in both 2010 and 2014, at 21.1 and 23.1% respectively. This is an interesting development insofar as this category includes not only the self-employed but also those engaged in work in the so-called ‘new economy’.

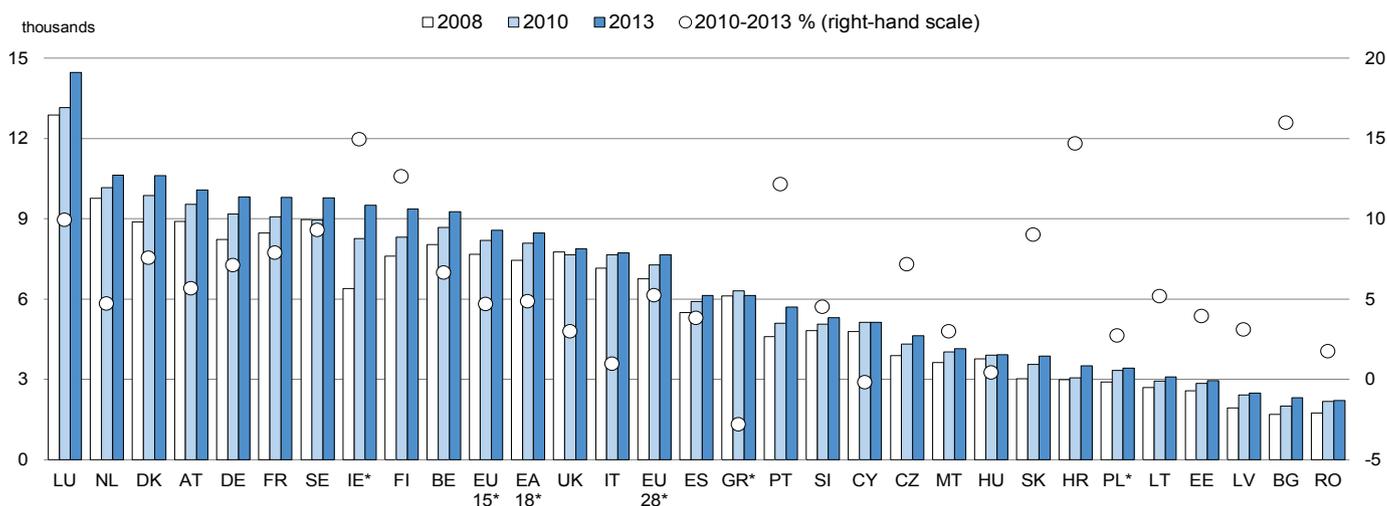
Those employed but with low formal qualifications and/or part-time and temporary contracts were the groups with the highest in-work poverty rates, ranging from 18.8% for the low-skilled to 15.7 for part-timers and temporary employees. Part-timers and temporary employees also suffered relatively high increases in their in-work poverty rates, 25.6% for the former and 19.8% for the latter.

Those employed subject to more standard arrangements and hours (full-time, permanent, employees) and the highly qualified have been facing markedly lower in-work poverty rates. However, highly qualified employed workers

experienced, albeit as from a very low previous level, by far the largest increase in the in-work poverty rate across all categories examined with 32.4% (see also discussion under Figures 2.7 and 2.8 in this chapter).

## Social protection and inequality

Figure 2.18 Social expenditure per inhabitant (PPS), EU28 member states, 2008-2013



Source: Eurostat (spr\_exp\_sum), own calculations. \*EU28, EU15, EA18, IE, GR, PL: 2012.

### Uneven developments in social expenditure

Figure 2.18 shows the social expenditure per inhabitant, for all types of social protection programme, expressed in Purchasing Power Standards (PPS) for the EU28 member states in 2008 and 2013, as well as the relative change in such expenditure between 2010, when the shift to fiscal austerity occurred in the EU, and 2013. In 2013, there was wide disparity in levels of spending per inhabitant, ranging from over 10,000 euros in Luxembourg, the Netherlands, Denmark and Austria to just below 2500 euros per inhabitant in Bulgaria, Latvia and Romania. Moreover, the dispersion of the spending levels per inhabitant around the average increased between 2008 and 2013, suggesting divergence among member states.

On average, between 2010 and 2013 in both the EU28 and the Euro area this spending rose, by 5.2 and 4.8% respectively.

Concealed behind these averages, however, there was wide variation. Social expenditure per inhabitant rose everywhere except in Hungary, Cyprus and

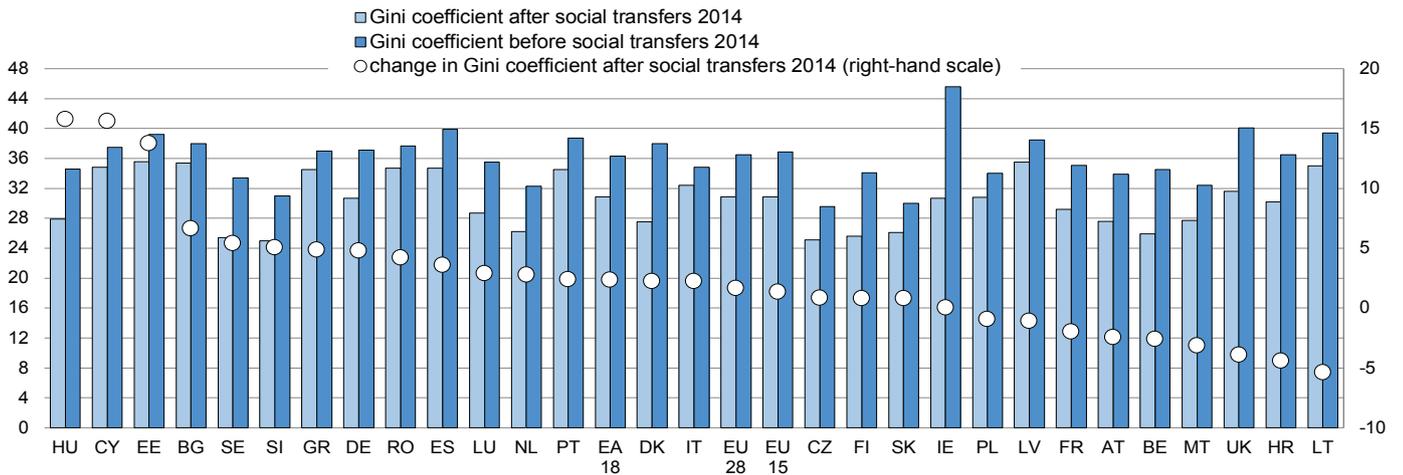
Greece where it fell. These are all member states with well below average public social spending per capita as well as countries that have been particularly hard hit by the crisis since 2008. Social expenditure per inhabitant rose by more than 10% in Bulgaria, Croatia, Portugal, Finland and Ireland (2010-2012), whereas the UK, Italy, Malta, Poland and Romania saw positive but low increases of below 3% between 2010 and 2013.

More generally, in most of the member states that were most badly affected by the crisis, the increase in public social spending per capita was below the EU average, with the exception of Ireland where the third largest increase – of 14.9% – after Bulgaria (16%) and Croatia (14.7%) took place. At the other end of the spectrum, in Greece, not only was public social expenditure per inhabitant relatively low in 2008 and still in 2012 but it also registered the second biggest drop in the EU28, in spite of the massive contraction in Greek output and the increase in unemployment. Similarly in Spain, public social expenditure per capita rose by less than average, even though unemployment in Spain at 22.3% in 2015 – having peaked at 26.1% in 2013 – rose by more than three times the EU average between 2008 and 2013. These developments suggest a degree of policy drift (Hacker 2004), that is, social protection policies not adapting in line with the need for them. Although spending figures can be

too crude to provide an accurate picture of the effectiveness of social protection, they nevertheless indicate the amount of resources available, a necessary, albeit not sufficient, condition for protection.

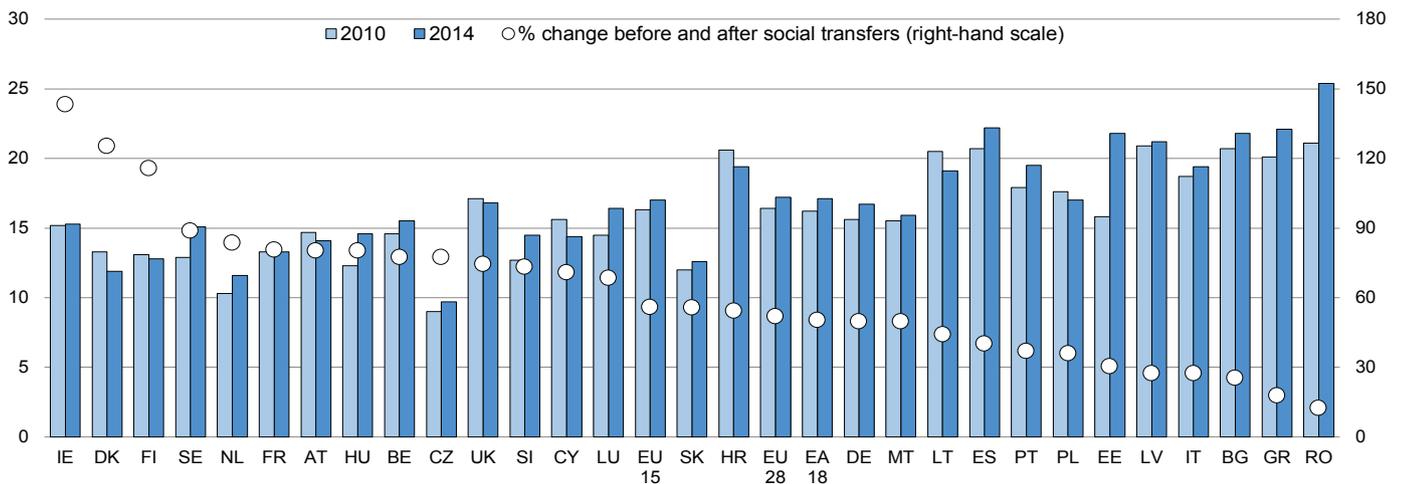
# Social protection and inequality

**Figure 2.19** Income dispersion: Gini coefficient in 2014, before and after social transfers (0-100), change between 2010 and 2014 (%) after social transfers (RHS)



Source: Eurostat (EU-SILC ilc\_di12), own calculations.

**Figure 2.20** At-risk-of-poverty rate (monetary poverty, at 60% of equivalised income), level (%) 2010, 2014, and relative change before and after social transfers (%)



Source: EU-SILC (ilc\_li02), own calculations.

## Income inequality on the rise

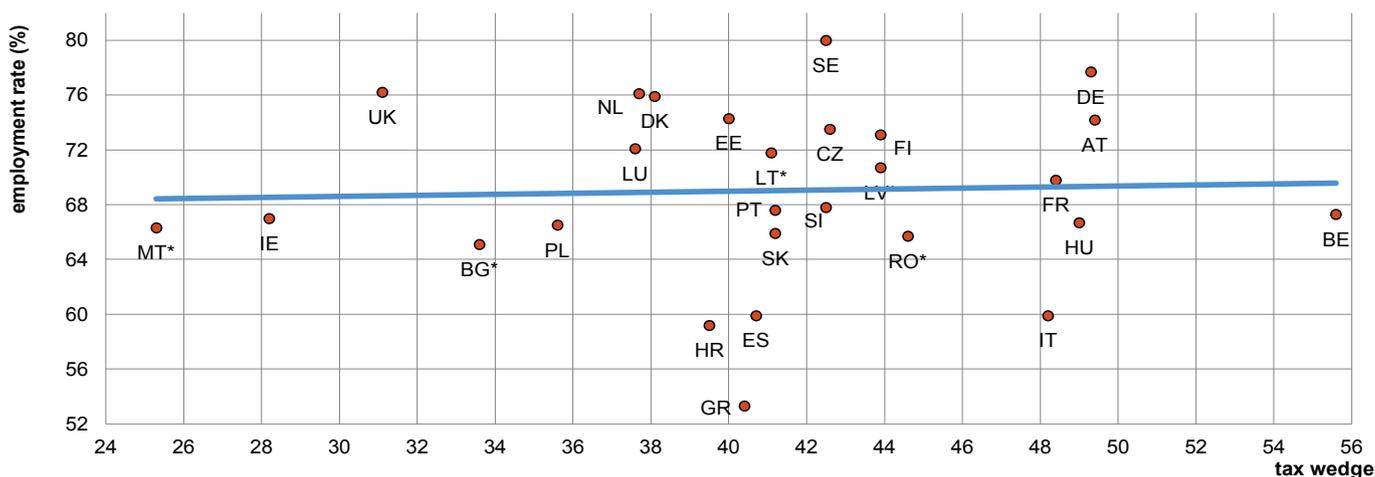
Figures 2.19 and 2.20 illustrate two aspects of income inequality, the alleviation of which is one of the purposes of social protection. The first graph shows the Gini coefficient, a measure of income dispersion, before and after social transfers, as well as its evolution (after social

transfers) between 2010 and 2014. The higher the Gini coefficient rises, the greater is the income dispersion. Between 2010 and 2014, income dispersion was reduced in only nine of the 28 member states, three of which (Latvia, the UK, and Lithuania) are among those with above EU average income dispersion. It increased on average and in all the others, with the exception of Ireland where it remained constant. There seems to be a non-negligible disparity among countries with regard to the effectiveness of their social transfers in reducing income

disparities – though effectiveness also depends naturally on the amount of social expenditure per inhabitant. Figure 2.20 shows the share of population at risk of income poverty in 2010 and 2014, and, for 2014, the difference in that risk before and after social transfers have been taken into account for household incomes. On average the risk of income poverty rose in the EU, while, hardly surprisingly, the member states with the highest poverty risk are also those whose difference in risk of poverty before and after social transfers is the smallest.

## Tax wedge on labour

Figure 2.21 Tax wedge on labour (average wage) and overall employment rate (age 20-64), 2014



Source: European Commission tax and benefits database based on OECD data (European Commission 2015e).

Notes: Tax wedge on labour: The difference between the wage costs to the employer of a worker on an average wage, including personal income tax and compulsory social security contributions, and the amount of net income that the worker receives. \* data are only available for 2013.

## Cutting taxes on labour will not achieve much

Reducing taxes on labour – personal income taxes and employers’ and employees’ social security contributions – is often seen as key to increasing employment levels. Higher labour costs are assumed to reduce the demand for workers. Moreover, high labour taxation may lower incentives for the unemployed and inactive to take up work as it means that the additional income to be derived from employment is too limited to provide the motivation to work. Referring to these two reasons, the European Commission (EC) has advocated a shift in taxation away from labour to the ‘least distortionary taxes’, including taxes on consumption, housing and other property, and environmental taxes (European Commission 2015e: 24). The EC finds countries to be in need of reducing taxation on labour if their levels of taxation on labour are significantly above the EU average.

Such thinking relies on empirical modelling by the OECD (2010). The OECD’s own research, however, questions the rationale for the tax shift towards consumption as it confirms that

consumption taxes affect employment and hours of work in exactly the same way as taxation of income.

Empirically, it is difficult to separate the effect of taxes from other elements of the policy mix in individual countries. Nevertheless, a comparison of employment and tax levels in the EU, as shown in Figure 2.21, shows no relationship between the two. In fact, many countries with very high employment levels impose steep labour taxes. As a result, countries that were identified by the Commission as in need of reducing labour taxation – i.e. Belgium, Czechia, France, Italy, Hungary, Finland and also the ‘borderline’ cases of Germany, the Netherlands, Austria, and Sweden – include these best-performing countries.

As far as the crisis countries suffering from high unemployment are concerned, reducing labour costs through lowering taxation does not seem to offer any immediate respite either. As shown also by the EC’s own labour market analyses, adjustment strategies based on a reduction of labour costs have reached their limits, with countries characterised by high unemployment recording falling labour costs also (European Commission 2015d).

It is plausible that extreme taxation levels may create incentive problems for the inactive or some groups of workers who may shy away from extra employment effort due to the high taxation

imposed on the additional income. Potentially affected groups include the inactive, the unemployed, second earners in a household, and low-wage earners. The EC’s analysis finds a number of such traps in individual countries (European Commission 2015e: 26-27). However, even in this case, countries suffering from such traps include cases of both worst and best performance in terms of employment among the affected groups.

Finally, the ‘tax shift argument’ has been reinterpreted in a popular version that emphasises a need to reduce social security contributions (SSC) paid by the employers in particular. Such an argument may be intuitively appealing to employers seeking to reduce any taxes that they are obliged to pay, but there is no reason why they should matter more than other parts of labour taxation – in fact, they may be less relevant to incentives for workers. Empirically, there is no correlation between employer SSCs and employment level in the EU. Nevertheless, this thinking informed the 2015 tax shift in Belgium, reducing employer social security contributions from 33% to 25%. Ironically, despite having the highest level of taxation on labour, that country was close to the average for employer SSC.

## Conclusions

### Mounting challenges for the future

Job creation in the EU continued in the period 2014Q2-2015Q2, albeit at a slower rate than in 2013Q2-2014Q2, with a net outcome of 1.8 million more jobs. An analysis of the labour market developments and social trends reviewed in this chapter suggests that job quality considerations should, as much as ever, be in the forefront of the research and policy agenda. One example would be that temporary employment accounts for a growing share of the net job growth, casting doubts on the long-run sustainability of the recovery; at the same time, a growing concentration of part-time work among low-paid workers raises concerns about further polarisation of the workforce and social exclusion among the lower-skilled.

Investment in skills and competences is needed to ensure economic development and competitiveness in the context of technological progress. Professionals have been the fastest growing occupational category in the EU, and highly educated workers experienced by far the lowest risk of unemployment and considerably lower risk of in-work poverty than those with lower educational attainment. Nevertheless, policy attention should not be limited to education systems and quality of labour supply, but should focus also on the quality of the jobs created. Support for the growth of high-skilled sectors and branches of industry would also help ensure that highly skilled workers are not employed below their qualifications, a phenomenon that seems to be on the rise, leading to the underutilisation and loss of the human capital.

With the effective postponement of retirement, several social challenges will become more acute, such as increasing uncertainty about the age of retirement and the level of income replacement, sustainable working conditions across the life course, increasing risks

of age discrimination, as well as impact of care of older relatives on employment of prime-age, mainly female, workers (Anxo *et al.* 2012; Eurofound 2015). In coming years, the ageing of the labour force, in view of the significantly lower employment rates of older workers, will risk dramatically lowering the overall labour force participation rate. Nevertheless, policies devised to encourage workers to postpone retirement must take social inequality and exclusion risks seriously into consideration and ensure that workers remain in employment longer not because they have no legally or economically viable alternative but because they are able to find quality employment suitable for their qualifications, health and economic needs.

With over one million asylum seekers in 2015 Europe is facing the greatest inflow of refugees since World War II. European institutions have shown themselves unable to tackle this historic challenge and parts of the existing European legal framework are breaking down; a common European policy for administering and integrating asylum seekers is not yet in sight. The external shock posed by the unprecedented wave of refugees has created new fault-lines in Europe, with the threat of a new institutional and political crisis.

After signs of saturation during the crisis, East-West intra-EU labour mobility seemed to gain further momentum in 2014. The uneven distribution of both mobile workers and refugees, with concentrations in a small number of member states, is resulting in political tensions in the most exposed labour markets and welfare systems.

There still exist large disparities among member states in levels of spending on labour market and social protection policies. Relative changes in spending, although not the only factor determining the effectiveness of these policies, are also cause for concern. In labour market policies (active, passive and labour market services), expenditure per person wanting to work has fallen in the majority of member states including most of those where unemployment has risen substantially since 2008, while other reports also indicate a drop in

unemployment benefit coverage. These are alarming developments, not least because it is by now clear that there exists a hard core of long-term unemployed who will require help to get back into employment or otherwise risk becoming permanently excluded, while the risk of poverty and social exclusion for the unemployed is, hardly surprisingly, much higher than among the population at large. These developments also cast doubt upon the feasibility of implementing the 'flexicurity' approach, as recently advocated by the European Commission (2015c) as a means of achieving upward convergence in social standards across member states.

Income disparities have increased in the majority of member states, as has the risk of income poverty, while there is great disparity in the effectiveness of social transfers to alleviate it. In-work poverty has also continued to be high and still rising, especially among workers who lack employee status. This group includes not only the self-employed but also those engaged in the new forms of work currently emerging in the digital economy, a particularly alarming development for the future of work.

