The European Trade Union Institute (ETUI)

The ETUI conducts research in areas of relevance to the trade unions, including the labour market and industrial relations, and produces European comparative studies in these and related areas. It also provides trade union educational and training activities and technical support in the field of occupational health and safety.

The ETUI places its expertise – acquired in particular in the context of its links with universities, academic and expert networks – in the service of workers’ interests at European level and of the strengthening of the social dimension of the European Union. Its aim is to support, reinforce and stimulate the trade union movement.

The ETUI is composed of two departments:

— A research department with three units: Europeanisation of industrial relations; Economic, employment and social policies; Working conditions, health and safety

— An education department

The institute’s work is organised in accordance with the following five common priorities:

— Policies and actions for the future of Europe
— Workers’ participation and industrial relations
— Sustainable development and industrial policy
— Working conditions and job quality
— Trade union renewal

etui@etui.org
www.etui.org
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The winds of change are blowing through Europe. May 2019 will bring us the European Parliament elections and in autumn we will have a new Commission, which will face the task of steering the European Union (EU) through the uncertain waters of Brexit, growing economic nationalism, volatile financial markets, the upgrading of the Chinese growth model, and a possible downturn in economic growth. These elements all have the potential to further worsen the social problems that European citizens and working people are still facing: high unemployment (notably among young people), low salaries, increasing inequalities and divergences in the labour market and in society, and worrying levels of precariousness, poverty and social exclusion. Meanwhile, what we call the four ‘mega trends’ of climate change, digitalisation, demographic change and globalisation will continue to forge ahead. These trends may be certain but the direction they will take is not. The above-mentioned economic and political uncertainties will have a significant impact on their course, influencing in particular how European and national policymakers choose to respond to the challenges ahead.

Benchmarking Working Europe puts workers’ concerns at the centre of its analysis and policy proposals. The four chapters tackle the areas of economic growth, labour market changes, wage developments and workers’ participation to provide a comprehensive picture of where we are today in the fight for a more socially equitable and just Europe. This year’s edition looks at the current state of affairs regarding the characteristics of the recovery, the sustainability of output growth, the distribution of growth gains, the quantity and quality of jobs, and the cause of achieving greater democracy at work. With the aid of a multi-level and multi-dimensional set of indicators, we assess what the current policy stance has achieved, or rather – as will emerge from a reading of the following pages – what it has not achieved. The four chapters do not only set out a diagnosis but also put forward a set of policy proposals, considering what policies need to be put in place for Europe to generate higher living standards for workers and citizens, it is nevertheless an important one, ensuring the creation of quality jobs and a more equitable income distribution, as well as providing the resources for tackling climate change.

However, transitioning to a more sustainable growth model will require investment and special care to ensure that this transition is a ‘just’ one. At the heart of any strategy aimed at tackling the above challenges lies the need to stimulate investment, particularly social investment. Keeping capital costs low, supporting demand prospects, reducing economic ‘uncertainty’, increasing public investment, and creating further investment incentives through stronger wage growth are some of the preconditions for this to happen. In the background to all of this, divergences across the EU must be reduced, the reform of the EU fiscal rules should allow fiscal policies to play a more active role in stabilising economies, and the reform of the eurozone, which should be progressive and investment-friendly, needs to be completed. Key steps to achieving the latter are the establishment of a Euro Treasury and fiscal capacity, as well as the completion of the Banking Union. Focusing only on preserving sustainable growth will, however, not necessarily lead to lower inequality. Redistri-

The imposition of deregulatory labour market reforms and the decline of collective bargaining coverage have also been associated with greater inequality. The combination of recent economic growth and labour market deregulation has in fact led to structural changes in the EU labour market. While the number of people in employment has returned to pre-crisis levels, the jobs themselves and the workers performing them have changed significantly. These changes have not always been symmetrical: while the level of educational attainment amongst workers has risen, the quality of jobs offered to them has in many respects declined. One of the clearest indications of this is the expansion of various forms of non-standard employment over the past ten years – such as temporary work, short-hour jobs, subcontracting or platform work – often due to a lack of standard employment. These kinds of work also carry multiple risks for workers, including an increasing risk of in-work poverty and deepening social inequalities. This is in part related to the instability of earnings, the lack of standard worker protections, and the insufficient availability of work. These issues are particularly notable in the case of online labour platforms.
The ‘knowledge-based economy’, meanwhile, is not developing equally across the EU. There is growing geographical polarisation between Member States, with the countries most troubled by the crisis following the path of low productivity growth. The past decade was also characterised by a structural shift in the sectoral composition of jobs, with the greatest job destruction in manufacturing and construction and the greatest job creation concentrated in the services sector; these developments have been heavily influenced by long-term changes in the labour demand.

The deregulation of the labour market is also one of the underlying factors in the worrying long-term trend of subdued real wage development. Ten EU Member States are still at or even below the level they were at ten years ago, while real wages are lagging behind productivity in fifteen Member States. This means that in these countries, workers did not receive their fair share of the wealth they helped to generate; the wage share is thus continuing to decrease. Along with the economic environment and labour market deregulation, other explanations for this development include labour market slack and the deliberate weakening of collective bargaining structures. The recent moves towards reregulating labour markets and extending rights to atypical workers are a step in the right direction, but still far from being enough to meet the challenges posed by the current configuration of the labour market. After five years of economic growth, wage inequality has risen, the percentage of working poor is still above its pre-crisis level, and more people than ever have atypical work contracts. There may be more people with a job today than five years ago, but the nature of these jobs has changed and not necessarily for the better. A great push to strengthen national collective bargaining institutions and coverage will be key to improving labour market performance, redistributing wealth and reducing inequalities.

The final chapter of Benchmarking Working Europe focuses on how to increase democracy at work (a particularly salient issue at the moment) and on how the European institutions could contribute to making this happen. The analysis shows that democracy at work and political democracy are mutually reinforcing: if workers are more empowered in the workplace, they will carry this engagement over into civic life, and vice versa. General life satisfaction is also linked to higher levels of democracy at work, along with greater equality, a higher labour force participation rate and greater company innovation. More democracy at work can also promote company sustainability because companies where workers exercise greater voice at the workplace, or where they are represented on the company board, have generally been found to pursue more sustainable policies towards the workers themselves, the environment, and society as a whole. The many beneficial outcomes of democracy at work observed here cannot be ignored and point in favour of giving employees more voice.

In this context of transformational trends and political and economic uncertainties, many workers and citizens feel insecure, a lack of control and a fear of the future. The results of this malaise are indisputable: in many EU Member States we now have 20% of the population voting for far-right parties. The main political agenda is often focused on migration (or rather how to stop migration), thereby shifting the focus away from many of the major challenges societies are facing. The EU-level response to these developments cannot be one of security, defence and border control. Recent events seem to indicate that there is a window of opportunity for reregulation. The Posted Workers Directive has been revised, health and safety provisions at the European level are being strengthened (for example, the passing of the Carcinogens and Mutagens Directive as well as revisions of other directives), some platform workers are having their status requalified from ‘self-employed’ to ‘workers’, some Member States are back-tracking on deregulatory measures, and international institutions are warning against excessive flexibility and ensuing inequalities. Last but not least, the European Pillar of Social Rights, proclaimed in 2017, has started to deliver its first results.

Benchmarking Working Europe 2019 uses fact-based evidence and analysis to demonstrate that, considering the challenges ahead, the change in policy direction that we are seeing hints of needs to be reinforced and advanced in order to shape the future of work for the benefit of all workers. The newly adopted work programme on the European Social Dialogue will tackle some of the burning issues listed above and hence ensure that workers’ voice and interests are taken into account in the management of the transformations that Europe is going through.

Benchmarking Working Europe first appeared in 2001. By providing a genuine benchmarking exercise applied to the world of labour and social affairs and grounded in the advocacy of effective labour and social rights, this annual publication represents a contribution to the monitoring of the European Union. It aims at establishing what progress, or lack thereof, has taken place in selected areas of importance to the trade unions and of significance for a social Europe.

We hope you will derive both interest and benefit from your reading of this year’s edition of Benchmarking Working Europe.

Luca Visentini
ETUC General Secretary

Maria Jepsen
ETUI Director of Research Department

Philippe Pochet
ETUI General Director
Macroeconomic developments in Europe: tackling the growth, inequality and climate change challenges

Introduction

Macroeconomic developments during the recent Great Recession have had adverse effects on the lives of working people in many parts of Europe. The double-dip recession in 2008–2009 and 2011–2012 resulted in large job losses and high unemployment. The failure of macroeconomic policy responses to ‘do no harm’, act in a timely manner, or do enough to stabilise economies led to a period of long-lasting stagnation. This has left its scars, from even longer-lasting labour market slack and low investment to low labour productivity growth and slowed-down convergence in the living standards of EU Member States. It also exacerbated constraints on income redistribution through taxes and benefits.

To be sure, working people had not been reaping all the benefits of growth even before the period of crisis and stagnation that began in 2008. This was due not only to changes in technology and globalisation but also to certain government policies since the 1990s that reduced the bargaining power of workers vis-à-vis employers, and consequently the labour share (Ciminelli et al. 2018, OECD 2012), but also increased gaps in the distribution of earnings and other inequalities among people in employment.

This chapter starts from the premise that sustainable output growth (that is, growth that does not run against resource or policy constraints) is a necessary yet insufficient condition for improving the wellbeing of workers and citizens, by creating the essential conditions for quality job creation, and more equitable income distribution, and by providing the resources for tackling climate change. We consider the current state of affairs regarding the characteristics of the recovery in output growth, the distribution of growth gains, the risks to growth sustainability and the potential tools for resilience to macroeconomic shocks.

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Authors

Sotiria Theodoropoulou, Oliver Picek, and Bela Galgoczi
Economic developments: real GDP growth in Europe, the US and Japan

Recovery hits a low ceiling

Recovery in output growth in the EU and the eurozone peaked in 2017 at 2.4%, confirming that the European economy is still facing the challenge of declining output growth rates that have been observed since the mid-1990s (see Figure 1.1). Despite differences in the speed and rate of recovery to the US and (initially) Japan, the downward trend in output growth rates is also visible in these advanced economies. The duration and form of the Great Recession seem to have further reinforced this downward trend, as the prolonged weakness in demand has eventually had negative effects on the capacity of the European economy to produce and grow.

The most recent forecasts of the European Commission suggest that real GDP is expected to grow at 1.9 and 1.8% in 2019 and 2020 respectively. These forecasts, which are downward revisions compared to the last spring and autumn forecasts, may be further revised downwards due to, among other things, developments in the global environment, from the economic consequences of the impending Brexit to the possible escalation of trade protectionism and its impact on major European industries, to the spread of turmoil in financial markets.

Policymakers running low on ammunition to tackle challenges

The massive losses in jobs and employment (see Chapter 2) caused by the Great Recession in several parts of the EU are a particularly challenging reality for working people and policymakers alike. The variation in labour market performance across Member States notwithstanding, the output growth rates that the EU economy as a whole seems capable of sustaining at the moment do not suffice for stimulating the use of labour at a pace fast and sustainable enough to remedy the losses of the recession years.

On the other hand, if another shock were to affect the EU economy and especially the eurozone, policymakers would find themselves short of ammunition for tackling it. Interest rates have been at virtually zero since 2012 while for several years now the ECB and other major central banks have been implementing programmes of buying private and public financial assets in a bid to further reduce the financing rates of private sector companies (see p. 21). Private debt-to-GDP ratios are still much higher than prior to the crisis (see p. 13), suggesting that the private sector is likely to have been paying off its debt rather than prioritising investment. National fiscal policies, especially in the eurozone, still appear to be steered by the EU fiscal rules and a concern about the public debt-to-GDP ratio, the foundations of which are questionable (Blanchard 2019). Last but not least, the most recent push for reforming and deepening the EMU institutional architecture has not delivered the hoped-for outputs, creating uncertainty about how high the costs of a future adverse economic shock would be for the Member States that are affected.

At the same time, recent extreme weather phenomena in the northern hemisphere have delivered stark reminders of the potential consequences of inaction on the problem of climate change and the political and economic challenges that it poses. While the question of whether policies in economically advanced countries should deliberately steer economies to zero growth in order to save on resources and reduce emissions remains controversial, it is clear that the necessary transition will have to be just to be politically feasible and will require financial resources. Shrinking output makes the question of fairly distributing the costs of such a transition even more complicated.
Uneven developments in average living standards in Member States

Figure 1.2 shows for each Member State, the EU28, the EU15 and the euro area, the forecasted real GDP per capita growth rate for 2018 and compares it with the average annual real output per capita growth rates for the 2008–2012 and 2013–2017 periods, as well as with the currently forecasted average annual growth rates for 2019–2020.

Countries are ranked according to the strength of their output growth during the recovery period.

The recovery in real output per capita growth (in the 2013–2017 and 2017–2018 periods) was uneven across EU Member States. Some of the countries whose output per capita growth rates declined the most between 2008 and 2012 experienced relatively stronger growth rates from 2013 onwards, while others, most notably in southern Europe, experienced below average recovery despite their great output losses during the crisis.

Despite positive real GDP per capita growth rates, growth has been weak, especially considering the magnitude of output losses during the recession. In 23 Member States, growth during the recovery period (2013–2017) has counterbalanced any losses from the double downturn (2007–2012). However, in 15 out of these 23 countries (Estonia, Slovenia, Croatia, Spain, Portugal, Sweden, the Netherlands, Denmark, the UK, Belgium, France and Austria) annual average growth rates over the 2007–2017 period were below 1%, and in only 3 out of these 15 (Estonia, Sweden and Germany) were they above 0.5% per year, suggesting that in the rest, average living standards barely improved during the 2007–2017 period.

In five Member States (Cyprus, Italy, Finland, Greece and Luxembourg) the average living standards in 2017 were lower than in 2008, while the average annual real output per capita growth rates in these countries were slower during the recovery period (2013–2017) than during the recession (2008–2012). All of them, bar Cyprus, had growth rates during the recovery period below the EU, EU15 and EA averages. Italy is also forecasted to grow more slowly than all EU/EA averages over the 2018–2020 period.

Ten Member States’ real GDP per capita grew at average annual rates above 1%, and in seven of these (Ireland, Romania, Malta, Lithuania, Bulgaria, Poland and Slovakia) real GDP per capita grew at rates that ranged from 2.3% (Slovakia) to 3.23% (Poland) per year.

In 24 out of 28 Member States, the recovery has already peaked, as their annual average growth rates in real GDP per capita are expected to slow down during the 2018–2020 period compared to 2013–2017.

On average, the euro area and the generally richer EU15 fared worse than the EU as a whole, reflecting the relatively better growth developments in several of the newer and (until the crisis) generally poorer Member States.
Economic developments: upwards convergence in GDP per capita

Upwards convergence in GDP per capita in the EU

One of the objectives of the European economic integration project, as it is laid out in Treaty texts but also in fundamental policy programmes such as the cohesion and regional policies, has been the reduction of economic and social disparities among its Member States. This has been a particularly attractive promise for poorer Member States joining the EU at various stages of enlargement, including the last large wave in 2004. Up until 2008, when the global financial crisis began, the objective had been achieved to varying extents (see Figures 1.3 and 1.5). The 2008–2017 period, however, saw a slowdown of the convergence process, whereby Member States with lower GDP per capita grew at faster rates than those with higher GDP per capita (figure 1.4), while overall within the EU there have been indications of ‘upwards divergence’ (figure 1.5), that is, of a rising average GDP per capita for the area as a whole, with a wider dispersion of real GDP per capita across Member States (Mascherini et al. 2018).

The catching-up process, whereby Member States with lower GDP per capita grow faster than those with higher GDP per capita (also known as ‘unconditional beta-convergence’), slowed down during the 2008–2017 period (see the comparison between Figures 1.3 and 1.4). Overall, the data provided here suggest that for the entire 1995–2017 period, this catching-up process has been ongoing but it was stronger between 1995 and 2007. Several of the new, lower GDP per capita grew at faster rates than those with higher GDP per capita (figure 1.4), while overall within the EU28 there have been indications of ‘upwards divergence’ (figure 1.5), that is, of a rising average GDP per capita for the area as a whole, with a wider dispersion of real GDP per capita across Member States (Mascherini et al. 2018).

The catching-up process, whereby Member States with lower GDP per capita grow faster than those with higher GDP per capita (also known as ‘unconditional beta-convergence’), slowed down during the 2008–2017 period (see the comparison between Figures 1.3 and 1.4). Overall, the data provided here suggest that for the entire 1995–2017 period, this catching-up process has been ongoing but it was stronger between 1995 and 2007. Several of the new,
and also some of the poorest, Member States from the EU15 group got caught in balance-of-payment crises, which, following the receipt of financial assistance from other Member States, the EU and the IMF, led to rather abrupt adjustment processes and deep (and in some cases long) recessions.

The EU28 average GDP per capita increased for most of the 1995–2017 period. This, however, does not mean that Member States were converging towards the higher average throughout that period. As can be seen in Figure 1.5, the trend between 1995 and 2007 was one of divergence that changed in intensity (stronger between 1995 and 2000 and then again between 2004 and 2007). However, between 2008 and 2015, there were spells of ‘upwards divergence’, whereby although the average GDP per capita grew, Member States diverged in their GDP per capita (Mascherini et al. 2018). From 2015 onwards, there was a clear pattern of upwards convergence, with both the EU28 average GDP per capita increasing (albeit not at a very fast rate) and a convergence among Member States towards it.

Definitions and typology of convergence

There are different ways of defining and measuring convergence, which depend on underlying assumptions about what drives it. Here we focus on two:

- Unconditional convergence (also known as ‘beta-convergence’): this is the convergence of a variable of interest (for example, GDP per capita or wage share) to the same average.

- Sigma convergence: this is the process whereby Member States with lower GDP per capita experience relatively higher growth rates than Member States with higher GDP per capita. Sigma convergence is a necessary condition for unconditional convergence: in other words, for unconditional convergence to happen, poorer Member States have to ‘catch up’ (by growing faster) than richer Member States.

When convergence takes place, however, it does not necessarily follow that it is upwards. It is possible that, for example, the average GDP per capita falls and Member States converge to that declining average. While this means that disparities are being reduced, it also implies that living standards are generally declining. It is also possible that the average GDP per capita may increase but, on average, Member States do not converge to it.

For these reasons, we adopt the terminology of Mascherini et al. (2018), defining upwards convergence as a process whereby the average of the indicator of interest increases and disparity amongst the Member States’ performance in that indicator is reduced. We use ‘unweighted’ averages (that is, averages calculated without taking into account the different sizes of Member States) and the standard deviation (a measure of dispersion) of Member States around this average to characterise whether upwards/downwards convergence/divergence has been taking place.
Challenges for workers in Europe: potential output growth

Figure 1.6 Average annual growth rate (%) of potential GDP in EU Member States, 1999–2020 (f)

Source: own calculations using AMECO data (OVCORP series).

Slowdown in average annual growth rates of potential GDP

During the Great Recession, the vast majority of the EU Member States not only suffered drops in the growth rate of their actually produced GDP but also in the growth rate of the GDP that their economies can potentially produce. A slower potential output growth rate, especially in the aftermath of a recession, suggests that the recovery in output and employment growth may be constrained at a level that is insufficient for recreating the jobs that were lost during the Great Recession and for allowing new labour market entrants to find well-paid jobs.

Figure 1.6 shows the average annual growth rate of potential GDP in the EU Member States and the US for subperiods running from 1999 to 2020, ranked by the average annual growth rate in potential GDP during the crisis period (2007–2017). We can see that average growth rates were higher in 1999–2006 than in 2007–2017 for all Member States bar Malta and Germany. There was hardly any difference in average annual growth rates of potential GDP between the two periods for Poland and Romania, while average annual growth rates of potential output were higher in Denmark, France and Belgium for the 1999–2006 period compared to 2007–2017 by only less than one percentage point. Average annual growth rates of potential GDP are forecasted to accelerate in the 2018–2020 period for the EU, EU15 and euro area as a whole but they will still remain below the growth rates of the 1999–2006 period. In many Member States, however, even the projected growth rates for 2018–2020 are expected to stay well below what they were in 1999–2006.

Up until the Great Recession, EU policymaking and the public debate were mostly informed by supply-side explanations, thus focusing on the need for structural reforms – that is, reforms in principally the product and labour markets and the business environment – as ways of stimulating potential output growth. However, the experience of the Great Recession has attracted renewed interest in the fact that demand-side factors matter in shaping potential output growth, especially in the aftermath of lengthy periods of weak demand, when it is well below potential output. Weak demand can result in low expectations, leading to weak investment and eventually lower capital stock. The longer spells of unemployment that often go with it can lead to unemployed workers becoming effectively excluded from the labour market. These findings have been informing calls for a more decisive and sustained use of active demand management policies and for higher wage increases, which would feed into consumption and investment behaviour, thus eventually stimulating productivity growth (Ball 2014; Fatás and Summers 2016).

The debate about which policies are more important for enhancing the production potential of economies is ongoing and has also been informing the discussion on economic convergence and resilience in the euro area and the EU more broadly. At the EU level, and particularly in the Council, the policy initiatives that seem to be advancing the most are, however, still those informed by the supply-side and institutional quality explanations (examples include initiatives on a capital markets union, the Single Market, and an EU budget programme on funding for reforms). Steps towards ensuring a more active use of counter-cyclical policies, meanwhile, especially in the eurozone (for example, the establishment of a fiscal capacity) seem to have stalled.
Challenges for workers in Europe: scars from the Great Recession

Slowdown in labour productivity growth

Labour productivity growth, measured as real output per hour worked, slowed down in 2008–2017 compared to 2000–2007 (see Figure 1.7 above) in all but three EU Member States (Ireland, Malta and Spain). While in several countries it is expected to accelerate in 2018–2020, it will still not grow as fast as in 2000–2007. In the medium and long term, growth in labour productivity provides the material base for sustainable real wage growth, so these figures constitute a stark projection for workers. In fact, given that in many Member States labour productivity gains have not been fully translating into real wage increases for quite some time (see Chapter 3 and also Pasimeni 2018, Theodoropoulou 2019), the slowdown in labour productivity growth is likely to have an even greater adverse effect on real wages unless policy action is taken.

Labour market slack still higher than in 2008

The persistent weakness in wage growth despite the recovery in output growth rates (see again Chapter 3) has in the past few years brought attention to alternative indicators of labour market conditions beyond the standard unemployment rate, such as the so-called labour market slack (see box for definition) and the extent to which the jobs created are precarious (see Chapter 2). Figures 1.8 and 1.9 (see next page) show the evolution of labour market slack for the EU Member States at three different points in time (the beginning of the recession, the beginning of the recovery period, and relatively recent quarterly data for 2018Q2) and for the euro area for the entire 2008–2017 period (most recent annual data). As can be seen in Figure 1.9, unemployed persons accounted for only about half of the total labour market slack in the euro area in 2017. We see that in 12 Member States (Greece, Spain, Italy, Ireland, Cyprus, Portugal, Belgium, Luxembourg, the Netherlands, Estonia, Denmark and Slovenia), labour market slack increased between 2008Q2 and 2013Q2, and although it was lower in 2018Q2 than in 2013Q2, it was still clearly higher than in 2008Q2. In the UK, Slovakia, Bulgaria, Romania, Germany, Lithuania, Poland, Hungary, Malta and Czechia, labour market slack in 2018Q2 was clearly lower than in 2008Q2 and 2013Q2. Germany was the only country in which labour market slack was lower in 2013Q2 compared to 2008Q2.

In the euro area, the share of unemployed persons, underemployed part-timers and those available for work but not seeking employment (what one could consider as ‘discouraged jobseekers’) in the labour force (according to its extended definition: see box) has declined since its peak in 2013–2014 but was still higher in 2017 compared to 2008. It was only the share of those seeking employment but not available to start work within two weeks that was somewhat lower compared to 2008.

Labour market slack provides a broader picture of labour underutilisation compared to the unemployment rate. It is calculated as the ratio of two sums. On the one hand, there is the sum of the unemployed, under-employed (part-time workers who would like to work more hours but cannot find jobs offering this) and those who are ‘marginally attached’ to the labour market (those available to start work within two weeks but not seeking and those seeking work but not available to start within two weeks). This sum is then divided by the sum of the categories of unemployed, employed and those marginally attached to the labour market, which is an ‘extended’ definition of the labour force.

Figure 1.7 Labour productivity (real GDP per hour worked) in the EU, 1996–2020 (f)

Source: own calculations using AMECO data (OVDG and NLHT).
Challenges for workers in Europe: scars from the Great Recession

Figure 1.8 Labour market slack in the EU Member States (percentage of extended labour force aged 15–74), 2008Q2, 2013Q2 and 2018Q2

Source: own calculations using Eurostat LFS data (lfsq_ugan, lfsq_egan, lfsq_sup_age series).

Figure 1.9 Labour market slack by category (percentage of extended labour force aged 15–74) in the euro area, 2008–2017

Source: own calculations using Eurostat LFS data (lfsa_ugan, lfsa_egan, lfsa_sup_age series).
**Challenges for workers in Europe: unequal distribution of income growth**

During the recent crisis, we not only observed a slowdown/negative turn in output growth rates but also a more unequal distribution of income within several Member States. Increasing income inequality has been a longer-term phenomenon dating back a few decades. Apart from its negative repercussions for the lives and chances of ordinary citizens, greater income inequality can also act as a drag on output growth (Ostry et al. 2014).

On average, income inequality rose slightly during the recession phase of the 2008–2017 period, mostly among the EU15 (‘old’) Member States rather than the EU13 (‘new’ 2004 accession) Member States (Figure 1.10). The dynamics of income inequality had been fairly different in the two large groups of Member States since the late 1980s, despite the fact that the trend during the 1988–2016 period had been one of increased inequality for both groups. In the EU15, income inequality, measured by the Gini coefficient, rose in the late 1980s and then remained largely stable between 1994 and 2005, meaning that it had started increasing even before the economic and financial crisis began and it only began declining modestly in 2015. In the EU13, on the other hand, income inequality rose sharply in the early years of transition in the early- to mid-1990s and continued rising, albeit at a more modest pace, until 2005, when it began to decline, converging to the level of income inequality in the EU15. During the second part of the EU recession (2011–2013), income inequality in the EU13 rose again, in line with that of the EU15, but started declining earlier (in 2014) and more sharply than in the EU15.

**Figure. 1.10 Income inequality (Gini coefficients, 0–100) (EU28, EU15, EU13) (1988-2016)**

Note: the Gini coefficients used above illustrate the (in)equality in income distribution among households across the pictured groups of countries rather than as averages of the national Gini coefficients.

**Figure 1.11 Income inequality (Gini coefficient, 0–100) (EU Member States) (2008, 2013, 2017) (2008–2017, change in percentage points)**

Source: own calculations using Eurostat-EU-SILC data (ilc_di12 series).
Challenges for workers in Europe: unequal distribution of income growth

Figure 1.11 shows the Gini coefficients for individual Member States in 2008, 2013 and 2017 and their change (in pp) between 2008 and 2017. Income inequality measured by this indicator was higher in 2017 compared to 2008 in 10 Member States (Bulgaria, Luxembourg, Lithuania, Hungary, Sweden, Denmark, Cyprus, Spain, Italy, Estonia and Slovenia). Interestingly, these are some of the countries with the highest and the lowest income inequalities prior to the crisis.

Increases in income inequality can be the outcome of developments in various aspects of the distribution of output growth, including the distribution of output growth between labour and capital. Figure 1.12 shows that the adjusted wage share – that is, the ratio of the compensation per employee over labour productivity (per person employed) – has been following a downward trend in the 'old' members of both the EU (EU15) and the euro area (EA12) for which there are available data since the 1960s (AMECO database). The rate of decline somewhat slowed down in the 1990s and the 2010s, after having peaked in the early years of the crisis, as GDP declined sharply whereas employment and compensation only followed with a lag. These developments reflect not only longer-term structural trends (technological change, globalisation and financialisation) in Europe (Dao et al. 2017, OECD 2012, Stockhammer 2017), but also specific economic, policy and institutional developments, often in response to these trends, in the different groups of countries. Recent research has suggested that the deregulation of employment protection legislation can explain up to 15% of the decline in the labour share in advanced economies since the 1970s (Ciminelli et al. 2018). Such policies have been heavily advocated, originally as remedies for the high European unemployment in the 1990s and more recently as a means of promoting faster total factor productivity growth.

Figure 1.12 Adjusted wage share (%) in the EU15 and euro area (EA12), 1960–2017, and in the EU (including new Member States), 1995–2020 (f)

Source: AMECO database (ALCD2 series).
Note: EU15 and EA12 included West Germany data until 1991.
Sustainable recovery?
Developments in aggregate demand

Several factors have been underpinning the relatively modest (compared to the length of the stagnation period) recovery in the European economy and the increases in income inequality. In what follows, we examine the components of aggregate demand and some of the developments that have been driving them, not least the developments in macroeconomic policies, in order to illustrate the channels through which aggregate demand could be strengthened.

Compared to the most recent recoveries, in 1996–2000 and 2003–2006, the contribution of investment and of private and public consumption has been relatively weak in the present recovery, whereas for an economy as large as the EU, net exports have been making sizeable contributions to GDP growth, especially since 2010. Figure 1.13 shows the contribution of different components of aggregate demand to yearly real GDP growth from 1996 to 2018 for the EU. The euro area presents an almost identical picture.

Private consumption

Private final consumption is usually the largest component of GDP and aggregate demand, with its share often accounting for over 50% of GDP. It is also relatively non-volatile in recessions, as households need to keep spending on necessary items such as food, fuel and so on. A healthy final consumption demand growth can also create incentives for higher investment in capital, as it fosters expectations of high demand and incomes in the future. This is why cushioning consumption spending from negative shocks, through the use of taxation and unemployment benefits (fiscal policy), is one of the targets of government stabilisation policies.

Growth in private final consumption expenditure was positive during the 2013–2018 period, rising since its slowdown in 2008–2012 in all EU Member States, although there were large variations in the strength of this recovery. Graph 1.14 shows the annual growth rate of real private final consumption for individual Member States for three time periods: 1996–2007 (before the crisis), 2008–2012 (the recession period), and 2013–2018 (the recovery period). In all cases, the average annual private final consumption growth in the recovery period has been slower than the average annual growth in 1996–2007. The strongest average annual growth rates during the recovery have been mostly registered in the ‘new’ Member States, although several ‘old’ Member States (the UK, Portugal, Sweden, Spain, Luxembourg and Ireland) also had growth rates above the EU and euro area averages. The group of Member States with relatively strong average annual growth rates in private consumption in 2013–2018 includes all those countries that underwent drastic economic adjustment programmes as a condition of receiving international financial support (bar Greece) and those countries that suffered most from the recession. Nevertheless, in Greece, Spain, Italy, and Croatia, the real consumption levels in 2018 are still below their 2008 values, with Portugal coming in just slightly above.
Sustainable recovery?
Developments in investment

Investment growth is too weak to compensate for lost years

Investment (gross fixed capital formation) growth in the EU as a whole has been positive, albeit weaker than in previous recoveries. Since 2013, its average annual growth rates for the EU (2.8%) and the euro area (2.9%) have been somewhat stronger than what they were in 1999–2007 (see Figure 1.15) and this is expected to continue over the 2018–2020 period. Gross fixed capital formation is forecasted to contribute about 0.65 pp to EU and 0.67 pp to euro area GDP growth in 2018.

The forecasts for growth in investment for 2018 in individual Member States vary substantially. In several new Member States (Latvia, Bulgaria, Lithuania, Cyprus, Czechia, Slovenia, Slovakia, Hungary and Poland), but also in older Member States (Denmark and the Netherlands), the forecasts are for a growth rate faster (and in some cases much faster) than 5% in 2018, almost more than twice as fast as the EU average. Romania, Croatia and Portugal follow closely with forecasts of between 4 and 5%. In most cases, however (except for Romania and Croatia), the forecasted investment growth rates for 2018–2020 are expected to be slower. On the other hand, Greece, Ireland and the UK stand out with their negative or zero forecasted growth rates for 2018 even though in the former two, investment is expected to pick up briskly in 2018–2020.

These forecasted growth rates come in the aftermath of an investment gap that emerged during the financial and economic crisis (compared to the average annual growth rate of investment in 1999–2007) and which in most cases had not closed by 2017. Although the average annual growth rate of real investment was positive in all EU Member States between 2013 and 2017, average annual growth rates were still very unequal across Member States (see Figure 1.15). While Cyprus (12.4%), Ireland 11.6%), Hungary (6.6%), the Netherlands (5.5%) and Slovakia (5.7%) saw particularly strong increases above the European weighted mean (3.4%), Estonia and Greece remained at annual growth rates of below 2%. What is more, the positive average annual growth rates registered in 2013–2017 barely made up for the large losses in 2008–2012 in many Member States, such as in Latvia, Romania, Bulgaria, Estonia, Lithuania, Croatia, Cyprus, Greece, Slovenia, Hungary, Denmark, Finland, France and Italy.

Paying off debt holds back private consumption and investment

A possible drag on the strength of the current recovery, at least as far as private sector consumption and investment are concerned, is the process of 'deleveraging', whereby households and firms prioritise paying off their debts instead of spending their income on consumption or investment (Koo 2009). Figure 1.16 shows the private sector debt-to-GDP ratio for 1999, 2009 and 2017 and the maximum level during these years. In most Member States, and especially in those where there were sizeable increases in the private debt-to-GDP ratio between 1999 and 2009, households and (non-financial) firms have been reducing their gross debt levels relative to GDP from the maximum amounts that were typically reached between 2009 and 2016. For many countries, however, private debt levels are still fairly close to their 2009 levels. As balance sheets are still not in order for some households and firms, those affected make paying off debt their priority.
1. Macroeconomic developments in Europe: tackling the growth, inequality and climate change challenges

The flip side of the coin, underpinning the weakness in investment in some cases (especially in Member States that suffered deep recessions), are the balance sheets of banks, most notably the share of ‘non-performing loans’ or ‘non-performing exposures’ on their total loans. These weigh down on banks’ capacity to extend credit for investment. The combination of high debt and low growth have led to late payments or even defaults on the part of bank customers, eventually forcing write-downs on loans. As loans are assets for banks, writing down non-performing loans is a process fraught with difficulties, and a lengthy one at that. With the exception of Greece, most countries with a problematic share of non-performing loans should have been able to reduce it by one third to one half from June 2016 to June 2018.

Public investment not growing fast enough

Although only a small part of total investment in advanced economies, public investment is of special importance: it provides for physical and human infrastructure and it can support the private sector in undertaking risky activities, such as investment in innovation (Mazzucato 2013) and renewable forms of energy, all necessary for the smooth functioning and sustainable long-term growth of an economy. It can also play an important role in limiting the effects of technological advances as regards inequality (Atkinson 2015). It is therefore all the more worrying that public investment has not played a lead role in combating the perceived investment gap to counter the shortfall in private investment.

In 2018, real public investment is expected to grow at 7% in the EU and at 6.2% in the euro area, 1.4 and 1.8 pp faster than their respective average annual growth rate in the 2001–2007 period. This performance follows a collapse in public investment growth rates during the economic and financial crisis, with annual averages near or above -2% during the recession years and around 1% per year during the recovery. The average annual rates of public investment are expected to have grown faster in 2018 than during the economic and financial crises in all Member States bar Finland, Denmark and Italy. However, in 2019–2020, the rate is expected to slow down in 15 Member States.
Macroeconomic developments in Europe: tackling the growth, inequality and climate change challenges

**Sustainable recovery? The euro area's current account surplus**

**Figure 1.18 Current account balance (percentage of euro area GDP) for euro area and EU Member States (2008–2017)**

Source: own calculations using AMECO data (UBCA series).

An asymmetric rebalancing of current account imbalances

In 2018, the current account surplus of the euro area with the rest of the world as a share of GDP is expected to slightly decline to 3.7% of GDP (or 444 billion euros), from 3.8% of GDP in 2017 and following its continuous increase since 2008 when there was a small deficit (see Figure 1.18). This arguably large (for an economy as big as the euro area) current account surplus indicates that the area’s economy as a whole exports more than it imports and would be particularly vulnerable to a decline in global trade, should a trade war escalate.

The persistently large current account surplus of the euro area with the rest of the world also implies that the area as a whole has been lending and/or investing pretty much the equivalent amount of its current account surplus to the rest of the world. This is potentially dangerous for global financial stability: if for any reason, the optimism of investors/lenders from the euro area changed for the worse, then these flows of capital from the euro area to the rest of the world could suddenly stop, plunging the recipient economies in the rest of the world into crisis, which could easily spread across financial markets, banking systems and governments (public debt), as happened in 2008.

This persistent current account surplus also suggests that investment in the euro area could not only help heal the scars of the crisis and facilitate the transition to a greener model of economic growth, but also help reduce this surplus with the rest of the world. This is especially true for those Member States that got entangled in balance-of-payment, banking and public debt crises after 2010, having to reduce their current account deficits sharply within a few years, mostly by suppressing domestic demand and imports and allowing unemployment to skyrocket. In this respect, the macroeconomic imbalances procedure (MIP), established under the ‘Six-Pack’, while generally a step in the right direction, has failed to contain the excessive surpluses in some Member States.
Sustainable recovery? Tackling climate change

Decoupling greenhouse gas emissions (GHG) from GDP growth: a net zero-carbon economy by 2050 is still possible without giving up economic growth

In December 2018, 196 countries and the European Union signed up to the 'Katowice Climate Package' to operationalise the climate change regime set out by the Paris Agreement. The rulebook (a single set of rules for all countries) adopted to underpin its implementation was necessary for the Paris Agreement to enter force in 2020. This step constituted the absolute minimum to keep the global climate policy ambition set out in Paris alive, but the COP24 in Katowice fell short of producing more ambitious climate pledges in order to collectively meet the temperature goals of the Paris Agreement. Several dozen countries and the EU, as members of a 'High Ambition Coalition', pledged to 'step up' their climate policy ambition by 2020.

At the same time, global CO2 emissions keep rising at an alarming pace. The report of the Global Carbon Project (2018) estimates that global CO2 emissions from fossil fuels and industry will rise by 2.7% in 2018 – a sharp increase after three years of stagnation between 2014 and 2016 and a 1.6% rise in 2017 – and will reach an all-time high of 37.1 billion tonnes. Climate models estimate a remaining global carbon budget of 118 billion tonnes of CO2 between 2018 and 2100, if temperatures are to be kept well below 1.5°C. This amounts to approximately three years of current emissions until the budget is exhausted (Hausfather 2018).

In October 2018, the UN Intergovernmental Panel on Climate Change warned the world to keep the increase in global temperatures at a maximum of 1.5°C (IPCC 2018), beyond which even half a degree will significantly worsen the risks of drought, floods, and extreme heat. The panel urged the implementation of policies that will bring about the needed changes in carbon use, which it said were technologically feasible.

For the EU, the European Environment Agency’s (EEA 2018) annual ‘trends and projections’ assessments show an increase of emissions by 0.6% in 2017 from 2016. Although the EU is still on track to achieve its 2020 emissions reduction target, it will be by a narrower margin than expected. National measures will need to be urgently stepped up to achieve the EU’s new reduction targets for 2030 and a radical change will be necessary to reach net zero emissions by 2050, consistent with the Paris targets.

Against this background, it is no wonder that the voices of those arguing that climate policy objectives can only be met with no-growth or de-growth scenarios, at least for developed economies (DeGrowth 2018), have become louder. However, is the necessary radical reduction of GHG emissions possible without giving up continuous economic growth? Several authors have shown that in fact the decoupling of emissions and incomes is already happening (Cohen and Loungani 2018).

When looking at the yearly rate of decoupling GHG emissions from GDP, identical change rates of both GDP and GHG emissions means that no decoupling takes place. Relative decoupling takes place when GDP increases faster than GHG emissions, while absolute decoupling denotes an absolute decrease of emissions while GDP grows.

Using the latest available data, Figure 1.19 shows real GDP growth and GHG emissions for each Member State and the EU28 between 1990 and 2016 to illustrate that the decoupling of GDP from GHG emissions is indeed happening in Europe. While the EU had a cumulative real GDP growth rate of 45.4% in this period (at a 1.45% compound annual growth rate), GHG emissions were down by 22.5% (at a 0.98% compound annual rate of reduction). The figure also reveals

![Figure 1.19 Decoupling greenhouse gas emissions from GDP, 2017, percentage change (1990=100)](image-url)

Source: EEA, Eurostat.
huge differences by Member State, both in terms of GDP growth and GHG reductions. While all Member States saw positive GDP developments over the 26-year period, there was great disparity: cumulative GDP growth in Italy was a mere 19% while in Ireland it was a staggering 290%. Only five countries did not manage to reduce their GHG emissions (Austria, Cyprus, Spain, Ireland and Portugal); the rest achieved reductions in GHG emissions to a varying extent. There was thus a wide range of developments in emissions across Member States, from a 52% increase in Cyprus to a 51% decrease in Latvia. The decoupling of GHG emissions from GDP growth was the most pronounced in Slovakia and the Baltic states, which all had robust growth on the one hand and significant GHG reductions on the other.

As regards the rate of decoupling for the EU as a whole, we used compound annual rates for both GHG and GDP change for the 26-year period and found that the EU28 achieved a yearly average of 0.98% in emission reductions and 1.45% real annual GDP growth. This corresponds to an annual decoupling of GHG emissions from GDP by 2.43%. Although this signifies absolute decoupling, it is nowhere near enough to meet the Paris climate policy targets. For that, at least a 95% GHG emission reduction (on the basis of the 1990 level) would need to happen by 2050. While by 2016 (latest available data) GHG had been reduced to 77.5% of the 1990 level, over the next 34 years a further reduction to 5% of the 1990 level is needed. This means a yearly average GHG reduction rate of 7.74% and, assuming the average GDP growth rate will continue at 1.45% a year, a yearly decoupling rate of 9.19%.

This is a decoupling intensity of almost four times what we have achieved so far. The mid-century carbon roadmap soon to be launched by the Commission should step up the climate policy ambition of the EU accordingly.

Renewable energy investment in the EU: in 2017, 50% down from its 2011 peak

In order to accomplish the radical revision of our growth model and manage the necessary reduction of GHG emissions by mid-century, two major transformations need to take place: one in the energy sector and one in the transport and mobility sector. Both will require huge levels of investment. Here we look at investment in the energy sector, with a focus on clean energy generation.

Europe passed a new landmark in energy generation in 2017, because for the first time a greater part of its electricity supply came from renewable sources than from coal (Agora Energiewende and Sandbag 2018). However, in investment in renewables it is seriously lagging behind China, the global leader, and even the EU’s own past performance.

Figure 1.20 shows that investment in renewable energy by the EU27 in 2017 was a mere 50% of the level in 2011 and 30% less than in 2016 (Frankfurt School-UNEP-BNEF 2018). In 2011 China still invested a mere third of what the EU did in clean energy, but in 2017 this had increased to almost two and a half times more than the EU amount. The EU had a 45% share in global clean energy investment in 2011 but by 2017 this had fallen to 15%, while China’s share rose to 40% in 2017. Within Europe, both Germany and the UK saw big drops in clean energy investment, while in Spain (once a leader in renewables) investments in clean energy have collapsed in the past couple of years.

The enduring weakness of investment activity in renewables in Europe is also in contrast to the high level of still existing fossil fuel subsidies across its Member States. Depending on the methodology and definition, estimates (by the OECD and the IEA) for combined fossil fuel subsidies in the EU range from EUR 39 billion to over EUR 200 billion per annum (Hayer 2017). The IMF, which also takes environmental externalities into account, arrives at a higher estimate (Coady et al. 2015). In all cases, however, fossil fuel subsidies in the EU are still higher than investments in clean energy. Moreover, investment support is also provided on a large scale for fossil fuel use and generation. Between 2013 and 2017, the EIB provided up to EUR 11.8 billion in funding for fossil fuel projects. This amount was almost 30% of its total lending in the energy sector. Although this figure is lower than its funding for renewables (which was EUR 18.4 billion in the same period), funding for renewables actually decreased in that period, while funding for fossil fuel investments increased (Bankwatch 2018).

The European Fund for Strategic Investments also provides significant funding for fossil fuels (in particular, gas infrastructure), leveraging EUR 1.5 billion for additional investments in fossil fuel infrastructure.

Given the huge amount of investment needed to create a net zero-carbon economy, the continuing underinvestment in renewable energy is a policy mistake that urgently needs to be corrected. Moreover, the problem is not only underinvestment; the allocation of existing resources is also dysfunctional, as the case of fossil fuel subsidies and funding show. Clear policy objectives and a more coherent policy framework is necessary to turn around these negative trends.
Macroeconomic policy developments: fiscal policy and public debt

A new framework for fiscal policy coordination is needed

The fiscal policy stance is expected to be broadly neutral (that is, neither expanding nor contracting) in 2018 but nevertheless somewhat more expansionary than in 2017 in both the euro area and the EU (see Figure 1.21). This fiscal stance follows a couple of years of moderate expansion in the euro area and a contraction in the EU in 2016, as well as the arguably misguided fiscal austerity from 2010 to 2013 in the EU, and to 2014 in the euro area. As output growth is expected to slow down from 2018 onwards, the aggregate fiscal stance in both the euro area and the EU are projected to become more expansionary. For 2018, the fiscal stance of most Member States is expected to have been on the expansionary side, with the exception of Germany, Estonia, Cyprus and the UK (see figure 1.22). This is a switch from 2017 when most Member States consolidated their public finances, except for Germany, Estonia, Greece, Italy, Cyprus, Latvia, Hungary, Poland and Romania.

In line with the EU fiscal rules (the Stability and Growth Pact), the ‘broadly neutral’ fiscal stance in the EU and the euro area has been considered as ‘appropriate’ by both the European Commission and ECOFIN, given the recovery in output growth and the increases in public debt-to-GDP ratios during the economic and financial crisis. The logic goes that as output has been growing recently and the ‘output gap’ is positive, this is the time to build up fiscal buffers, that is, reduce budget deficits and build up surpluses so as to have space to allow them to expand when a negative shock hits again. However, there are several considerations that cast doubt on this view. The first consideration is that basing policy recommendations on measures that depend on current calculations of the output gap of an economy (the difference between actual and potential output) is likely to result in a fiscal policy that is too tight when it should be expanding or too loose when it should be tightening. In this respect, targeting ill-measured structural budget deficits is likely to lead to erroneous policy recommendations (see box, p. 19). The fact that core inflation, especially in the euro area, remains well below the 1.9% target of the European Central Bank is further evidence that the way the output gap for the euro area is currently calculated is most likely wrong, and that there is scope and indeed a need to stimulate the eurozone economy further. Contrary to the recommendation of the European Fiscal Board (2018) for 2019, in most Member States it is not yet time to build up fiscal buffers.

The second consideration that calls into question the appropriateness of a neutral fiscal policy in the euro area is the relative priority that it assigns to reducing the public debt-to-GDP ratio faster than the rate at which the scars left by the crisis are healed, especially given that monetary policy is at zero interest rates (see p.21). Following the introduction of the ‘Six-Pack’ in 2011, the public debt-to-GDP ratio and the speed at which it is being reduced also enter into the considerations for determining whether a Member State complies with the fiscal rules, thus effectively adding pressure on Member States to prioritise their reduction by running primary surpluses.

Figure 1.21  Fiscal policy stance (change in government structural budget balance excluding interest, percentage points of potential GDP) EU and euro area, 2010–2020 (f)

Source: AMECO data (UBLGPS series).
1. Macroeconomic developments in Europe: tackling the growth, inequality and climate change challenges

Figure 1.23 shows the evolution of the gross public debt-to-GDP ratio from 2008, when the economic crisis began. Public debt in the European Union rose from 60.7% to spike at 88.1% in 2014 and has only diminished slightly from its peak to 81.4% in 2018. In the euro area, it is forecasted to be somewhat higher at 86.9%. Both figures are well above the threshold of 60% stipulated by the Maastricht Treaty and enshrined in European fiscal rules.

The European aggregate number conceals the wide variety of public debt levels that correspond to different initial levels in 2008 and ensuing economic developments in the respective economies. While all countries have seen their debt increase from 2008 to 2014, the increases have varied in size. The typical pattern for most countries is a slow fall in the debt level after 2014 which, by 2018, nevertheless remained far above its level of a decade earlier. A few countries managed to decrease their public debt-to-GDP levels compared to 2008: Germany, the Netherlands, Malta, and Denmark. At the opposite end of the spectrum, several countries have not been able to decrease their debt ratios since 2014 (or only barely). Among them are countries that received financial support (Greece, Portugal, Spain, Cyprus, Latvia and Romania) and countries that did not (Italy, France, Slovenia and Finland).

A notable exception is Ireland, whose public debt-to-GDP ratio has been declining relatively fast, even after taking into account the effects of the controversial jump in GDP growth figures in 2015. The weak recovery in many Member States explains, to a significant extent, the sluggish reversals.

This is all the more striking as the monetary policy stance has been easing the burden of paying back public debt. When effective interest rates on government debt are lowered below the nominal GDP growth rate of an economy and when these interest rates are also at zero, the government may apply an additional fiscal stimulus to the economy without impacting the public debt-to-GDP ratio because its costs of borrowing do not increase. Moreover, the ECB and national central banks have bought up government bonds, thereby driving down interest rates on them. By now, over 15% of public sector debt is held by the European System of Central Banks as a result of the ECB’s public sector purchase program. However, this has not been exploited much in most European economies.

Short of scrapping the EU fiscal rules in their current form, a way forward could be the adoption of the ‘golden rule’ for investment, whereby investment expenditure is exempted from the calculation of budget deficits that may trigger an excessive deficit procedure (Feigl and Trueger 2015). Extending the definition of investment to include spending on social investment (for example, for the provision of early childhood education), which is likely to stimulate long-term growth and mitigate income inequalities, would also help. This would allow countries which may have suffered recessions and reductions in their capital stock to regain lost ground and turn the current weak recovery into a stronger one for all European workers.
The third consideration that casts doubt on the appropriateness of the current fiscal policy stance has to do with the mix of national fiscal stances underlying the aggregate fiscal stance, especially in the eurozone. At present, the SGP forces countries to save when the primary government deficit is too high, but it does not require countries to spend when a primary surplus and current account surplus allows for it. Those who can expand their fiscal policies do not do so, while those who are more constrained do. In part this is due to the fact that fiscal rules are asymmetrically focused on preventing national fiscal policies from being too loose and do nothing about Member States with too-tight fiscal policies, which is also problematic given the eurozone’s need for an aggregate fiscal stance.

The ideal fix for this problem would be the introduction of a common fiscal capacity for the euro area or even a ‘Euro Area Treasury’ (see Bibow 2019). It would be the fiscal counterpart to the European Central Bank’s monetary policy and would ensure an appropriate fiscal stance for the euro area as a whole. An aggregate fiscal capacity, however, would need a stabilisation function for stimulating the economy during recessions, and also redistribute to countries in recessionary or low-growth periods. If it does not fulfil these functions, its impact may not reach the country where it is needed. For instance, spending in Germany affects growth in other large euro area countries only through rather modest spillover effects (Picek and Schroeder 2018). It is already obvious that the minimal euro area budget (within the EU budget, and without a stabilisation function) that European heads of state have tasked their finance ministers to develop will not be sufficient to this end.

### Macroeconomic policy developments:
**fiscal policy and public debt**

**Figure 1.23 Public sector debt (percentage of national GDP) for EU Member States and the euro area (2008, 2014 and 2018) (f)**

![Figure 1.23](attachment:image.png)

Source: AMECO data (UDGG series).

The fiscal stance and the government structural budget balance

The fiscal policy stance is calculated as the change (in percentage points of potential GDP) in the government budget balance once the effects of automatic stabilisers and interest payments are excluded. This is called the government structural budget balance. Automatic stabilisers include tax revenues levied upon incomes and expenditure, and unemployment benefits.

In simple words, the structural balance excluding interest shows the balance between expenditure and revenues that are in the discretion of a government. A positive change is equivalent to consolidation (that is, revenues exceeding expenditure) whereas a negative change signals an expansion (that is, expenditure being greater than revenues). An equal change of expenditure and revenues signals a neutral fiscal policy stance that neither grows nor contracts the economy.
Macroeconomic developments in Europe: tackling the growth, inequality and climate change challenges

Macroeconomic policy developments: taxation

The decline in top income tax rates

Questions of taxation, from the structure and progressiveness of the tax system to the rules determining the tax base, have taken centre stage in the policy (and academic) debate in Europe and elsewhere. Pressures on public spending have been mounting for decades due to such developments as the maturing of welfare states and ageing populations. They further intensified during the crisis, especially in Europe, leading to more restrictive social policies and leaner public services that do not meet demand (Theodoropoulou 2018). At the same time, big challenges, such as the transition to a more environmentally sustainable model of growth but also technological advances, will require massive efforts and public resources in order to facilitate a ‘just transition’ to the new realities. High capital mobility has, over the years, put constraints on the taxation of capital by national governments, although these constraints have varied. It is difficult to explain increases in income inequality (mostly driven by developments in the top 1% of incomes) as simply the result of the disparity in educational attainment; the lowering of the top income tax rates arguably also plays an important role (Atkinson 2015). Last but not least, recent high-profile revelations about worldwide tax avoidance mechanisms used by wealthy individuals and corporations have been fuelling a sense of social injustice about sharing the burden of adjusting to current and recent challenges and crises.

The past couple of decades have seen a decline in the tax rates for top incomes, whether corporate or personal, in the vast majority of EU Member States. Figures 1.24 and 1.25 show the evolution of the top statutory personal and corporate income tax rates in Europe between 1995 and 2018. In 2018, the average statutory top personal income tax rate was 39% for the EU28 and 42.6% for the euro area, down from 47.2% and 46.9%, respectively, in 1995. These tax rates had been declining between 1995 and 2009, when they somewhat increased once again, presumably in the context of government efforts to consolidate their public finances. Over the whole 1995–2018 period, in 19 out of 28 Member States, the rates dropped, in five they remained broadly stable and only in four (Portugal, Greece, Latvia and the UK), did they increase. Three out of four of these latter countries underwent harsh economic and fiscal adjustments. The biggest declines during this period were seen in central and eastern European Member States (Bulgaria, Romania, Hungary, Czechia, Lithuania, Slovakia and Poland), while Spain, Finland, Denmark and Germany also saw larger than average reductions.

Over the 1995–2018 period, top statutory corporate income tax rates declined everywhere in the EU except for Malta where they remained unchanged. In 2018, this rate was 21.9% in the EU and 24.1% in the euro area, down from 35% and 35.8%, respectively, in 1995. Unlike the statutory top personal income tax rates, those for corporate income declined more or less continuously during the 1995–2018 period. The same trend can be observed in effective corporate tax rates, which measure actual taxes paid: on (simple) average in the EU, they have remained stable in the past years (20.1% in 2017) but stand well below their 2004 level of 25–26%.

A fairer tax system requires higher taxes on high-income and high-wealth individuals, and lower taxes on labour and consumption (Piketty et al. 2018). In many areas, such as properly taxing tax-avoiding multinational companies and companies that offer digital products, cooperation at the EU level is required. However, as taxation matters remain a competence of the Member States, consensus has been elusive.
Macroeconomic policy developments: monetary policy

Despite headline inflation reaching and surpassing the 2% target in the second half of 2018 in both the euro area and the EU, core inflation (the inflation rate which does not include the usually volatile evolution of prices of commodities such as energy and unprocessed food) remained steady at its late 2017 values of between 1.1 and 1.3%, and well below 1.9%. The lifting of the euro area out of its persistent low inflation was mainly due to surging energy costs in recent months, and to a much smaller degree to rising food, alcohol and tobacco costs. While there was a hike in energy prices to an annualised rate of around 9% since the summer months of 2018, services and non-energy industrial goods remained well below 2%. Although wage growth has picked up in 2018 (see Chapter 3), the low core inflation numbers still indicate the fragility of the recovery and the identified risks to which it is subject.

Following signs of improvement in a number of (but not all) macroeconomic indicators, the ECB announced that it would end its programme of new purchases of financial assets (a policy known as ‘quantitative easing’, QE), as of 19 December 2018, while planning to keep key interest rates such as the main refinancing rate (currently at 0%) and the deposit rate (currently at -0.4%) at low levels at least through the summer of 2019. ECB President Mario Draghi has made it clear that the Eurosystem will keep reinvesting its EUR 2.6 trillion worth of maturing bonds bought during its QE programme, of which 1.93 trillion are public sector bonds, beyond its next interest rate increase. Overall, euro area monetary policy is still expansive and, in light of the scaling down of the ECB’s balance sheet coupled with interest rate increases, a possible reversal of QE is not in sight, especially as various indicators suggest that the next downturn in economic activity may not be too far away.

However, a known unknown regarding the policy stance of the ECB from late 2019 onwards has been the appointments for the key positions of the Bank’s Governor and chief economist, which are due to become vacant later this year. Since 2012, the conventional and unconventional policy actions that have been credited by many for contributing the most to allowing the eurozone economy to eventually return to recovery have not been enjoying approval amongst central bankers in the eurozone, most notably in Germany. However, given that calls for substantial changes in the fiscal policymaking framework to allow fiscal policies to play a more active role in output stabilisation are not being heeded, the monetary policy approach will be crucial in determining the economic health of the eurozone.

ECB asset purchase programme: monthly purchases
- March 2015 to March 2016: EUR 60 billion
- April 2016 to March 2017: EUR 80 billion
- April 2017 to December 2017: EUR 60 billion
- January 2018 to September 2018: EUR 30 billion
- October 2018 to 19 December 2018: EUR 15 billion

Size of the consolidated Eurosystem balance sheet:
Total Assets on 31 January 2014: EUR 2.208 trillion
Total Assets on 11 January 2019: EUR 4.703 trillion
Macroeconomic developments in Europe: tackling the growth, inequality and climate change challenges

Economic resilience

Figure 1.26 Economic and labour market resilience

Developing greater resilience to (economic) shocks is an objective that has been gaining ground in official economic policy debates, particularly in the euro area, following the lasting scars that the recent economic and financial crises left but also in anticipation of the highly disruptive effects that the Fourth Industrial Revolution is expected to generate in European economies and societies and especially in the world of work (see also OECD 2018). In the context of the EMU, the definition of economic resilience proposed by the European Commission is the ability of a country to withstand a shock (for example, slower demand for its output) and recover quickly to its potential (growth) after it falls into recession (European Commission 2017, 2). In a similar vein, both the Five Presidents Report and the Commission’s White Paper on Deepening the EMU state that the eurozone Member States should converge towards a cohesive establishment of ‘resilient economic structures’, which should ‘prevent economic shocks having significant and persistent effects on income and employment levels’, so that they can reduce economic fluctuations, most notably deep and extended recessions.

Economically resilient economies are ideally not very vulnerable to shocks; they are either not exposed to them or if they are exposed, they are not exposed to intense shocks. Whenever shocks actually hit them, resilient economies can cushion their impact by minimising their effects on output and employment levels and/or they can recover swiftly from them by adapting. Different types of policy interventions, and in different combinations, can be used to enhance resilience: namely, preparation, prevention, protection, promotion (of change) and transformation policies (Manca et al. 2017, 3).

If we consider a recession (that is, the fall in demand for a part of an economy’s output) as a shock, then an economy that specialises, for example, in producing cars is vulnerable to a fall in demand for cars, and the bigger the share of the car industry in its overall GDP, the greater the vulnerability to a shock. If the shock is due, for example, to a drop in the incomes of those who usually buy the cars, then in a resilient economy, car producers could either strike a deal on short-term working arrangements with their employees to weather the temporarily lower demand without reductions in employment levels or they could impose large cuts in wages to lower their production costs and subsequently car prices to stimulate demand for them. Another option could be that the government intervenes to increase the incomes of potential car buyers or buys more cars itself to stimulate demand. If the shock is due to the fact that the buyers prefer demand. If the shock is due, for example, to a drop in the incomes of those who usually buy the cars, then in a resilient economy, car producers could either strike a deal on short-term working arrangements with their employees to weather the temporarily lower demand without reductions in employment levels or they could impose large cuts in wages to lower their production costs and subsequently car prices to stimulate demand for them. Another option could be that the government intervenes to increase the incomes of potential car buyers or buys more cars itself to stimulate demand. If the shock is due to the fact that the buyers prefer to buy different, more environmentally friendly vehicles, as a response to policies against climate change, then in a resilient economy more permanent changes would have to happen: car-producing industries should be supported by public policies to be able to move on to producing new models or they would have to shut down and their employees supported to move on to new jobs.

As the above example illustrates, economic resilience can be achieved in ways that have very different effects on the welfare of workers, which largely depends on how stable, secure and equally distributed their income and employment opportunities are. From the workers’ perspective, therefore, policies that promote both economic and labour market resilience should be privileged, with labour market resilience being defined as the capacity of a labour market to withstand an economic shock with limited losses to workers’ welfare (OECD 2012). The increasing share of non-standard employment in the total employment creation, however, is a stark reminder that economic and labour market resilience do not necessarily coincide.

Source: Adapted from Manca, A.R. et al. (2017), p.11.


Conclusions and policy recommendations

A Europe that works for workers would be a Europe that creates large numbers of high-quality jobs; that puts in place policies which allow for the fair distribution of the gains from growth, not only between capital and labour but also across different generations and different types of income earners, as well as within and across Member States; and that ensures that the planet will be a liveable place in the future, with a fair distribution of the transition costs. The question, then, is what can economic policies do to make this happen?

To achieve the above goals, there are three main challenges for workers in Europe that must be confronted. The first is weak productivity and output growth rates. The second is the fact that income inequalities have been rising for decades, while current structural longer-term secular developments, if left unchecked, also create pressures for further increases in inequality (see also Chapters 2 and 3). Last but not least, and cutting across the previous two, massive efforts are required to change our economic growth model in order to halt (let alone reverse) climate change.

At the heart of any strategy aimed at tackling the above challenges lies the need to stimulate investment, including social investment and investment in cleaner and renewable forms of energy. Keeping capital costs low, supporting demand prospects and also reducing ‘uncertainty’ about future economic developments have been empirically shown to be important correlates of investment (Barkbu et al. 2015). While reducing corporate debt and restoring credit growth for financially troubled banks is likely to take time, supporting domestic demand and creating incentives for investment through, among other things, stronger real wage growth and household incomes at the middle and lower ends of the income distribution scale will be important steps. Setting clear policy objectives aimed at fostering the just transition to a zero-carbon economy, whether they concern taxation, regulation or even the use of asset purchase programmes of central banks in the EU, will be paramount.

At this juncture, public investment will have to play an important role. This is not only a question of sharing the risks and financing the costs of the private sector (cf. Mazzucato 2015) but also of providing incentives to steer investment in R&D and new technologies in directions which can mitigate the pressures that lead to income and labour market inequalities (Atkinson 2015). It also involves fostering the just transition to a net-zero carbon economy.

For this to be possible, however, important reforms are needed in the EU framework that shapes national macroeconomic policies, most notably the EU fiscal rules. In the short to medium term, space should be created for national fiscal policies to play a more active role in stabilising economies, especially when the effectiveness of monetary policy in this respect is questionable. These policies should also aim to eliminate the overly heavy focus on fiscal policies that are too expansionary and instead develop effective mechanisms to put pressure on Member States with too-austere fiscal policies. Finally, safeguarding public investment should be a priority. In time, a better framework for coordinating fiscal policies should reduce uncertainty about the future prospects of economies, especially in the eurozone. This could be achieved by creating a sizeable eurozone budget to be used for stabilisation purposes.

Deepening the eurozone, in particular by establishing a euro treasury (see Bibow 2019), a fiscal capacity and a safe asset and by completing the banking union, is an important step in this direction but is likely to take longer. In terms of resilience, granting national fiscal policies the flexibility to perform the aforementioned functions would contribute to all three dimensions of economic resilience.

More generally, reducing the vulnerability of, in particular, the euro area economies to shocks, especially those that can be predicted, such as the accumulated divergence in domestic demand and current account balances among Member States, will be important. A fiscal capacity could help in that direction but some form of coordination of wage and price developments across Member States would also act as a complement, if not a substitute, until this fiscal capacity is established.

Focusing only on preserving and stimulating growth, however, will not necessarily lead to lower inequality. Redistribution (progressive taxes and benefits) and pre-distribution (investment in skills and stronger collective bargaining institutions) policies are necessary. Often touted as pro-growth policies, the decline of collective bargaining coverage and top tax rates for personal income, along with deregulatory labour market reforms, have been associated with greater income inequality. Even if the empirical evidence on the pro-growth effects of such policies was solid, their effects on income distribution cannot and should not be ignored. The trade-offs made in the pursuit of growth should be the subject of political debate at the national and the EU level.

While the policies with the biggest impact on inequality and the just transition to a net-zero carbon economy are national, coordination and cooperation at the EU and global level are not just useful but also necessary, especially on issues such as taxation, macroeconomic policies more generally, and climate change. The 2021–2027 EU budget, currently under negotiation, should reflect bold choices to shift resources towards such priorities, including an increase in the EU’s own resources.

Finally, greater cooperation and coordination at the EU level should go hand in hand with a greater accountability and transparency of the EU institutions, such as the European Central Bank, that make policy decisions which have far-reaching consequences for the lives and wellbeing of European citizens.
Labour market and social developments

Introduction

The EU labour market is recovering from the crisis, with the unemployment rate continuing to fall and employment back to its pre-crisis heights. However, the past 10 years cannot simply be dismissed as a temporary glitch. Although some headline employment indicators suggest that we have finally arrived back at where we left off in 2008, in fact the EU labour market has significantly changed. In this chapter we highlight the main areas of change in the structure and quality of employment over the past decade. We discuss some of the major risks facing workers in the EU related to demographic changes and occupational health and safety.

Our objective in this chapter is to consider how well EU countries are equipped to face the challenges ahead. These not only include an ongoing technological and demographic transformation, but also the inevitability of the economic cycle, with leading economic indicators suggesting we might have already reached peak recovery. Considering the current direction of change then, what is the future of work in the EU? Are we heading towards equitable outcomes for all, or rather towards polarisation and deepening divides? Against this background, we consider the policy responses that the EU has put forward to face these impending challenges; in particular, we evaluate the impact of the European Pillar of Social Rights and the effectiveness of health and safety regulations.

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Authors

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Overview of labour market developments

Uneven recovery

Employment has continued to grow in the EU (Figure 2.1). In 2018Q2, the employment rate was at an all-time high of 68.6%. This is a considerable improvement compared to the peak of the crisis (64.1% in 2013) and also surpasses the pre-crisis level of 65.9%. For the male population, however, the past 10 years were very much a lost decade, with the employment rate only moving from 72.9% in 2008 to 73.8% in 2018. Female employment, on the other hand, stagnated during the crisis but then increased by 4.6 pp between 2013 and 2018. There was a less impressive increase in youth employment (15-24), which was still below pre-crisis levels in 2018, at 35.1%. Among older workers (55-64) the employment rate rose from 45.6% in 2008 to 58.6% in 2018, which can in part be attributed to a reduced access to early retirement schemes and a postponement of the retirement age. Workers with the lowest educational attainment levels persistently show low participation rates in the labour market, with their employment rate just above 46% in 2018, still below the pre-crisis level of 47.9%.

More atypical jobs

The part-time employment rate rose to 19.3% in the EU28 in 2018, from 17.6% in 2008 (Figure 2.1). Part-time work is more prevalent among women, but the increase in the rate slowed down, reaching 31.5% in 2018, while it continued for men, rising to 8.9% in 2018. The temporary employment rate was also higher among women (14.9%) than men (13.8%) in 2018. The self-employment rate suffered a decline over the past five years, dropping from 14.5% in 2013 to 13.6% in 2018. Only a minority of self-employed workers are employers, while the majority consists of own-account workers. Their share in total employment was 9.7% in 2018.

Disaggregation of the net job growth into forms of employment (Figure 2.2) shows to what extent non-standard work has overtaken standard employment. Part-time jobs increased the most in relative terms, by nearly 13% since 2008, followed by temporary employment, which grew by nearly 5% in the same period. Own-account workers, however, increased by only 1%. Meanwhile, the overall number of jobs in the EU28 increased by 2.4% in the past decade.
Big regional disparities in employment rates

Wide divergences in employment rates persisted across the EU. In 2018, Sweden had the highest employment rate (77.8%), followed by the Netherlands, Denmark and Germany. Greece experienced the worst situation (55.3%), followed by Italy, Croatia and Spain. While there has been little change among the top performers over the past decade, the bottom of the scale has changed considerably, for the most part due to improvements in some CEE countries.

The increasing share of employed in the total population has not been uniformly spread across the EU (Figure 2.3). While most countries had higher employment rates in 2018 than in 2008, there were some that did not recover to pre-crisis levels. The most impressive increases in the employment rate over the past ten years were observed in Malta (by 15 pp), Hungary (13 pp) and Poland (9 pp). However, the 2018 rate was still lower than in 2008 in Greece (by 7 pp), Spain, Denmark, Ireland, Cyprus and the Netherlands.

No progress in closing the gender employment gap

In 2018, there were 5.3 million more people in employment in the EU28 compared to 2008, and 13.5 million more than at the height of the crisis in 2013 (Figure 2.4). In the five years following the outbreak of the 2008 crisis, the entry of women into the labour market came to a halt, but as men were simultaneously hit by significant job losses, the employment levels of men and women in the EU moved closer together. Since 2013, however, the gains in employment have been equally divided between the sexes. As a result, no progress has been made towards closing the gender gap in employment.
Developments in unemployment

A marked decline in unemployment rates

With a growing number of jobs being created, there has been a parallel reduction in unemployment levels across the EU28 in the recent period (Figure 2.5). In October 2018, only 6.7% of the economically active population were unemployed, the lowest value recorded since the pre-crisis low of 6.8% in early 2008, and a significant decline from the height of 11% in 2013. However, the gender gap in unemployment rates saw an increase, after it had been closing for the best part of the crisis period. In October 2018, the unemployment rate was 6.5% among men and 6.9% among women. For women this was an all-time low, but for men this meant that unemployment had not yet dropped to pre-crisis levels (6.3% in early 2008).

Big regional disparities

The EU average hides a stark divergence between countries, as illustrated in Figure 2.6. In Czechia, the unemployment rate fell to a remarkable 2.3% in 2018Q2. Germany, Hungary, Malta, Poland and the Netherlands follow, all with unemployment rates below 4%. At the other extreme, the unemployment rate in Greece was 19.5%, more than eight times higher than in Czechia. The second highest was Spain (15.4%), followed by Italy and France where, despite some improvement since 2013, unemployment was still at a higher level than before the crisis.
Young people facing difficulties in labour market integration

A successful integration of young people into the labour market currently represents one of the main challenges for EU employment policy. Those who attempted to enter the labour market during the crisis were faced with very high unemployment rates and precarious jobs, and improvements in the situation of young people have been slow.

The share of NEETs (young people neither in employment nor in education) in the EU28 population aged 15–24 amounted to 10.9% in 2017 (Figure 2.7). The best situation was noted in the Netherlands (4%), while the highest rate of NEETs was in Italy (20.1%) and Cyprus (16.1%). While participation in formal education is still high among 15–24-year olds, those aged 25–29 are for the most part striving to find employment. Accordingly, the NEET rate was much higher for this age group, with an average of 17.7% in the EU28. By far the highest rates were observed in Italy (31.5%) and Greece (32.2%).

Educational attainment undoubtedly increases the odds for a successful transition into the labour market at the beginning of one's working life. Among people aged 25–29 with a university degree, the incidence of NEETs was the lowest: 3.7% in 2017 (Figure 2.8). However, during the past decade, with an increasing educational attainment among the workforce, the cushioning effect of tertiary education decreased and thus far has not recovered to pre-crisis levels. In contrast, NEET rates in 2017 were much higher among young people with low and medium levels of education, at 6.3% and 7.7% respectively, but their share was lower than in 2008.
Polarisation between countries in the shift towards a knowledge economy

Job growth in the EU28 was concentrated in high-skilled occupations (Figure 2.9). Since 2013, professionals have on average been the fastest growing occupational group in the EU28, expanding by 5 million jobs, at a growth rate of 13%. Technicians and associate professionals saw a growth by 2.9 million jobs (+8.6%), and service and sales workers by 2 million jobs (+5.6%). In the same period, the EU labour market generated 0.7 million elementary-level jobs (+3.6%).

The capacity to generate high-skilled jobs differed across Member States (Figure 2.10). In Finland, high-skilled, white-collar occupations (managers, professionals and technicians) were the only occupational group that showed a net job growth between 2013 and 2018. Job growth was also concentrated in these occupations in Germany, Sweden, Belgium, Latvia and Estonia. On the other hand, in Greece virtually no new jobs for professionals were generated, while 84% of new jobs were in clerical, service and sales occupations, and 13% in elementary occupations. In Lithuania, Spain, Romania and Czechia, clerks, service and sales workers also accounted for a substantial share of job growth. Finally, skilled manual occupations mostly expanded in southern and eastern European countries, such as Hungary, Romania, Czechia, Slovakia, Portugal and Spain.

### Figure 2.9 Occupational structure in the EU28, age 15–64 (in thousands)

Source: Eurostat [lfsq_egais].

### Figure 2.10 Net job growth by broad occupation and country, 2013–2018 (comparison of second quarters) (in thousands)

Source: Eurostat [lfsq_egais].
The challenge of matching jobs to increasingly skilled workers

Across the EU we observe a general trend towards increasing educational attainment amongst workers. A comparison of 30–34-year-old university graduates in 2018 to those a decade earlier (Figure 2.11) shows increases in all countries, ranging from 1 pp in Finland and Spain, to over 20 pp in Slovakia, Latvia and Lithuania. Thus, the catching up is visible, but there is still a long way to closing the gap between countries with the lowest (Romania, 20.8%) and highest (Ireland, 48.7%) share of university graduates in their workforce. The analysis also highlights a potential risk of underutilising highly skilled workers; in Greece, for instance, an increase by nearly 20 pp in tertiary education among 30–34-year-old workers is at odds with the lack of growth in the supply of high-skilled jobs in the same period.

Underutilisation of skills

In 2015, 28.2% of all employed people in the EU28 reported that they had the skills to cope with more demanding duties, ranging from 41.9% in Romania to 16.4% in Lithuania (Sixth European Working Conditions Survey). In contrast, 14.5% perceived themselves as under-skilled for their current job. Moreover, the share of university graduates grew at a faster pace in elementary occupations than in the total population. In the EU28, nearly 7% of workers in elementary occupations had a university degree in 2018Q2, compared to 4.8% in 2008Q2 (Eurostat, LFS).

This shows that the structural change towards higher education among the workforce is not necessarily matched by the supply of quality jobs that match workers’ qualifications, potentially leading to the underutilisation of skills and human capital.
Disentangling the short-term effects of the crisis and changing labour demand

Structural developments in employment over the past decade have been impacted by the shocks related to the 2008 crisis as well as by certain long-term trends, most notably aging populations and the changing labour demand linked to the introduction of new technologies. Economic sectors that, in absolute terms, recorded the largest increases in employment in the past decade are ranked in Figure 2.12. These sectors expanded both immediately after the crisis (the 2008–13 period) and in the period of recovery (2013–2018). Human health and social work activities have expanded the most, a sector that is dominated by and growing due to female workers (see Piasna and Drahokoupil 2017). The other sectors where employment expanded the most include the higher-skilled segments of the new economy: professional, scientific and technical activities, education, and information and communication. At the same time, the expanding sectors include less complex services such as accommodation, food, administration, and support.

Manufacturing and construction are the sectors that recorded the largest losses in employment in the past decade. These are also the sectors that were most affected by the cyclical developments related to the 2008 crisis. They recorded substantial employment decreases in the period 2008–2013 and substantial increases in the recovery period. The same pattern could be observed in wholesale and retail (where growth has been additionally hampered by the expansion of e-commerce, online operations and automation, with many new jobs no longer classified as ‘retail’), public administration (affected by austerity policies), and transportation and storage. Finally, agriculture continued shedding workers in both periods. A geographic breakdown of employment changes is presented in Figures 2.13 and 2.14. It shows that healthcare jobs grew across Europe in both periods. In southern European countries, employment actually fell in some generally expanding sectors in the crisis period of 2008–2013, but the largest drops were in the crisis-hit sectors. Falling rates in construction and manufacturing and related sectors affected both southern Europe and central and eastern Europe. A recovery in employment in manufacturing was observed across Europe after 2013 (with some exceptions, most notably in France), but the largest gains were recorded in eastern Europe and Germany. This geographic breakdown also reveals that the small employment gains in construction in the recovery period can be partly attributed to its uneven nature: some countries, notably Italy, continued to shed construction workers between 2013 and 2018.

Finally, the fall in agricultural employment is linked predominantly to developments in central and eastern European Member States. Countries in southern Europe in fact recorded increases in agricultural employment.

In conclusion, the expansion of the service sectors is likely to reshape labour markets across Europe in the next years. There is also scope for further declines in agricultural employment in some of the central and eastern European countries. It remains to be seen how automation will affect manufacturing employment in central and eastern European countries as well as in the western European heartlands, most notably in Germany. The countries in central and eastern Europe, which are in a supplier position in the value chains, seem particularly vulnerable to the introduction of job-saving technologies.
2. Labour market and social developments

Sectoral changes in the economy

Figure 2.13 Employment changes by sector and region, 2008–2013 (comparison of second quarters) (in thousands)

Source: Eurostat [lfsq_egan2].

Figure 2.14 Employment changes by sector and region, 2013–2018 (comparison of second quarters) (in thousands)

Source: Eurostat [lfsq_egan2].

Note: north-western Europe: Austria, Belgium, Denmark, Finland, Ireland, Luxembourg, the Netherlands, Sweden and the United Kingdom; southern Europe: Cyprus, Greece, Italy, Malta, Portugal and Spain; central and eastern Europe: Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.
Are labour market regulations fit for purpose?

Online labour platforms and the gig economy have recently attracted much attention from policymakers, researchers and business, mostly due to the impact they have on the way work is organised in society. Platform work includes a heterogeneous set of activities, many of which circumvent existing labour market regulation. Some observers have thus concluded that the laissez-faire situation of platform workers is ‘reminiscent of 19th century labour relations’ (Fabo et al. 2017: 170). For instance, by matching labour supply and demand even for micro-transactions, online labour platforms facilitate a shift from accessing labour through employment towards relying on self-employment (Drahokoupil and Piasna 2018). Moreover, incomes are notoriously low. Figure 2.15 presents data from a case study of Deliveroo riders in Belgium. It shows very low levels of income, with an average of €249 gross monthly earnings, and hourly rates hovering around the minimum wage in Belgium. In addition to very low hourly earnings, the problem, as shown in Figure 2.16, is also a lack of availability of work (for detailed results see Drahokoupil and Piasna 2019). While most workers appear to use platforms to top up their regular income, a sizable minority, possibly exceeding a million workers in the EU, rely on platforms as their main source of income (cf. Huws et al. 2016; Balaram et al. 2017).

The rise in this type of work begs the question of how to ensure that it provides fair and secure working conditions. A useful starting point is to consider platform work, with its lack of regulatory enforcement and insufficient protection, as an integral part of a wider set of non-standard work arrangements. Indeed, many regulatory failures that should be addressed are not specific to platform work but apply to non-standard and casual work in general. The policy challenge is thus broader: to ensure decent working conditions, including pay, and access to social insurance for all workers regardless of their employment status. Technology facilitates the more flexible working arrangements that may well be desired by many workers, but such flexibility must be delivered without compromising workers’ rights.

First, existing regulations should be enforced. Subordinate relationships should be recognised for what they are. Many platform workers should thus be treated as employees according to existing legislation and given access to employment-based rights, including the right to bargain collectively on their remuneration. Moreover, some countries have developed regulations specific to casual work, with the aim of stabilising and regularising working time and pay. Such provisions should be extended to platform workers in work arrangements that correspond to casual work (De Groen and Maselli 2016; De Stefano 2016).

Second, given the precarious position of platform workers and their restricted access to employers and clients, additional measures should be considered to address the risks related to platform-mediated work and the problems specific to working through platforms. Platform workers can be seen as a category of workers that require special protection, similar to the regulatory provisions for agency work that exist at EU level. The European Parliament and the European Trade Union Confederation both called for the European Commission to examine the applicability of the Directive on Temporary Agency Work (2018=104/EC) to specific online platforms (European Parliament 2016; ETUC 2017). Such protection could also include a presumption of worker status to reduce the incentives for self-employed work. Additional measures that have been proposed include transparent rating systems and a ban on exclusivity clauses, as well as the possibility for workers to own their ratings accounts and working histories and to transfer them when they change platforms (Aloisi et al. 2017; ETUC 2017).
Third, genuinely independent workers and freelancers should be guaranteed the right to self-organise and negotiate collective agreements covering pay, amongst other things. At the moment, the organising of self-employed persons is, in principle, not permissible under EU competition law (Article 101 TFEU). EU case law has excluded the ‘false self-employed’ from the applicability of Article 101 (Case C 413/13). Decisions by national courts on whether platform workers should be considered ‘employees’, ‘self-employed’ or ‘false self-employed’ determine the scope for regulating salaries and working conditions via collective agreements, but they will have to evaluate such cases in the light of EU competition rules. Legislation in many EU Member States does not include the possibility for self-employed persons to conclude a collective agreement or to be covered by one. Instead, it should be possible to extend collective agreements to wider categories of worker than ‘employee’, with a view to including platform workers.

The variety of labour platforms

In this context, it is important to distinguish between the variety of platforms, which have differing impacts on labour markets as well as opportunities and limits for regulatory responses. Location-based platforms that set pay and contract conditions, such as Uber or Deliveroo, are most compatible with protection that approximates to, or fully complies with, standard worker protection. In fact, Uber pays a guaranteed minimum wage per hour in a number of markets. In Belgium, Deliveroo workers benefited from an agreement, negotiated by the agency SMart, that included a minimum hourly pay rate, minimum working time, insurance against injury at work and social insurance. The arrangement was terminated by Deliveroo after legislation liberalising conditions for platform work was introduced, but it demonstrates that these business models are compatible with employment standards and negotiated agreements. The SMart arrangement, while motivated primarily by the incentives in the Belgian tax system, provided workers with protections that they valued, including income security. Contrary to what the platform claimed, the shift towards self-employment did not offer the riders the flexibility they desired. Instead, it reduced their autonomy in relation to the platform (see Drahokoupil and Piasna 2019).

Platforms that reorganise local markets are the easiest to regulate as both customers and suppliers come under one jurisdiction. The oligopolistic tendency also makes it easier for the regulator to target the handful of dominant platforms, as has been the case with Airbnb and, in some cases, Uber. Such platforms, in fact, provide an opportunity to formalise undeclared activities, as their model allows for an efficient monitoring of micro-transactions as well as the collecting of insurance contributions and tax on them.

At the other end of the spectrum are platforms such as CrowdFlower and Upwork that organise geographically dispersed ‘crowdworkers’ (see Berg et al. 2018). They facilitate the remote provision of services, thus potentially leading to the offshoring of work from local labour markets, often across borders. This is one reason why an EU-wide framework is needed, but additional solutions also need to be sought for platforms operating on a global scale, typically sourcing workers from low-income countries. Platforms that sell services in Europe, for example, could be required to pay workers living wages (Fabo et al. 2017). Standards and fair working conditions could also be enforced through certification schemes like Fairtrade (Graham et al. 2017).

The rise of platforms thus brings a number of challenges and it is currently not obvious how decent pay and working conditions can be ensured. We need an active response from policymakers. It does not help that the approach of the European Commission, as well as many Member States, has focused on removing regulatory barriers and ignoring the threat to pay and working conditions. The regulatory response needs to address low pay and the lack of insurance. At best, some proposals have been made to ensure the portability of insurance systems. However, portability cannot bring security, particularly if the underlying problem is low pay and uninsured work. In practice, the question is not whether platform work can be left unregulated or not, as we have already seen platforms developing their own codes of conduct. The question is whether the new regulatory environment will reflect the narrow interests of some businesses or seek to represent the interests of all stakeholders.
An increase in part-time employment over the past decade

At the EU level, the share of part-time work in total employment has increased over the past decade, from 17.6% in 2008 to 19.3% in 2018. This growth was the most pronounced in the first years following the outbreak of the financial and economic crisis. After 2013 the growth in the number of part-time jobs continued, but with the resumed overall growth in employment there has been a small decline in the share of part-time work in total employment.

EU countries display a huge variation in part-time employment rates and the recent growth did little to change this (Figure 2.17). The Netherlands continued to outpace other countries, with a part-time rate of 50.4% in 2018Q2 (27.6% among men and 76% among women). Over the past decade, the share of part-time jobs increased by 3.7 pp (mainly among men), further widening the distance from other Member States. In central and eastern European countries part-time work continued to represent a minor share of total employment, ranging from 1.9% in Bulgaria to 11.1% in Estonia. Nevertheless, many countries in the region, including Slovakia, Czechia, Latvia, Lithuania, Estonia and Slovenia, experienced an increase in the part-time employment rate between 2008 and 2018. Sweden, Poland and Croatia are the only countries where we observed a steady trend of declining part-time employment over the past decade.

**Figure 2.17 Part-time employment rate across the EU**

Source: Eurostat [lfsq_eppga]

**Figure 2.18 Main reasons for part-time employment, EU28 (%) (ages 20–64)**

Source: Eurostat [lfsa_epgar].
Part-time work remains highly gendered

Gender gaps are particularly acute in part-time employment. In 2018, in all EU countries with the sole exception of Romania the part-time employment rate was higher among women compared to men.

Reasons why workers take up part-time positions also differ greatly by gender. As illustrated in Figure 2.18, the main motivation for women to engage in part-time employment is a need to combine paid work with care work. In 2017, in the EU28 28.5% of female part-timers aged 20-64 opted for such work because they were looking after children or other family members, and a further 15.6% indicated other family or personal reasons. By contrast, these reasons were given, respectively, by only 5.5% and 8.6% of men in part-time jobs. Men tended to opt for part-time work to be able to combine it with education or training much more often than women (a reason indicated by 15.3% of men and 5.7% of women).

Nevertheless, the main reason why men take on part-time jobs is because they cannot find a full-time position; this was reported by 38.7% of men in 2017, up from 35.2% in 2008. Among women, the involuntary part-time rate was 23.7% in 2017.

Segmentation into low-paid and short-hour jobs

A cause for concern is the persistent concentration of part-time jobs among the lowest-paid occupational groups (Figure 2.19). The combination of a low number of weekly hours of work, an hourly wage differential between part-time and full-time work, and low levels of occupational pay results in income insecurity and a high risk of poverty (see also Figure 2.23). In 2018, one out of two women (52.4%) and one in five men (21.3%) in elementary occupations had a part-time job. Part-time work increased the most after 2008 in this occupational group, by 3.6 pp among women and 4.8 pp among men. This is followed by service and sales workers, with 39.5% of women and 17.2% of men in part-time jobs in 2018.

Working time reduction

The long-term trend of the shortening of the full-time working week came to a halt around the 1980s, and the issue of working time reduction was effectively forced off the bargaining table. There are, however, signs that a reduction in working hours continued to take place: an EU worker spends on average 2 hours and 20 minutes less at work now than 20 years ago. This is due to a rapid growth of part-time work and other forms of short-hour jobs, such as the infamous zero-hour contracts. What all these forms of work have in common is that the costs of shorter working hours are entirely shouldered by the workers.

There is thus an urgent need to change course and start a debate about ways to achieve an equitable redistribution of working time. To this end, the ETUI recently published a book on the topic (De Spiegelaere and Piasna 2017). The choice now, the authors argue, lies between a systemic change and an individualised laissez-faire approach. Only the former, in the form of collective and organised working time reduction, can ensure equitable outcomes for workers, in terms of gender equality, health and safety at work, well-being and work–life balance.
A growing number of temporary jobs

At the EU level, temporary employment declined in the aftermath of the economic crisis of 2008. The number of temporary jobs fell from 26.2 million in 2008Q2 to 24.2 million in 2013Q2. However, this was to a great extent driven by developments in Spain and Greece. In most other countries, we observed a continuous increase in the number of temporary contracts over the past decade. Regarding the EU28 average, their number reached 27.4 million in the second quarter of 2018, growing at a faster pace than total employment (see Figure 2.2).

Figure 2.20 shows developments in temporary employment rates over the past decade across the EU countries. In the EU28, the temporary employment rate stood at 14.3% in 2018, up from 13.7% in 2013 (all data for second quarters). In 2018, the highest share of temporary jobs in total employment was noted in Spain (26.9%) and Poland (24.8%), followed by Portugal, the Netherlands and Croatia, all above 20%. The lowest incidence of temporary contracts was observed in Romania (1%) and the Baltic states (all below 4%). Over the past 10 years, the share of temporary jobs increased by far the most in Croatia (7.7 pp), Slovakia, Malta, Italy and the Netherlands. Overall, in 17 out of 28 EU countries, the temporary employment rate was higher in 2018 than ten years earlier. Over the recent period of resumed job growth after 2013, the share of temporary jobs increased the most in Croatia, Italy and Spain.

A very high rate of involuntary temporary contracts

In the EU28 in 2017, over half of temporary workers (53.9%) were in temporary jobs because they could not find permanent employment. The rate of involuntary temporary employment was the highest in the south. Nearly every temporary worker in Cyprus (91.9%) could not find a permanent job, followed by Croatia (86%), Spain (85.2%), Romania (84.2%) and Portugal (82.4%). The involuntary employment rate was the lowest in Austria (9.1%), Estonia (12%) and Germany (15.1%). In Germany and Austria, temporary jobs were mainly combined with education (39.6% and 43.1% respectively), while in Estonia they most often represented a screening mechanism used during a probationary period (46.8%).

Very short contracts

There is a great variation between temporary contracts in terms of their duration. In 2018 (second quarter) there were 1.3 million workers in the EU28 with contracts shorter than one month (4.8% of all temporary contracts). The incidence of such short contracts was the highest in Belgium (24.2% of all temporary contracts), France (13.8%) and Sweden (11.2%).

Notably, in Spain, where the rate of temporary employment is exceptionally high, as many as 47.1% of temporary workers did not respond to the Labour Force Survey question about the duration of their contract. Non-response was similarly high in the UK (52.2%). This could be due to a lack of information provided to workers about the terms and conditions of their employment.
Labour mobility

Intra-EU labour mobility still driven by east-west movements

Structural free movement and residence are a basic freedom of all EU citizens and the expectation is that cross-border labour mobility can contribute to a better functioning of European labour markets.

In 2017, 12.4 million EU28 citizens of working age (15–64) lived in another EU Member State (3.8% of the total working-age population of the EU28), up from 7.9 million in 2007. Although this is a significant increase, when compared internationally even the higher 2017 value is low (for example, yearly inter-state labour flows in the US were seven times higher relative to the population size, see OECD (2016)).

More than half of mobile EU citizens (6.47 million) were from a CEE Member State, a substantial overrepresentation considering these states’ 21% share in total EU employment. While in the EU15 (EU Member States before 2004), the share of mobile workers living in another Member State constitutes only 2% of total employment, in the CEE countries it is close to 10%.

Labour mobility within the EU15 did not change much between 2007 and 2017 (with an increase from 4.8 to 5.72 million), but for the EU11 the increase was significant (from 3.1 million to 6.5 million). Most of the recent rise in intra-EU mobility is thus due to east-west flows after several rounds of EU eastern enlargement. When looking at detailed figures for all Member States for the period 2007-2017 (Figure 2.21), some clear trends can be observed.

Romania is at the top of the chart, with almost 20% of its labour force on the move, while in Lithuania, Croatia, Latvia and Bulgaria more than 12% of the labour force are mobile citizens in the EU. Among the southern European countries, Portugal (14%) has the highest share of mobile workers. Greece on the other hand has a relatively modest share (6%), while Italy and Spain also have rather low levels.

Among the receiving countries, Germany hosted the most EU mobile workers: in September 2018 (IAB 2018) a total of 2.44 million EU citizens, of which 763,200 were from the eight 2004 CEE accession countries, 558,200 from Romania and Bulgaria and 619,000 from four Mediterranean countries (IT, ES, PT, GR). In the UK, the net inflow of EU citizens declined in the past three years (but is still positive), and by mid-2018 1.68 million EU citizens were in employment, 794,000 from the 2004 accession CEE countries and 313,000 from Romania and Bulgaria (ONS 2018).

It is noteworthy that in spite of major improvements in the national labour markets of the EU11, with most of them featuring record low levels of unemployment and increasing labour shortages, outward labour mobility to EU15 Member States continued to grow even in the past couple of years. This poses a serious challenge for the development potential of the former group of countries. This trend also needs to be considered against the background of a slowdown or halt in wage convergence in most CEE countries towards EU15 levels since the onset of the crisis (Galgóczi 2017). In spite of job opportunities in the home country, persistently high wage gaps provide a strong enough pull factor for people to move, putting the long-term development perspectives of these countries at serious risk.
Posting of workers in the EU: more than just social dumping

It is a particular feature of cross-border employment in the EU that different ways of performing work in another Member State can be subject to different regulation and labour standards. EU mobile citizens who are directly employed in another Member State are entitled to equal treatment with nationals in access to employment, working conditions and all other social and tax conditions. ‘Posted workers’, on the other hand, who are sent by their employer to carry out a service in another EU Member State on a temporary basis, have been subject to a lower level of protection. Posted work has often been looked upon as a controversial form of cross-border employment and as a source of social dumping. Many loopholes have also contributed to this negative judgement (Cremers 2014), casting a shadow over the entire issue of labour mobility in the EU. The overhaul of the Posting of Workers Directive was therefore long overdue and welcome. The adopted revision (European Parliament and Council of the EU 2018) is based on a proposal of the Commission and makes necessary steps towards meeting the declared objective of equal pay for equal work in the same place. The ETUC also welcomed the adoption as ‘justice at last for posted workers’ (ETUC 2018a).

The posting of workers in fact only represents one tenth of all labour mobility in the EU. In 2016, 2.3 million cases of posting of workers took place within the EU, but taking the average posting period (101 days) into account, this corresponds to a full-time equivalent of 0.4% of total EU employment, roughly one tenth of the share of regular cross-border labour mobility (European Commission 2017). Furthermore, the posting of workers is not an east-west one-way street. In 2016, 38.2% of postings occurred from one high-wage Member State to another, while 32.8% were from low- to high-wage countries and 17.7% from medium- to high-wage countries. Based on the most recent absolute numbers (European Commission 2018a), as Figure 2.22 shows, Poland sends the most posted workers (over half a million in 2017) and Germany receives the most (440,000), while Poland is in the middle range of Member States as regards the share of outward postings in its labour force, and Germany has among the lowest relative shares in both outward and inward posting. In terms of their share of outward posting in the national labour force, Slovenia and Luxembourg are on top (with 17.9% and 16.4% respectively) followed by Slovakia (4.5%) and Poland (3.2%). Luxembourg has the highest share of posted workers (6.3% of its labour force), followed by Belgium (3.9%). Detailed data by Member State clearly show that posting of workers is a normal part of enterprises’ cross-border activities in the Single Market. Luxembourg receives most of its posted workers from Germany and France, France from Germany and Spain, and the UK from Spain, France and Germany (only 10% from Poland). Denmark sends more posted workers abroad (mostly to Germany and Sweden) than it receives. Germany and Austria receive the majority of posted workers from central and eastern Europe and the share of these is also high in Belgium (the number one sending country for Belgium being France, however).

The posting of workers is thus much more than just another channel of east-west labour movements and cheap labour. Social dumping has never been its main function and with the revised directive there is a good chance now that fairer practices in the posting of workers will prevail.
The ‘working poor’ account for nearly one in ten of the employed in the EU

The in-work at-risk-of-poverty (AROP) rate refers to the share of persons in the total population who have declared themselves to be in paid work (either as employed or self-employed) with an equivalised household disposable income level below the risk-of-poverty threshold. This threshold is set at 60% of the national median equivalised household disposable income. The disposable income is assumed to be ‘after social transfers’, meaning it includes social benefits such as pensions and unemployment benefits. In the AROP data provided by Eurostat, ‘person at work’ is a person who spent at least half of the reference year in paid work. Therefore, people with fragmented and discontinuous spells of employment are likely to be excluded, potentially underestimating the share of workers at risk of poverty.

Figure 2.23 shows the share of workers at risk of poverty, the so-called ‘working poor’, by various individual characteristics, such as gender, age and educational level, as well as by type of employment. In 2017, nearly one in ten (9.6%) workers in the EU28 was at risk of poverty. Among men, the risk of poverty was slightly higher, at 10%, compared to 9.1% among women. The AROP was higher in 2017 compared to 2010, by nearly 16% among all workers. The increase was more pronounced among women, by 18% (or 1.4 pp). Young workers were, on average, at a higher risk of in-work poverty: in 2017, 12.5% of those aged 18–24 fell below the poverty threshold, up from 10.9% in 2010.

Education plays an important role in ensuring access to better-paid jobs and thus in shielding people from in-work poverty. The AROP rate was the highest among workers with the lowest levels of educational attainment, reaching 20.6% in 2017. Among those with medium levels of education the risk was lower (9.3%), and it was at the lowest level among those with a university degree (4.5%). Although still at a relatively modest level, the risk of in-work poverty has increased the most among university graduates: by over 32% between 2010 and 2017.

The standard employment relationship is by far the best insurance against the risk of in-work poverty. In 2017, the share of working poor was the lowest among permanent employees (5.8%) and those with full-time jobs (8%). Part-time and temporary workers were at a considerably higher risk, with a share of working poor at 15.8% and 16.3% respectively. The highest risk of poverty was, however, found among employed people who were not in dependent employment, including the self-employed, own-account workers or contributing family workers. Nearly one in four (23.1%) in this group fell below the poverty threshold in 2017, up from 20.9% in 2010.

Europe 2020 and poverty targets

‘Inclusive growth’ is one of the three priorities of the Europe 2020 strategy. The European Commission has set a target to lift at least 20 million people out of the risk of poverty or social exclusion (AROPE) by 2020.

In 2016 there were even more people at risk of poverty (118 million) compared to 2010 (117.9 million). The estimates for 2017 showed, for the first time, a lower value compared to 2010: a drop by nearly 5 million persons. Among the working age population (aged 16–64), the estimated drop was 2.4 million, from 78.1 million in 2010 (23.8% of the working age population), to 75.7 million (23.4%) in 2017. Relative to the size of the working age population, however, the decline is very modest at a meagre 0.4 pp.
Occupational cancers the main cause of work-related deaths

Technological progress, new ways of organising work and sectoral shifts in the economy all call for a stronger focus on health and safety issues at the workplace. Figure 2.24 shows the number of deaths by occupational cancer in each EU country in 2011. Occupational cancers are the main cause of work-related mortality in the EU28 (53% of all work-related deaths). Each year they are responsible for the deaths of over 102,000 workers which is twenty times the number caused by occupational accidents. The latest estimates set the share of work-related cancers at 8% of all new cancer cases (6–12% for men and 3–7% for women). Occupational cancers are a major source of social inequalities in health since blue-collar workers are much more affected than white-collar workers, due to greater risk factors such as exposure to carcinogens. The most important occupational carcinogens are asbestos, shift work, solar radiation, crystalline silica, diesel exhaust engine emissions and industrial chemicals such as pesticides, hexavalent chromium and heavy metals.

The social cost of occupational cancers is significant. In 2015, it was estimated at EUR 10 billion per year in the EU28 for direct and indirect costs, and between EUR 270 and EUR 610 billion a year (1.8–4.1% of EU GDP) when the human (or ‘intangible’) cost is added (Vencovsky et al. 2017). This cost is mostly borne by workers and their families but also by employers and the social security systems in the various Member States. However, occupational cancers and their negative socioeconomic impacts can be avoided if exposure to carcinogens is eliminated or reduced in the workplace.

The Carcinogens and Mutagens Directive (CMD, 2004/37/EC) is designed to protect workers against the risks associated with workplace exposure. Adopted in 1990, it organises prevention and defines a hierarchy of employer obligations. When unable to eliminate or substitute carcinogens by less hazardous substances or processes, or to use closed systems, employers are obliged to reduce exposure to carcinogens and mutagens to as low as technically possible. The CMD sets down occupational exposure limits (OELs) which are not to be exceeded. For the past 25 years, the CMD has remained unchanged, with just three carcinogens being assigned an OEL. In 2016, at the instigation of a number of EU Member States and the European Trade Union Confederation (ETUC), the European Commission finally relaunched the revision of this Directive, putting forward proposals for further carcinogens (Musu and Vogel 2018). The stated target of Marianne Thyssen, the Social Affairs Commissioner within the Juncker Commission, was to have binding OELs for 50 priority carcinogens before 2020. A first batch of eleven new OELs was adopted in 2017, a second batch of six OELs was adopted in 2018 and a proposal for a third batch of five further carcinogens could be adopted by the end of the mandate of the Juncker Commission. With a total of 25 carcinogens with binding OELs at EU level, Commissioner Thyssen will not be able to meet her commitment target for 2020. Nevertheless, she can be credited with relaunching the revision of the CMD and hopefully making it a durable process.
One year after the launch of the European Pillar of Social Rights, where are we now?

In response to the mounting challenges faced by European citizens, on 17 November 2017, the European Commission, Council and Parliament jointly proclaimed the European Pillar of Social Rights (EPSR), a commitment to improving working conditions and living standards in Europe based on a set of 20 principles and rights. On the occasion of its first anniversary, however, the Commission was rather modest, stating only that it was ‘using all the tools at [its] disposal to make the principles of the Pillar a reality’ and that in order to keep its promises swift progress had to be made on several important (legislative) proposals (in particular, the establishment of a European Labour Authority, the initiative on work-life balance for parents and carers, the new Directive on transparent and predictable working conditions, and the reform of the rules on social security coordination) before the European elections in May 2019 (European Commission 2018c). The ETUC wished the Pillar a ‘ONEderful birthday’ and acknowledged the important progress that had been made. However, it also reminded the Commission that there is still much to be done, not only on outstanding issues but also regarding fresh initiatives that need to be tabled by the new Commission and by Member States at national level in order to ensure that everyone gets a slice of the birthday cake (ETUC 2018). Even more disappointed voices came from the European Public Service Union, which called it ‘the European Pillar of Broken promises’, mainly because of the Commission’s veto on transposing a framework agreement for more information and consultation rights in the central government sector into a directive (EPSU 2018).

Monitoring progress in the implementation of the EPSR

The ETUI’s own analysis of the EPSR initiatives one year on reveals a mixed picture (see the box below for the methodology used for this analysis, based on Al-Kadi and Clauwaert 2019).

Methodology of the ETUI’s research for monitoring the EPSR

The starting point of this exercise was the Commission’s staff working document ‘SWD (2018) 67 final’ of 13 March 2018 titled ‘Monitoring the implementation of the EPSR’ (European Commission 2018b). For each of the 20 EPSR principles, all the actions mentioned in the Commission’s Communication in the section ‘3.b. recent and ongoing initiatives at EU level’ were identified and listed. In this context, an ‘action’ is understood to be any initiative related to the Pillar’s commitments at the EU level that the Commission has identified as such and on which it has delivered or foresees to deliver. Each action was classified based on three criteria. First, ‘BP/PP’ indicates whether an action was announced/launched before (BP) or after/post (PP) the proclamation of the EPSR in November 2017. Secondly, ‘NL/L’ distinguishes whether the action was intended to have a legal outcome (e.g. regulation, directive) or rather is of a non-legally binding nature (e.g. recommendation, communication, action programme, cooperation mechanism, etc.). Finally, ‘progress made’ is measured as either ‘no’, meaning that the action was announced but no activity has ensued yet; ‘some’, meaning that the action has been launched and work is ongoing; or ‘full’, meaning that the action has been completed and all necessary measures and instruments have been adopted.
The analysis revealed a current total of 62 actions which the Commission has taken or will take to implement the 20 principles of the Pillar. As Figure 2.25 and Figure 2.26 show, out of those 62 actions, 42 could be considered as ‘before Pillar (BP)’ and 20 as ‘post Pillar (PP)’. So, two thirds of the actions were already announced before the EPSR was proclaimed (and some even before the idea of the EPSR was launched). Out of these 62 actions, 19 can be classified as ‘legislative (L)’ (i.e. with a legally binding instrument as the foreseen outcome), while 43 are ‘non-legislative (NL)’ actions (e.g. communications, action plans, etc.). The fact that almost one third of the actions concern ‘legislative’ proposals is to be welcomed, testifying to the current Commission’s legislative ambition to create a more social Europe.

In terms of progress, among the 19 ‘legislative (L)’ actions, 4 can be considered as fully implemented. These include Regulation 2018/1475 of 2 October 2018, which lays down the legal framework for the European Solidarity Corps; Directive 2017/159 of 19 December 2016, which transposes the ILO ‘Work in Fishing Convention’ (2007) (and is based on an EU sectoral framework agreement); Council Decision (EU) 2017/865 of 11 May 2017 on the signing, on behalf of the European Union, of the Council of Europe Convention on preventing and combating violence against women and domestic violence with regard to matters related to judicial cooperation in criminal matters (the so-called ‘Istanbul Convention’); and Council Decision 2241/2004/EC of 12 April 2018 on the revised Europass. Regarding the 12 other actions, only some progress has been made (i.e. the action has been launched but is going through the (legislative) process), while no action has been taken at all in the case of 3 initiatives (including the creation of a European social security number and a proposal for a directive to improve the gender balance among non-executive directors of companies listed on stock exchanges). Among the 42 ‘non-legislative (NL)’ initiatives, 28 can be considered as fully implemented, while some progress is being made on the other 15.

The conclusion is that while the EPSR has some achievements on its scoreboard, the overall progress has been limited. First of all, the majority of the identified actions were announced before the proclamation of the EPSR. There are far more non-legislative than legally binding initiatives, which is a step in the right direction but is also arguably far from sufficient to address today’s social challenges. The most progress has been made in relation to the non-legislative actions, while some very important legislative initiatives (see above) are still pending and it is unclear what the actual outcome/content will look like and whether they will be adopted before the new European Parliament and Commission are established – and if not, whether the new European Parliament and Commission will take over this task.

The latter issue will be even more important when looking at the Commission Working Programme (CWP) for 2019, which remains (perhaps not surprisingly given the ‘takeover’ in 2019 by a new Commission) very modest (European Commission 2018d and 2018e). Although the Work Programme is subtitled ‘Delivering what we promised and preparing for the future’, in fact, in the field of labour law and other areas of social policy, especially the EPSR, there is nothing new, and only the pending initiatives are mentioned. The ETUC expressed particular concern about the weakness of the CWP 2019 regarding the social dimension of the EU — in relation to the issues of social dialogue, workers’ participation, welfare, poverty and inequality — which is particularly problematic in the context of the welcome implementation of the EPSR. The ETUC also regrets the absence of commitment from the Commission on the European Social Dialogue. Indeed, there is no reference to the role of social partners and the outcomes of social dialogue, despite the commitments made in the Quadripartite Statement ‘A New start for Social Dialogue’ (ETUC 2018c).

In sum, progress has been made but there is still a long way to go before the EPSR makes a positive difference in the everyday lives of all Europeans.

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**Figure 2.26 Monitoring progress in the implementation of the EPSR**

<table>
<thead>
<tr>
<th>Degree of progress</th>
<th>Legislative actions (L)</th>
<th>Non-legislative actions (NL)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>full</td>
<td>some</td>
<td>none</td>
</tr>
<tr>
<td>Before Pillar (BP)</td>
<td>3</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Post Pillar (PP)</td>
<td>1</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>12</td>
<td>3</td>
</tr>
</tbody>
</table>

Sources: the ETUI’s own research.
Conclusions

A decade of significant structural transformations

The past decade has been a critical period for EU labour markets, which have been severely hit by the financial and economic crisis, and subsequently experienced a recovery period punctuated by austerity policies and numerous reforms. Ten years after the outbreak of the crisis, most leading labour market indicators suggest that the economic cycle has reached its peak again. In light of these improved economic conditions, it is thus time to take stock of the changes and ask how well prepared we are to face the challenges ahead, which include a rapid technological transformation, demographic change, new health and safety risks, and the next shift in the economic cycle.

The first observation emerging from the analysis of European labour markets presented in this chapter is that while the number of people in employment returned to pre-crisis levels, jobs themselves and the workers performing them have changed significantly. The changes have not always been symmetrical: while the quality of human capital has been increasing, with workers continuing to raise their educational attainment, the quality of jobs offered has been declining in many respects. For instance, various forms of non-standard employment, such as temporary work, short-hour jobs, subcontracting or platform work, have expanded over the past ten years. Despite the claims of their proponents that these atypical and new forms of work respond to workers’ need for flexibility, our analysis shows that non-standard jobs are largely taken up due to a lack of alternatives. They also carry multiple risks for workers, including an increasing risk of in-work poverty and deepening social inequalities. This is in part related to the instability of earnings, the lack of standard worker protections, and the insufficient availability of work. This is particularly the case for online labour platforms, one of the new forms of work in the digital economy. Payment by tasks, without a guaranteed minimum income nor continuity of work, and the shifting of most costs onto workers, such as for work equipment or insurance, contributes to an increasing risk of precariousness.

Furthermore, a knowledge-based economy is not developing equally across the EU. We find a growing geographical polarisation between Member States, with the countries most troubled by the crisis following the path of low productivity growth, and persistent divisions between north, south and east. The past decade was also characterised by a structural shift in the sectoral composition of jobs. The greatest job destruction was in manufacturing and construction, while job creation was concentrated in services and heavily influenced by long-term changes in the labour demand.

Policy responses need to be stepped up

These important changes in the structure of employment and social conditions in the EU require increased effort from policymakers and social actors to provide regulatory frameworks capable of effectively responding to the new challenges. Some of the policy measures in the aftermath of the crisis were arguably misdirected. The ineffectiveness of deregulatory policies has been widely documented (see e.g. Lehndorff 2012; Piasna and Myant 2017). As evidenced by the increase of temporary jobs, efforts across many Members States to encourage employers to offer permanent jobs, among other things by decreasing their costs and reducing employment protection, did not reverse the trend towards more temporary employment.

However, a review of more recent employment policy at the EU level reveals a greater focus on social issues and an increased intensity of legislation in the social area, with more attention given to ensuring fair working conditions for workers. In this respect, the European Pillar of Social Rights is a crucial development, aiming to respond to the new realities in the world of work and serving as a compass for social policy. One year after its proclamation by the EU institutions, progress in the implementation of its principles is already noticeable, albeit with a lot remaining to be done. The most progress has been made in relation to non-legislative actions, which are in general easier to implement but also less binding, while some very important legislative initiatives are still pending. With many initiatives still under way, it also remains unclear what the final outcome will be, and what the final content will look like.

The emergence of new forms of work in the digital economy, such as platform work, has sparked the search for entirely new policy measures, slowing down any legislative action in this area. However, many of the policy challenges are not specific to platform work, but to a wider set of non-standard work arrangements. In particular, platforms that operate in local labour markets can be covered by standard regulatory tools ensuring decent conditions of work, but the conflict between the right to organise and competition law needs to be resolved.

With respect to occupational health, it is high time that policymakers realise the extent of the problem and the massive cost of inaction, especially in the area of work-related cancers. There is a need to urgently adopt a comprehensive European strategy to tackle occupational cancers and in particular ensure that the Carcinogens and Mutagens Directive is regularly updated.

Overall, social and employment policies at the EU level have seen a turn in the right direction. After a long period of stagnation, we can observe an increase in legislative initiatives that aim at ensuring fair and decent working conditions, such as the revision of the Posting of Workers Directive. The question now is whether this policy direction will be sustained and whether there will be enough political will and determination to deliver on promises and finalise the adoption of some key initiatives. The approaching European elections and appointment of the new European Commission make these questions particularly pressing.
Wages and collective bargaining: time to deliver on the European Pillar of Social Rights

Introduction

In 2018 the mystery of ‘wageless’ growth was high on the agenda of international institutions such as the European Commission and the OECD. The paradox of ‘wageless’ growth refers to the fact that in spite of relatively favourable economic framework conditions, real wages have not increased accordingly. The widespread perception that crisis management policies, based on a combination of austerity and internal devaluation, have contributed to this sluggish growth in wages means that European citizens increasingly view the EU as a neoliberal ‘machine for divergence, inequalities and social injustice’ (European Parliament 2016: 25). In other words, an increasing number of European citizens – particularly in the countries hardest hit by the crisis and its management – no longer perceive the European integration project as a promise of social progress but as a threat to their personal wellbeing.

The proclamation of the European Pillar of Social Rights (EPSR) in November 2017 can be seen as a response to this growing disenchantment with the European integration project, and a sign of European policymakers’ recognition of the urgent need to strengthen the social dimension in order to restore trust in this project. It is, however, a political imperative that European and national policymakers do not stop at political declarations. After all, the perceived discrepancy between rhetoric and political action is one factor that contributed to the growing disillusionment of many European citizens with ‘the EU’.

Against this background, one key objective of this chapter is to review the extent to which policymakers are living up to the commitments they made in the EPSR as regards ensuring decent wages and supporting collective bargaining. Both are important elements in the political strategy of the European Commission to make a positive contribution to the everyday lives of European citizens. This chapter will therefore review the development of wages, minimum wages and the wage share in the EU28 and will link these with recent developments in collective bargaining systems, strike activities and judicial developments in order to identify the specific measures needed to support collective bargaining and a more dynamic wage growth.

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The erosion of trust in the EU

In the field of wages and collective bargaining, the European Pillar of Social Rights (EPSR) contains two important commitments. First of all, Principle 6 is on the right of workers ‘to fair wages that provide for a decent living standard’ and ensuring ‘adequate minimum wages … in a way that provides for the satisfaction of the needs of the worker and his/her family’ (European Commission 2017a: 26). Secondly, Principle 8 is a commitment to encourage the two sides of industry to negotiate and conclude collective agreements (European Commission 2017a: 33). These commitments are an important element of a newly emerging European-level narrative in the field of wages and collective bargaining which views a more dynamic wage growth and wage convergence as a prerequisite for more sustainable and inclusive economic growth. This shift in the narrative involves a broader view of the role of wages. Whereas previously wages were primarily viewed as a cost factor, the new narrative acknowledges their important role in boosting internal demand and social cohesion. This broader view of the role of wages also implies that multi-employer collective bargaining and strong trade unions with wage-setting power are recognised for their contribution to achieving the objective of stronger wage growth rather than exclusively viewed as institutional rigidities that impede the market-driven (downward) adjustment of wages (European Commission 2018b).

The commitments made in the EPSR also acknowledge the political role of fair wages and collective bargaining as an integral part of the set of European values that sustain the idea of a ‘European Social Model’, which suffered heavily during the crisis. The social costs of the crisis management, which was based on a combination of austerity and internal devaluation policies, are one important source of the EU’s current legitimacy crisis (Busch et al. 2018: 25).

Figure 3.1 illustrates the dramatic erosion of European citizens’ trust in the EU between spring 2007, just before the start of the crisis, and autumn 2013, when the social impacts of the crisis and its management were felt most dramatically. According to the Eurobarometer figures, over this period the proportion of people who ‘tended to trust’ the European Union dropped by 40 or more percentage points in the southern European countries that were not only hardest hit by the crisis but also exposed to the ‘reform’ measures imposed by the Troika. Spain and Cyprus witnessed the most dramatic decline (-44pp), followed by Greece (-42pp) and Portugal (-40pp). Across the whole EU, the proportion of people who answered that they tend to trust the EU dropped from 57% to less than a third (31%). By autumn 2018, with the subsiding of the crisis and the most acute crisis measures, and in the light of such momentous external challenges as Brexit and the protectionist policies pursued by the US under President Trump, the degree of trust had recovered to a certain extent.

However, there are only three countries in which it recovered to at least the pre-crisis level: Lithuania, Sweden and Latvia. In all the other countries, the level of trust is still below pre-crisis levels. In Greece, the proportion of people who in autumn 2018 answered that they trust the EU is still 37 pp below what the level was in spring 2007. Other countries with a large gap between the spring 2007 and autumn 2018 levels are: Slovenia (-31pp), Czechia (-29pp), Spain (-27pp), Slovakia (-23pp) and Italy (-22pp). Europe-wide, far less than half of the respondents answered that they trust the EU (42%), which is 15 pp below the level in spring 2007.

The reasons for losing trust in the EU are obviously manifold and it would not be fair to only put the blame on the crisis and crisis measures. The fact that in Czechia and Slovakia

Figure 3.1 Trust in the European Union (percentage of Eurobarometer respondents)

the level of trust in the EU also dropped dramatically during the past 10 years clearly shows that other forces must be at play because neither country was among those hardest hit by the crisis. Nevertheless, the figures clearly show the need to improve the perception of the EU among its citizens. This is where the EPSR comes into play. According to Commissioner Thyssen, the EPSR ‘is designed to make a positive difference in the everyday life of all Europeans’ (European Commission 2018c). This reflects the European Commission’s recognition that the EU urgently needs to deliver tangible improvements in people’s lives by strengthening the social dimension of the European integration project; and implementing the commitments made to fair wages and collective bargaining in the EPSR is one way to do so.

The remainder of this chapter will not only take stock of developments in the field of wages and collective bargaining but it will in particular analyse the extent to which the European Commission and other policymakers have lived up to these commitments and where there is still room for improvement.

Slow real wage recovery

Figure 3.2 shows the development of EU-level nominal and real compensation per employee (which includes social contributions) over time. Nominal wage growth continued to recover in 2018 with a 2.7% increase, returning to pre-crisis levels. However, despite the recent, more dynamic development, the average growth rate for the 2009–2018 period is more than one percentage point lower than the average growth rate in the pre-crisis period. Furthermore, the more dynamic growth of nominal wages did not translate into an equally dynamic growth of real wages. On the contrary, large parts of nominal wage increases were eaten up by the continuing trend of higher inflation so that the subdued development of real wages in 2017 continued in 2018, real wage growth remained sluggish. In Belgium (1.3%), Germany and Denmark (both 1.1%), only the United Kingdom, Germany and Denmark (all 1.1%) and Malta (1.4%) followed Ireland (1.3%) and the United Kingdom with 3% each to Malta with 2.1%. The third group with a nominal wage growth of less than 2% consists mainly of southern European countries and ranges from Slovenia and the United Kingdom with 3% each to Malta with 2.1%. This group is followed by another group of countries in which nominal wages grew between 2 and 3%. This group ranges from Slovenia and the United Kingdom with 3% each to Malta with 2.1%. The third group with a nominal wage growth of less than 2% consists mainly of southern European countries and ranges from Croatia (1.9%), Italy (1.7%) and Cyprus (1.7%) to Spain (1.1%) and Greece (0.9%).

While the growth of nominal wages picked up again in 2018, real wage growth remained sluggish. In Belgium (0.1%) and Spain (0.7%) real wages even decreased. In the other European countries real wages increased modestly, from 0.3% in Croatia, Finland and Portugal to 1.4% in Malta, followed by Ireland (1.3%) and the United Kingdom, Germany and Denmark (all 1.1%). Only the
above-mentioned group of nine central and eastern European countries witnessed a more substantial real wage growth of 2% or more, which in turn continued the trend of real wage convergence within the EU. Figure 3.3 also illustrates that in 2018 real wage growth in the majority of EU countries exceeded productivity growth. The positive gap between real wage and productivity growth is largest in Romania (5.8%), followed by Czechia (4%) and Bulgaria (2.3%). Real wage growth lagged behind productivity growth in nine countries ranging from Croatia (-0.2%) and Finland (-0.3%) to Belgium, France (-0.6% each), Spain (-0.9%) and Ireland (-3.3%).

The long-lasting impact of the crisis on real wages

The slow recovery of real wages is reflected in the worrying long-term development of real wages. Figure 3.4 presents the development of real wages since 2009 in each of the 28 EU countries. It illustrates that in ten countries real wages are still at or even below the level ten years ago. This group of countries consists of Finland, Belgium, the UK and those southern and eastern European countries that were hardest hit by the crisis and crisis policies based on austerity and internal devaluation. Since the beginning of the crisis, Greece has experienced the most dramatic decline in real wages (-23%) followed by Croatia (-11%) and Cyprus (-7%).

The second regional cluster, of very modestly increasing real wages since the beginning of the crisis, comprises almost exclusively northern and western European countries. This group of countries ranges from Sweden (13%), Germany and Malta (11% each) to the Netherlands (3%) and Austria (2%). The only countries in which real wages grew substantively in the 2009–2018 period are the central and eastern European ones. At the top of this group is Bulgaria with an 87% increase, followed by Romania (34%), Poland (30%), Latvia (21%), Lithuania, Slovakia, Estonia (20% each) and Czechia (17%).

It should be noted that Ireland is a special case because productivity figures are highly distorted by the concentration of the Irish economy and the asymmetrical development in productivity between so-called ‘frontier firms’ and the rest (Department of Finance 2018). As a consequence, most of Ireland’s productivity is due to a small number of mostly foreign-owned firms in highly capital-intensive sectors such as ICT, chemicals and pharmaceuticals, while ‘the majority of Irish firms – the type of firms which provide the majority of employment in the State – show declining productivity’ (National Competitiveness Council 2018). This means that the wealth generated is very unequally distributed between wages and profits.

The decoupling of real wage increases from labour productivity growth is reflected in the long-term development of the wage share, as shown in Figure 3.6. In the EU, the wage share – as a measure of the share of the national income accounted for by labour compensation in the form of wages, salaries and other benefits (OECD 2018: 48) – decreased continuously from its peak in the early 1970s to hit an all-time low at the beginning of the 2000s. Because economic downturns tend to affect profits more than wages, the wage share increased during the heyday of the economic and financial crisis but resumed its decreasing tendency after 2013.

As Lübker and Schulten (2018: 11) point out, the reasons for the long-term decline of the wage share and the corresponding shift in income distribution from labour to capital are manifold and include the financialisation of the economy, the liberalisation of capital markets (Stockhammer et al. 2018), the deregulation of labour markets (Deakin et al. 2014) and the decentralisation of collective bargaining (Checchi and García Peñalosa 2010).
Wage developments

Figure 3.5 Development of real wages and labour productivity per person employed (2009–2018): gap between real wage and labour productivity (percentage points)

Source: AMECO Database (autumn 2018).

Figure 3.6 Long-term development of the wage share, 1960–2018 (wages in percentage of GDP at factor costs in the EU)

Source: AMECO Database (autumn 2018).

All these factors have helped to shift the balance of power from labour to capital and thus decrease the employee side’s bargaining power (Lübker and Schulten 2018; Bentolila and Saint-Paul 2003).

Figure 3.7 illustrates that, in spite of its countercyclical behaviour, the wage share has continued to decrease since the beginning of the crisis, in particular in those EU countries which were hard hit and in which a combination of austerity policies and political interventions into national collective bargaining systems had a negative impact on wage dynamics (Schulten and Müller 2015; Müller and Schulten 2019). The extreme case is again Ireland, with a staggering 38% decrease. This can in large part be explained by the dramatic increase in capital income caused by MNCs’ relocation of profits for tax avoidance purposes (Lübker and Schulten 2018, Fuest et al. 2013). Other countries that reported a strong drop in the wage share include Croatia (-11%), Romania, Malta and Portugal (-7% each), and Cyprus and Spain (-5% each).

The mystery of ‘wageless’ growth

Against the background of the ongoing economic recovery and expanding employment, many observers have been wondering why wages have not been growing accordingly. This mystery of ‘wageless’ growth has received considerable attention recently from international institutions such as the European Commission (2018b) and the OECD (2018). Their analyses illustrate that the moderate wage growth of the past five years is much less mysterious than it seems at first sight. The European Commission, for instance, found that in the majority of countries subdued wage growth can largely be explained by so-called ‘economic fundamentals’ such as low inflation, low trend productivity growth and high unemployment (European Commission 2018b: 88ff). Taking into account these ‘economic fundamentals’ there are only six countries left to which the mystery of ‘wageless’ growth applies, i.e. where wage growth was less dynamic than one would have expected in light of these factors. In descending order of the size of the absolute gap between actual and expected wage growth, these six countries are: Ireland, the UK, Portugal, the Netherlands, Cyprus and Croatia (European Commission 2018b: 96).

Additional explanations put forward include the existence of significant labour market reserves (see Chapters 1 and 2), which include people who have given up looking for
jobs, and the rising proportion of involuntary part-time workers who would like to work more hours (ECB 2017: 33; European Commission 2018b: 88). This essentially refers to the fact that official unemployment statistics systematically underestimate the extent of underemployment. Another factor that contributed to the recent moderate wage growth is the fact that many of the newly created jobs are precarious in nature (see Chapter 2 of this report for more on this topic), not well paid, and in sectors of the economy characterised by low union density and union bargaining power.

According to the European Commission (2018b), however, institutional factors such as collective bargaining coverage and union density have little impact on wage growth. The Commission’s study claims that while changes in collective bargaining coverage and union density ‘have a short-term, transitory effect on wage growth’ (European Commission 2018b: 101), the actual level of collective bargaining coverage and union density has no long-term effects on wage growth.

This finding is rather surprising in two respects. First, it contradicts the findings of the OECD (2018) that institutional characteristics such as the specific form of the collective bargaining system have an impact on a country’s economic and labour market performance. The OECD study contends that coordinated multi-employer bargaining systems based on broad-based collective bargaining parties tend to be associated with higher employment, lower unemployment, reduced wage inequality and higher wages for the workers covered (OECD 2018: 74ff).

Second, the Commission’s finding on this point contradicts the country-specific recommendations (CSRs) and memorandums of understanding which the Commission (co-)formulated during the crisis years. Thus, in times when the Commission’s key objective was to ensure a downward adjustment of wages in order to improve a country’s cost competitiveness, changes in the wage bargaining framework played a crucial role. It should be recalled that in the report ‘Labour Market Developments in Europe 2012’, the implementation of ‘employment-friendly’ reforms included the following elements: decrease statutory and contractual minimum wages, decrease bargaining coverage, decrease the (automatic) extension of collective agreements, reform the bargaining system to be less centralised (for instance by removing or limiting the favourability principle), and promote measures that result in an overall reduction in the wage-setting power of trade unions (European Commission 2012: 103-104). It therefore seems puzzling that in a context where the aim is for more dynamic wage growth as a central element of achieving sustainable and inclusive growth and making a positive contribution to people’s lives, a reversal of the above-mentioned measures in the field of wages and collective bargaining is not on the agenda. If the reduction or freezing of minimum wages and the dismantling of multi-employer bargaining structures is supposed to have restricted wage growth, then the logic follows that a more expansive minimum wage growth and support for multi-employer bargaining structures should help to achieve the new objective of more dynamic wage growth.
Sustained minimum wage growth
and convergence

Figures 3.8 shows that 2018 was the third successive year in which statutory national minimum wages grew dynamically. In 18 out of the 22 EU countries with a statutory minimum wage, increases were introduced, with effect from 1 January 2019. In the UK and Belgium, minimum wages were increased in April and September 2018 respectively. Greece and Latvia were the only two countries in which they remained at the same level as the year before. At the end of 2018, however, the Greek government decided to increase the minimum wage by more than 10% as of 1 February 2019. This will be the first increase in the minimum wage since it was reduced by 22% in 2012 and frozen thereafter as part of the Troika programmes. As regards nominal minimum wage growth between January 2018 and January 2019, three groups of countries can be distinguished. The first group comprises those 11 countries with a growth rate of 5% or more. This group consists mainly of central and eastern European (CEE) countries and ranges from Lithuania (38.4%) and Spain (22.3%) to Hungary (7.9%), Poland (7.1) and Slovenia (5.2%). The strong increases in CEE countries means that the convergence of minimum wages in the EU continued in 2018.

The second group, with increases between 3% and 5%, comprises four countries: the UK (4.4%), Germany (4%), Luxembourg (3.6%) and Portugal (3.4%). In the case of Germany, it is worth mentioning that minimum wages are increased biennially, which means that the recent increase has to be seen in light of the fact that in 2017 minimum wages did not increase at all (Schulten and Lübbker 2019). The third group of countries, with a very modest growth rate of less than 3%, consists of Ireland (2.6%), Belgium (2%), Malta (1.9%), France (1.5%) and the Netherlands (1.4%). Taking inflation into account, the modest nominal increases in this third group of countries mean that minimum wage earners suffered real wage losses in the following EU countries: the Netherlands (-0.2%), Belgium (-0.3%), France (-0.6%), Greece (-0.8%) and Latvia (-2.5%) (Schulten and Lübbker 2019).

Even though minimum wage growth was much more dynamic in those countries with lower absolute minimum wages, the diversity across Europe continues to exist. As regards the absolute level of (statutory) minimum wages, once again three groups of countries can be distinguished. As Figure 3.8 illustrates, the first group of countries, with minimum wages between €8 and €12, is comprised exclusively of western European countries. The leader of the pack is Luxembourg with €11.97, followed by France (€10.97), Germany (€10.61), Belgium (€10.5), Portugal (€10.39) and Denmark (€10.33). At the bottom of this group are Italy (€9.87), Spain (€9.71) and Greece (€9.71) and Belgium (€9.66). The figure for the UK is heavily distorted by the devaluation of the British pound vis-à-vis the euro since the Brexit vote in June 2016. Furthermore, another substantial increase which will take effect on 1 April 2019 has already been agreed upon. Based on the average exchange rate of 2018, the UK minimum wage will then rise to €9.28 (Schulten and Lübbker 2019).

The countries with the strongest minimum wage increases are in fact those with the lowest absolute minimum wages, which means that this strong growth can partly be explained by statistical base effects. Perhaps the most noteworthy increases are those in Lithuania and Spain. In Lithuania the strong increase is in line with the tripartite council’s minimum wage adjustment formula which stipulates that the minimum wage should account for 45-50% of the average wage. The higher minimum wage in Spain was introduced by the new socialist government as part of a general shift towards a more demand-led growth model.
The second group, with minimum wages between €4 and €8, is very small and includes only three countries: Spain (€5.45), Slovenia (€5.10) and Malta (€4.40). By far the largest group comprises the 12 mainly central and eastern European countries with minimum wages below €4. This group ranges from Portugal (€3.61) and Greece and Lithuania (€3.39 in both) to Romania (€2.68) and Latvia (€2.54). At the very bottom of the group is Bulgaria with a minimum wage of only €1.72 which, as the WSI minimum wage database illustrates, is closer to the EU neighbouring states of Serbia (€1.77) and Macedonia (€1.63) than to the other EU Member States in the third country group (WSI 2019).

The sustained minimum wage growth is reflected in the increased Kaitz index which measures the minimum wage as a percentage of the national full-time median or average wage. Because the Kaitz index is a relative measure, putting the minimum wage in relation to the overall wage structure, it is more suited for international comparisons than the absolute minimum wage level. Over time, the relationship between the minimum wage and the median wage became the more common measure for the Kaitz index. The median wage is defined as the wage that divides the overall wage structure into two equal segments; i.e. it marks the boundary between the highest paid 50% and the lowest paid 50% of employees. Figure 3.9, which is based on the OECD Earnings Database, shows minimum wages as percentages of both national median and average wages in 2017. Since the OECD data always has a one-year time lag, the most recent minimum wage increases in 2018 and January 2019 are not included.

The EPSR contains a commitment to ensure ‘adequate minimum wages … that provide for the satisfaction of the needs of the worker and his/her family’ and that ‘in-work poverty shall be prevented’ (European Commission 2017b: 27). Even though the EPSR does not specify the meaning of the vague term ‘adequate’, the reference to the needs of the worker and his/her family implies that minimum wages should be living wages, in the sense that they provide ‘more than mere subsistence enabling participation in society and some scope for workers and their families to insure against unforeseen shocks’ (Parker et al. 2016: 1). This, together with the explicit commitment to the objective of preventing in-work poverty, suggests that in order to achieve these objectives minimum wages should be at least 60% of the national full-time median wage. This can be seen as the ‘risk-of-poverty’ wage threshold, established with the goal of ensuring that workers are not dependent on the state (through tax credits or in-work benefits) to ensure relief from poverty. This is in line with the European Parliament’s Committee on Women’s Rights and Gender Equality which, in its opinion on the EPSR, recommends a minimum wage of at least 60% of the national median wage in order to implement the EPSR’s commitments (European Parliament 2016: 35).

Figure 3.9 demonstrates that despite the recent minimum wage increases, only France and Portugal are above this ‘risk-of-poverty’ threshold. In 10 out of the 19 EU countries for which the OECD provides data, the relative level of the minimum wage is even below 50% of the national median wage. Even though these figures clearly illustrate how much there still needs to be done to fulfil the commitments of the EPSR as regards ensuring ‘adequate’ minimum wages, considerable progress has been made over the past 20 years. The discussion about the failure of minimum wages to ensure a decent living standard has spurred initiatives in various EU countries that have led to above-average minimum wage increases (Schulten and Müller 2019). Increasingly, the 60% threshold has nevertheless served as a benchmark for setting minimum wages.
for setting the minimum wage. In the UK, for instance, the national living wage, which is a statutory minimum wage, came into effect on 1 April 2016 with the explicit objective to be raised to 60% of the national median wage by 2020. The most recent minimum wage increase in Spain was explicitly justified as an important step to reach the 60% threshold (Schulten and Lübker 2019), and in Austria, the Austrian Trade Union Confederation (ÖGB) decided at its Congress in 2018 that no wage set in a collective agreement should be below €1,700 per month. This new minimum wage target amounts to approximately 60% of the national median wage (Hofmann and Zuckerstätter 2019).

Figure 3.10, which shows the unweighted EU average of the Kaitz index, illustrates the progress that has been made during the past 20 years. The average Kaitz index in the EU grew from 44.2% in 2000 to 50.6% in 2017. While the continuous growth of the Kaitz index is good news, Figure 3.10 also shows that the 2017 figure is still almost 10% short of the 60% threshold. In order to achieve the 60% target, minimum wages need to continue to grow more dynamically than the overall wages. It should be emphasised, however, that the discussion about the 60% target always needs to be linked with the discussion about strengthening multi-employer bargaining systems, in order to stabilise the whole wage structure. After all, 60% of a very low median wage is still not enough to fulfil the EPSR’s commitment to ensure a wage that provides for the satisfaction of the needs of the worker and his/her family.
Some first national attempts to strengthen bargaining coverage

Principle 8 of the EPSR contains the explicit commitment to encourage the collective bargaining actors to negotiate and conclude agreements in matters relevant to them, while respecting their autonomy and the right to collective action (European Commission 2017a: 33). One way to assess the extent of collective bargaining is the collective bargaining coverage, which indicates the share of employees who are covered by a collective agreement. Figure 3.11 provides an overview of the collective bargaining coverage in the EU Member States before and after the crisis.

Figure 3.11 illustrates that the highest and most stable collective bargaining coverage exists in those countries whose bargaining systems are characterised by multi-employer bargaining, where negotiations mainly take place at sectoral or, in some cases such as Belgium and until recently Finland, even at cross-sectoral level. Further crucial characteristics of extensive collective bargaining systems are, first, the existence of legal extension mechanisms (or functional equivalents) that ensure that collective agreements also apply to companies which did not sign the agreement or which are not members of the employers’ federation that signed the agreement; and second, the existence of broad-based bargaining parties like in Denmark and Sweden, where no legal extension mechanism exists and where high bargaining coverage solely rests on the organisational strength of the two bargaining parties. By contrast, the lowest coverage can be found in countries with single-employer bargaining arrangements. This applies in particular to a range of central and eastern European countries, such as the Baltic states, Hungary and Poland, where coverage decreased even though it was already at a fairly low level before the crisis.

Against this background it is not surprising that the countries with the highest drop in collective bargaining coverage during the crisis were all, to varying degrees, exposed to measures that led to the decentralisation of collective bargaining and/or that suspended or curtailed legal extension mechanisms. These countries are: Greece and Romania with a drop of 65 percentage points followed by Slovenia (-27pp), Slovakia (-16pp) and Portugal (-14pp).

In the case of Portugal, the 72% coverage shown in Figure 3.11 is misleading because this figure refers to the stock of agreements; i.e. the collective agreements that still exist but that may not have been renewed for years and have essentially lost their regulatory capacity. The more telling figure in Portugal therefore is the ‘flow’ of newly concluded or renewed agreements whose coverage dropped to 10% in 2014 and only slowly recovered to 28% in 2016 as a consequence of the less restrictive criteria for the extension of collective agreements that were introduced in 2014 (Campos Lima 2019). If one takes the flow of agreements as the key indicator for collective bargaining coverage in Portugal – rather than the stock of agreements – then the decline is as dramatic as in Greece and Romania.

More recently, attempts have been made in Portugal, Greece and Spain to strengthen collective bargaining coverage by reversing some of the most far-reaching ‘reforms’ that have been introduced as part of the crisis management. In Portugal, for instance, in May 2017 the newly elected government introduced less restrictive criteria for the extension of collective agreements. In September 2018, the Greek government re-established collective agreements for some sectors such as banking, fishing, tourism, hospitality and mining. Finally, at the end of 2018, the newly elected government in Spain not only...
Wages and collective bargaining: time to deliver on the European Pillar of Social Rights

3.

Trends in collective bargaining and strike activity

Figure 3.1.2 Country-specific recommendations in the field of wages and collective bargaining (2018/2019)

<table>
<thead>
<tr>
<th>Formal Recommendations</th>
<th>Justification</th>
</tr>
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<tbody>
<tr>
<td>BG</td>
<td>More transparency in minimum wage setting</td>
</tr>
<tr>
<td></td>
<td>Lack of transparency jeopardises proper balance between objectives of supporting employment and competitiveness and safeguarding labour income</td>
</tr>
<tr>
<td>DE</td>
<td>Create conditions for higher wage growth</td>
</tr>
<tr>
<td>EE</td>
<td>Reduce the gender pay gap</td>
</tr>
<tr>
<td>FI</td>
<td>Align wages with productivity</td>
</tr>
<tr>
<td>FR</td>
<td>Ensure that minimum wage developments are consistent with job creation and competitiveness</td>
</tr>
<tr>
<td></td>
<td>Minimum wage indexation hampers overall wage adjustment to changing conditions with potential negative consequences for competitiveness</td>
</tr>
<tr>
<td>HR</td>
<td>Reform public sector wage setting</td>
</tr>
<tr>
<td></td>
<td>Lack of coherence in wage setting in public sector impedes equality of treatment and government control over public wage bill</td>
</tr>
<tr>
<td>NL</td>
<td>Create conditions for higher wage growth</td>
</tr>
<tr>
<td>RO</td>
<td>More transparency in minimum wage setting</td>
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<thead>
<tr>
<th>Informal Recommendations</th>
<th>Justification</th>
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<tbody>
<tr>
<td>AT</td>
<td>Address gender pay gap</td>
</tr>
<tr>
<td></td>
<td>To reduce the large gender pension gap</td>
</tr>
<tr>
<td>CY</td>
<td>Reform public sector wage setting</td>
</tr>
<tr>
<td></td>
<td>Lack of a permanent solution to limit growth of public sector wage bill impedes government strategy of fiscal consolidation</td>
</tr>
<tr>
<td>CZ</td>
<td>Address gender pay gap</td>
</tr>
<tr>
<td></td>
<td>To improve the employment rate among women</td>
</tr>
<tr>
<td>DE</td>
<td>Address gender pay gap</td>
</tr>
<tr>
<td></td>
<td>To create incentives to make full use of female labour market potential</td>
</tr>
<tr>
<td>FI</td>
<td>Continue with more decentralised bargaining at sectoral and local level</td>
</tr>
<tr>
<td></td>
<td>More wage differentiation between firms ensures that real wage increases are in line with productivity and therefore does not harm cost competitiveness</td>
</tr>
<tr>
<td>IT</td>
<td>Increase bargaining at firm or territorial level</td>
</tr>
<tr>
<td></td>
<td>To improve swift adaptation of wages to local economic conditions</td>
</tr>
<tr>
<td>PT</td>
<td>Monitor minimum wage development</td>
</tr>
<tr>
<td></td>
<td>Wage compression resulting from minimum wage increases may threaten the skills wage premium and lower incentives for low-skilled workers to invest in education and training</td>
</tr>
</tbody>
</table>

Source: authors’ own compilation.

restored the primacy of sectoral agreements over company agreements on issues such as pay and working time but also the validity of collective agreements after expiry.

However, the fact that collective bargaining coverage is still declining in the majority of EU countries illustrates the need for political support in cases where trade unions are not strong enough (any more) to ensure extensive bargaining coverage. In line with the commitment made in the EPSR, European policymakers could support the strengthening of collective bargaining by way of issuing country-specific recommendations that promote multi-employer bargaining, for instance by facilitating the extension of collective agreements and/or by strengthening the favourability principle which ensures the primacy of sectoral agreements over company-level agreements.

Country-specific recommendations 2018/2019: not yet any evident impact of the EPSR

The 2018 country-specific recommendations (CSRs) were the first real test of how serious the European Commission is about living up to its commitments made in the EPSR in the field of wages and collective bargaining because they were the first set of CSRs that were issued after the Pillar's proclamation in autumn 2017. Against this background, the 2018 CSRs in the field of wages and collective bargaining are ambiguous. On the one hand, they no longer exclusively aim at implementing supply-side oriented policies which exclusively view wages as costs and collective bargaining as an institutional rigidity that needs to be curtailed. One reason for this, however, may be that most of the supply-side ‘reforms’ have already been implemented so there is neither need nor scope for further supply-side ‘reforms’ (Crespy and Schmidt 2017). On the other hand, however, neither do the CSRs fully embrace and support the EPSR’s commitments.

As has been usual in recent years, the 2018 CSRs can be divided into formal recommendations and ‘informal’ or ‘hidden’ recommendations, which means that in addition to the official CSRs there are recommendations that are only to be found in the recitals that precede the actual recommendations (Clauwaert 2018). Given the non-binding character of formal CSRs, there is no real difference between formal and informal recommendations in practice because the effect of both in terms of influencing national policies relies on moral suasion. As regards content, the CSRs (both formal and hidden) can be divided into four
standard recommendations concerning: (1) the reform of wage-setting systems, (2) the change of wage policies, (3) the reform of minimum wage-setting and policies, and (4) the reduction of the gender wage gap.

Let’s start with the positive aspects. These encompass the recommendations to address the gender pay gap in Austria, Czechia, Germany and Estonia in order to increase female labour market participation and realise women’s full labour market potential. By fostering wage convergence between men and women these recommendations can be seen as an attempt to ensure appropriate wages for women. Also positive are the recommendations addressed to Germany and the Netherlands, who were asked to create the conditions for higher wage growth in order to boost internal demand and to contribute to a rebalancing within the euro area.

All the other recommendations more or less follow the Commission’s usual supply-side oriented approach which primarily aims at ensuring and improving cost competitiveness. To this end, Finland is asked to align wages with productivity and Croatia is asked to reform public wage-setting to ensure control over the public sector wage bill. Two informal recommendations support a further decentralisation of collective bargaining. Italy is asked to support more bargaining at firm and territorial level in order to improve the swift adaption of wages to local economic conditions; and Finland received the informal recommendation to continue with more decentralised bargaining at sectoral and local level to ensure that wage increases do not harm cost competitiveness.

Similarly, Bulgaria and Romania – the two countries with the lowest absolute minimum wages but the most dynamic minimum wage development during the past years – were asked to increase transparency in minimum wage-setting which can be understood as an invitation to ensure more moderate minimum wage increases. As usual, France, the country with the highest relative minimum wage level, received the formal recommendation to ensure that minimum wage developments are consistent with the objectives of job creation and competitiveness.

To sum up, the 2018 CSRs are more interesting for what they do not include than for what they do. Completely absent in the field of wages and collective bargaining are, for instance, any recommendations supporting the restoration of multi-employer collective bargaining systems that have been dismantled during the crisis years. Also absent are recommendations that live up to the commitment of ensuring fair wages which provide for a decent living standard and adequate minimum wages that satisfy the needs of workers and their families. If this had been the case, those countries with a relative minimum wage level below 60% of the national median wage would have received a recommendation on ensuring a more dynamic minimum wage growth.

Trade union membership in Europe: bleak prospects

A long-term decline in union membership and density

Institutional support for collective bargaining, for instance via legal extension mechanisms, is only one way to ensure high collective bargaining coverage. The examples of Sweden and Denmark, where there is no legal extension mechanism and where broad-based bargaining parties ensure high coverage, illustrate that trade union density is another important factor. However, the development of union membership in Europe is not very encouraging.
The bar graphs (left-hand scale) in Figure 3.13 depict total trade union membership in the EU28 and Norway and Switzerland from 1990 until 2015 (the latest year for which data is available for most countries). Total union membership has dropped from about 52 million members in 1990 to nearly 37 million members in 2015, which amounts to a decrease of 29.2%. The strongest decline, by 20.1%, occurred in the 1990s, which is largely explained by the drastic and rapid fall in union membership in central and eastern Europe. In general, the 2000s were marked by a slower decrease in membership of 3.6%, but this accelerated again to 9.7% in the 2010–2015 period. Nevertheless, despite this decline, unions have still been able to rely upon a growing (at least until 2009) and relatively high level of social legitimacy, especially among social groups exposed to economic vulnerability like young people and migrant workers (Frangi et al. 2017).

The line graph (right-hand scale) in Figure 3.13 shows a slow but almost inexorable decline of union density in Europe, of which the financialisation of the economy is just one of the explanations (Kollmeyer and Peters 2018; Grady and Simms 2018). While, on average, about one out of two workers was unionised in 1990, this proportion had declined to nearly 25% by 2015. This is an aggregated figure masking, for instance, occupational and sectoral variation, and is in fact even lower, as the denominator (the number of wage and salary earners) does not include workers not considered ‘relevant’ for unions, such as the solo self-employed and workers in the ‘shadow economy’.

**Persistent country differences**

Figure 3.14 compares averages in trade union density in the 1990s, 2000s and the period 2010–2016. The averages demonstrate that union density has declined in most countries in all three periods, especially in the CEE countries. There are a few exceptions, however.

Belgium, Spain and France have a rather stable union density throughout, but the Spanish stability is not the result of union growth but of membership falling at a slower rate than employment. The case of France, with its low unionisation rates, illustrates that workers’ power can also be based on their mobilisation capacity (Sullivan 2010). Indeed, in addition to workers’ associational power, other power resources and their capabilities to use them (Lévesque and Murray 2010) should be considered when assessing workers’ power vis-à-vis employers. Density in Denmark, Norway and Greece (with the last data point in 2013) only slightly deteriorated when the latest period is compared with the 2000s. Union density even increased in Italy in the period 2010–2015, but this is largely due to a decrease in the number of wage and salary earners.

All in all, considerable divergence in the level of unionisation remains as a result of the variation in labour-friendly labour market institutions (Schnabel 2013) together with common conceptions about union membership. The Nordic countries and Belgium are still at the top of the ‘unionisation league’ due to a relatively benevolent institutional setting. While unions’ involvement...
Trends in collective bargaining and strike activity

Figure 3.15 Days not worked due to industrial action in Europe per 1,000 employees (weighted average) (1990-2017)

Source: ETUI, based upon data from national statistical offices. For details about the availability and reliability of data, see Dribbusch and Vandaele (2016). Note: figures in brackets indicate number of countries upon which wa is based on.

in voluntary unemployment insurance schemes (the ‘Ghent system’) is an important explanation for this (except in the case of Norway) (Høgedahl and Kongshøj 2017), union access to the workplace is also key (Ebbinghaus et al. 2011; Ibsen et al. 2017). Furthermore, centralised collective bargaining is associated with a higher unionisation level (Rasmussen 2017). At the bottom of the league we find most of the central and eastern European countries; Croatia, Slovenia and Romania have been exceptions, but decline has also started in these countries.

An urgent need for experimentalism

The decline of union membership as a crucial element of trade unions’ organisational power resources (Schmalz et al. 2018) has led to new debates about organising strategies. What we can see is some convergence in trade union responses, with the promotion of variants of the US-style ‘organising model’ from the English-speaking world to continental Europe (Ibsen and Tapia 2017). Furthermore, centralised collective bargaining is associated with a higher unionisation level (Rasmussen 2017). At the bottom of the league we find most of the central and eastern European countries; Croatia, Slovenia and Romania have been exceptions, but decline has also started in these countries.

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No sign of an upsurge in strike activity (yet)

An overall long-term decline in the strike volume

Strikes and industrial action can be seen as an indicator of the structural power resources of trade unions, defined as the capacity to influence or disrupt processes of production and capital utilisation (Müller and Platzer 2018: 305). The line graph in Figure 3.15 depicts the weighted average of the days not worked due to industrial action per 1,000 employees in most European countries, especially those in western Europe, from 1990 until 2017. It displays a declining trend, with relative peaks in the strike volume in 2002 and 2010. The first peak has been attributed to the recession following the ‘dot-com bubble’ and the 9/11 terrorist attacks (European Commission 2011: 46), whereas the second peak mainly results from ‘national days of action’ against pension reforms in France (Ancelovici 2011). Thereafter, the volume falls to a level below 40 days. Data on industrial action are generally underestimated and this is certainly the case for post-2008 developments, as data for some strike-prone countries are lacking and several general strikes linked to anti-austerity protests are ignored (Dribbusch and Vandaele 2016). There are also no data yet for France for the two most recent years of 2016 and 2017; adding this
data will certainly increase the strike volume. It remains to be seen whether the (at least) two emblematic transnational strike actions in Europe, at Amazon and Ryanair, will lead to a significant reversal in strike activity. In general, the long-term but uneven fall in the strike volume mirrors the shrinking importance of industrial trade unionism, as well as a shift in strike activity towards the private service sectors, especially within transport and logistics, where strikes tend to be shorter, and sometimes smaller, due to their more disruptive capacity (Bordogna and Cella 2002; Vandaele 2016).

A more mixed picture at the national level…

Figure 3.16 compares the average strike volume in the 1990s, 2000s and the 2010–2017 period for all the countries for which (sufficient) data is available. It largely confirms the secular trend in the strike volume, but it also provides a more nuanced picture at the national level. Thus, in several countries, on average, the volume has markedly declined in the two periods following the 1990s. This is the case in Denmark, Spain, Finland, Ireland, Malta, Sweden, Poland and Latvia. Strike activity is virtually absent in most CEE countries.

The picture is more diverse in other countries. Due to an open-ended conflict that erupted in the construction industry in 2013, there has been a remarkable increase in Cyprus, which topped the European ‘strike league’ in the last period. Over the last two periods the strike volume was fairly stable in France, Portugal and Latvia. Countries with low strike rates like Germany, the Netherlands and Estonia saw a certain increase in the last period compared to the 2000s. For the other countries, no meaningful comparison can be made between the three decades due to a lack of data.

...and persistent country differences

Above all, Figure 3.16 demonstrates the persistence of cross-country differences over time. These differences tend to increase during upswings in industrial action (Brandl and Traxler 2010). In particular, political mass strikes like large-scale strikes in the public sector and general strikes help to explain differences in a country’s volume. A quintessential example of this is the exceptional general strike against pension reforms that took place in Austria in 2003. In general, there were more political mass strikes during the crisis, but this is not the case for all countries. This can be accounted for by the following four factors. First, the crisis affected economies differently. Second, as economic hardship provides a context for grievances and feelings of relative deprivation, the protest cycle is linked to the austerity programmes because they made it more likely for blame to be attributed to political authorities (Bermeo and Bertels 2014). Third, besides the timing and severity of the austerity programmes, the organisational cohesion between unions and their institutional access to negotiations with political authorities have also varied, all of which has generated country-specific dynamics of resistance (Ancelovici 2015). Finally, changes in the deployment of the strike weapon over time and across countries (and industries) also reflects its context-dependent character, particularly regarding the legally institutionalised recognition of labour rights (Gentile and Tarrow 2009). In other words, nationally embedded ‘action repertoires’ go a long way in explaining the sustained cross-national variation in the strike volume and its uneven development (Andretta et al. 2016). With the goal of ‘achieving more equal political voice’ (Kurer et al. 2018: 21), trade unions can act as mobilisation machines for political mass strikes or other expressions of workers’ dissatisfaction and resistance. The right to strike should be cherished; instead, it is being assaulted by various political authorities and employers across Europe (Xhafa 2016).
The European Social Dialogue in the hands of the CJEU

Another measure of the seriousness of the Commission’s commitment to supporting the negotiation of collective agreements is its approach towards social dialogue at European level. In order to demonstrate its support for the European Social Dialogue (ESD), the Commission held a high-level conference in March 2015 to launch a ‘new start for social dialogue’. This supportive attitude was then further confirmed in Principle 8 of the EPSR.

The first real test, however, of the seriousness of this commitment to strengthen social dialogue came in December 2015 when the Sectoral Social Dialogue Committee for Central Government Administrators signed a European agreement on the rights of workers and their trade union representatives to be informed and consulted on restructuring, collective redundancies, working time, health and safety and work/life balance issues. The ultimate aim of the agreement is to end discrimination against millions of workers in public administration by ensuring that they enjoy the same information and consultation rights as workers in the private sector (EPSU 2018).

The agreement was submitted to the European Commission with a request to implement it at the EU level by legislative means. As shown in Figure 3.17, Article 155 TFEU provides that in matters falling within the EU social policy competence (which explicitly includes workers’ information and consultation rights) the agreement is to be implemented by a Council decision on a directive proposal from the Commission. This procedure therefore constitutes an exception to the usual monopoly the Commission enjoys over the content of legislative proposals, and is in line with Article 17(2) TEU which allows exceptions to the standard procedure where Treaties so provide.

On 5 March 2018 the Commission decided not to propose to the Council to implement the ‘General framework agreement for informing and consulting civil servants and employees of central government administrations’ by a directive in line with Article 155(2) TFEU. Because of the Commission’s refusal to put forward a legislative proposal implementing a sectoral European framework agreement in EU law, the European Public Service Union (EPSU) decided to legally challenge this decision before the European Court of Justice. The relevance of this case brought by EPSU against the European Commission (T-310/18 EPSU and Willem Goudriaan v Commission) to the future of the ESD cannot be overstated. If the outcome is unfavourable for EPSU, then the ESD will be considerably weakened despite the many recent proclamations by the European Commission to strengthen it.

What is at stake in the case EPSU and Willem Goudriaan v Commission is the limitation to the Commission’s quasi-monopoly on issuing legislative proposals. In practice, the effectiveness of the ESD depends to a large extent on the power of European trade unions and employers’ organisations to act as full authors and ‘owners’ of a legislative proposal in situations where the correct procedure has been followed and where the agreement concluded is within the scope of the EU social policy competence as set out in Article 153 TFEU. This ensures that, first, the social dialogue parties negotiate in the knowledge that their failure could lead to a possible alternative proposal from the Commission. Second, it also ensures the relevance of the agreement and its ability to change the working conditions of millions of workers across the EU since it will become really binding at the EU level. These factors provide incentives to both sides, workers and employers, to negotiate and reach an agreement.

If one takes away the obligation of the Commission to issue a legislative proposal at the request of the social dialogue parties, this impinges on the essence of the ESD process because the social dialogue parties’ role is then reduced to coming up with mere legislative ‘suggestions’ without any guarantee that they will be presented for a political vote in the Council. The special role that the Treaties have afforded to the social partners in such a case remains unfulfilled. Moreover, the Commission’s actions can be seen as a breach of Article 152 TFEU, which obliges the Union, including the Commission, to facilitate dialogue between trade unions and employers. It is exactly this obligation which was recently allegedly reinforced and strengthened by the EPSR.

Finally, in line with the principle of institutional balance set out in Article 13(2) TEU, each institution has to act within the limits of powers conferred on it by the Treaties and also practice mutual sincere cooperation. The Commission’s refusal could be seen as a significant breach of this principle because its actions undermine the legislative power of the Council which, as the sole legislator under this procedure, is entitled to a political vote over whether or not to turn the agreement into EU law.

The judgment on this case can be expected towards the end of 2019, and it remains to be seen whether the CJEU will choose to save or bury the European Social Dialogue. Regardless of the CJEU judgement, however, the political damage is already done because the Commission’s refusal to implement the framework agreement sends the unmistakable signal that the commitments made in the EPSR have not yet been acted upon by the European Commission.

Increased scrutiny under EU law

The above-mentioned case, EPSU and Willem Goudriaan v Commission, is not the only one in the broader field of collective bargaining. In 2018 numerous collective agreements were scrutinised before the CJEU and their compatibility with EU law was repeatedly questioned. Furthermore, in several cases brought by trade unions, the CJEU ended up ruling in favour of the opponent. Therefore, the overall picture of outcomes of CJEU cases for the trade unions is somewhat bleak.
Figure 3.17 Consultation and negotiation procedure in accordance with Articles 154 and 155 TFEU

Source: authors’ own compilation based on European Commission (2016: 7).

3.

Wages and collective bargaining: time to deliver on the European Pillar of Social Rights

For example, in the case C-385/17 Torsten Hein, the German federal law on annual leave provided that statutory payment for annual leave must be calculated on the basis of average earnings during a reference period. However, the law also allowed to derogate from this provision in collective agreements. In the construction sector the collective bargaining parties had agreed that the calculation of remuneration for annual leave should be based on the gross wages during the reference period. Unfortunately, while this provision was beneficial for most workers, for the applicant in the case, a person with a disability, this meant a lower level of remuneration. This was so because he had had periods of short-time working and the reduced wages received during those periods were considered when calculating remuneration for annual leave.

The applicant questioned the compatibility of the respective collective agreement provisions of the Working Time Directive (2003/88/EC) which establishes minimum standards in the field. The CJEU ruled that these provisions were incompatible with the directive since as a result of their application the worker in question received remuneration for annual leave that was lower than the normal remuneration which he receives during periods of work. Despite the situation being ‘horizontal’ (between two private parties) and the supposed lack of ‘horizontal direct effect’ of directives, the national court was ordered to interpret the national law in line with the directive.

Similarly, in the Case C-312/17 Surjit Singh Bedi, the validity of several provisions of the collective agreement on social security for persons employed by armed forces stationed in Germany was in question. This agreement provided that the right to a ‘bridging assistance’ following a job loss ceases to exist once the worker is entitled to early payment of a retirement pension. Again, the CJEU considered the provisions in question to be incompatible with EU law, namely Article 2(2) of the Equal Treatment Directive (2000/78/EC) on the prohibition to discriminate based on age.

In contrast, in C-46/17 Hubertus John, where the applicant argued that rules in the collective agreement providing that an employment contract is terminated on the date on which a teacher reaches qualifying age for his/her retirement pension breached the requirements of EU law, the CJEU considered these rules to be in line with EU law: in particular with the Equal Treatment Directive but also the Fixed-term Work Directive (1999/70/EC).

Two other cases that were of relevance for trade unions in 2018 were C-64/16 Associação Sindical and the joined cases C-195/17 Krüsemann and Others et al. In the first case the trade union of Portuguese judges had brought an action challenging the compatibility of the temporary reduction of the remuneration of judges (triggered by the EU’s imposed conditions for granting financial assistance to the country in question) with the principle of judicial independence. The Court, however, ruled that general salary-reduction measures, which concern a broader spectrum of workers in the public sector than just judges, do not breach EU law.

In happier news, in Krüsemann and Others the CJEU importantly found that passengers have a right to compensation for cancelled or long delayed flights even if the delays and cancellations are caused by a ‘wildcat strike’. The CJEU ruled that the airline company cannot rely on the exemption of ‘extraordinary circumstances’ in such a situation and has to pay compensation in full. This is very welcome since, first, it makes the strike action much
more effective, and second, it mitigates the negative effects on customers which might cause ill feelings towards the striking workers.

Overall, these cases indicate that EU law requirements that go beyond national implementation measures are becoming increasingly relevant for the bargaining parties. Accordingly, in some instances the validity of collective bargaining outcomes might hinge on their compatibility with EU law measures. This means that during negotiations, trade unions, especially at cross-sectoral and sectoral level, have to be prepared to assess such compatibility in order to ensure that agreements are later not struck down by courts.

**Varying outcomes before the ECSR and ECtHR**

The outcomes for trade unions before the European Committee of Social Rights (ECSR) and the European Court of Human Rights (ECtHR) when it comes to the right to collective bargaining and the right to strike have varied.

In fact, in three out of four cases involving trade union rights in 2018 where the ECSR ruled on the merits of the case, the outcome was unfavourable for the trade union. First, in *EUROMIL v Ireland* (complaint No. 112/2014) the committee found that not affording proper trade union rights to the defence force representatives is compatible with the European Social Charter. Second, the Committee also found no breach in the case *EUROFEDOP v Greece* (complaint No. 115/2015) where the EUROFEDOP had challenged the length of compulsory service required of medical doctors in the armed forces as being too lengthy, and the compensation that must be paid by doctors that leave as excessive. Third, in the case *ICTU v Ireland*, the ECSR considered that a decision of the Irish Competition Authority prohibiting certain workers deemed self-employed from concluding collective agreements, which was challenged on the basis of Article 6 of the European Social Charter (the right to bargain collectively), was perfectly in line with the Charter.

The only case in 2018 where a trade union achieved a partial success before the ECSR was in the case *FO v France* (complaint No. 118/2015) where the trade union successfully challenged the prohibition of the designation of an insurer by the two sides of industry. The ECSR ruled that this prohibition breaches Article 6(2) ESC.

Trade unions achieved better outcomes before the ECtHR. In *Ognevenko v Russia* (application No. 44873/09) the applicant had challenged his dismissal, which was partly based on his participation in a strike. The ECtHR found this to be in breach of Article 11 ECHR (the right to freedom of assembly and association). The ECtHR also found a breach of the same article in the *United Civil Aviation Trade Union and Csorba v Hungary* (application No 27585/13) where the Hungarian authorities had prohibited a strike demonstration on a road (the part of it not used by traffic) on the grounds that the planned demonstration would endanger traffic and render an airport inaccessible.

In sum, trade unions and collective bargaining practices and outcomes are coming under increased scrutiny under European law and before European courts and quasi-judicial bodies, where their compatibility with the law is being questioned. The outcomes of these cases increasingly vary, with such long-time allies of the trade unions as the ECSR ruling less often in their favour.
Conclusions

The European integration project is under strain, with pressure coming from various directions. In addition to the debt, euro and migration crises, Europe is still faced with a social crisis. One indicator of this social crisis is the steadily increasing proportion of workers who cannot make a living from what they earn. The widespread perception that the EU crisis management based on austerity and internal devaluation contributed to this development, or at least did little to fix it, has led to a dramatic erosion of trust in the EU. Anti-European populist parties across the continent are exploiting this sentiment and successfully disseminating their Euro-sceptic attitude which perceives the EU as an elite project that merely serves the interests of business and disregards the social interests of its citizens. Against this background, supporting a more dynamic wage growth and collective bargaining (as the key tool that can deliver the former) is part of the new European ‘social question’ that goes to the very heart of the European integration project.

The strong emphasis the Juncker Commission has placed on strengthening the social dimension, culminating in the proclamation of the EPSR in Autumn 2017, indicates that European policymakers are well aware of the need to deliver tangible results in the improvement of the day-to-day lives of European citizens. The fact that support for ‘fair wages’, ‘adequate minimum wages’ and ‘collective bargaining’ is included in the EPSR under Principles 6 and 8 further demonstrates the Commission’s acknowledgment that the discussion of these issues should no longer be restricted to the narrow confines of whether or not they impinge on a country’s cost competitiveness. It explicitly acknowledges the social dimension of wages and collective bargaining in fostering social cohesion, both from a geographical perspective by striving for wage convergence between west and east and north and south and from a class perspective by redistributing income from capital to labour with a particular focus on supporting those workers who struggle to make a living from what they earn.

European policymakers are failing to live up to the commitments made in the EPSR

The key focus of this year’s chapter on wages and collective bargaining, therefore, has been an assessment of the extent to which European institutions have been supporting a more dynamic wage growth and multi-employer bargaining as part of the set of values on which the notion of a ‘Social Europe’ is based. More specifically, the analysis has focused on the extent to which the European Commission has lived up to the commitments made in the EPSR in the field of wages and collective bargaining.

So, what have European-level decision-makers done to support ‘fair wages’, ‘adequate minimum wages’ and ‘collective bargaining’? The first real test in this respect were the 2018/2019 CSRs, the first to be issued after the proclamation of the EPSR. Our analysis of the 2018/2019 CSRs confirms Hacker’s assessment that the EPSR has so far done nothing to change the dominance of fiscal and competitiveness-related objectives over social ones (Hacker 2018: 48). Even though there were some recommendations to reduce the gender pay gap and create the conditions for stronger wage growth, the bulk of formal and informal recommendations follows the logic of improving a country’s cost competitiveness by ensuring moderate minimum wage growth and the decentralisation of collective bargaining.

There was no recommendation for more dynamic minimum wage growth in countries with relatively low minimum wages such as Spain, Czechia or Estonia; nor was there a recommendation in support of multi-employer bargaining systems, in particular in those countries in which these systems were dismantled as part of the crisis management.

The Commission’s record on supporting social dialogue at the European level has not been encouraging. In contrast to the late 1990s and the 2000s when the Commission’s legislative proposals actively supported Social Dialogue by triggering processes of ‘bargaining in the shadow of the law’, the Commission recently refused to implement the ‘General framework agreement for informing and consulting civil servants and employees of central government administrations’ signed by the Social Dialogue Committee for Central Government Administrators. This sends a strong message that undermines the Commission’s frequent proclamations on the importance of Social Dialogue, even more so since this is the second time in a row that it refuses to transpose a framework agreement concluded by Sectoral Social Dialogue Committees. The first one was in April 2012 when the Commission refused to transpose the agreement on the protection of occupational health and safety signed in the hairdressing sector into a directive. Furthermore, the analysis of recent CJEU cases shows that national collective agreements still receive little support in CJEU rulings, as illustrated by the various cases in which the compatibility of collective agreements with EU law has been questioned.

Measured against the commitments made by the European institutions and the Member States to supporting ‘fair wages’, ‘adequate minimum wages’ and ‘collective bargaining’, the actual results were very disappointing in 2018. What is still lacking are concrete initiatives that could make a direct and positive difference in European citizens’ day-to-day lives in order to overcome the European legitimacy crisis. It is high time to deliver on the EPSR and get serious in upholding its commitments.
An alternative approach to support wage growth and collective bargaining

What would such an initiative look like in the field of wages and collective bargaining? The first step could be to give the EPSR more bite by adopting a ‘social progress protocol’ that ensures that in the event of a conflict of economic and social objectives, the latter are given priority. Second, the CSRs, as one of the key tools for implementing the EPSR’s principles, should more actively embrace the commitments made to promoting fair wages, adequate minimum wages and collective bargaining. Third, the Social Scoreboard should include clearly defined indicators that specify what is meant by, for instance, the term ‘adequate minimum wages’. This could include a minimum threshold for minimum wages at 60% of the national median wage. Another possibility would be a minimum threshold of collective bargaining coverage to be reached by EU Member States within a certain period of time. In its latest resolution, the ETUC recommends a coverage of at least 60% to be reached by 2025 (ETUC 2018: 1). This kind of minimum threshold could be monitored in the context of the European Semester, and countries that show no movement towards these criteria could receive a CSR on ‘creating the conditions for higher collective bargaining coverage’, along the lines of the CSRs that have been addressed to the Netherlands and Germany with respect to ‘creating the conditions for stronger wage growth’. Concrete measures to this effect could include the introduction or strengthening of existing extension mechanisms, the strengthening of the favourability principle and the introduction of collective bargaining clauses in the rules on public procurement stating that contracts can only be awarded to contractors who respect the right to collective bargaining and collective agreements. In order to support Member States in building the structures needed for real collective bargaining, the EU could introduce a fund dedicated specifically to this purpose. The EPSR is a tool that has the potential to make Europe more social and help turn the anti-European tide, but it is time to deliver.
This chapter investigates 'democracy at work' in theory and presents some empirical evidence of it in practice in today’s European Union. Beginning with a conceptual discussion of how we can understand the meaning of democracy at work across a range of different approaches, we go on to explore its beneficial impact on civic democracy, economic performance, the reduction of inequalities, sustainability, and job quality. Turning then to existing EU and national-level policies, we assess the current state of play of democracy at work as it is articulated and implemented across a wide range of EU and national policy instruments. We look at some concrete outcomes, such as the instruments put in place for the protection of occupational health and safety. We critically address shortcomings of the proposed Company Law Package regarding workers’ participation in corporate governance. We identify unequal access to democracy at the local workplace level and assess the state of play of gender equality. Finally, we examine different democratic aspects of European Works Councils and board-level employee representation. We conclude that although there is clearly a positive and beneficial relationship between various instruments of democracy at work, there are still marked deficiencies in the provision and exercise of democratic rights at the workplace and at company level across the European Union.
Democracy at work: what, why and how?

The many reasons for democracy at work

Self-determination, personal autonomy, and emancipation are all fundamental human aspirations. Yet despite decades of attempts to develop industrial democracy institutions, employees still experience alienation at work under advanced capitalism at levels that would scarcely be accepted in other arenas of democratic societies.

Democracy, with all its ambiguities and varieties, is largely considered a universal value; moreover, it is a ‘demanding system, and not just a mechanical condition’ of self-government of human communities (Sen 1999: 7). But as a rule, the working world is mostly ruled by employers and shareholders, with little or no involvement of employees and their representatives. Democracy currently stumbles at the factory gates and the office doors. The difficulty of crossing those thresholds is one of the major broken promises of democracy (Bobbio 1987).

This contradiction calls for resolute change, particularly in times where democracies are under threat. Work may be only one dimension of life, but it is one that occupies most of the active hours of a large part of the working-age population. It is thus no surprise that the labour movement has historically held the banner high in demanding stronger democracy at work. But as will be seen in the following pages, the quest to foster more democracy at work should not only be a universal aim but should actually be a top priority for democrats from all arenas of public life.

But what do we mean by ‘democracy at work’?

‘Democracy at work’ (or ‘industrial democracy’, ‘economic democracy’ or any of the various terms proposed over the years) means different things for different people, depending in part on highly varied national and historical contexts. The term may convey specific conceptions of democracy, society and the economy, as well as specific views about the relationship between capital and labour. The different notions also usually imply different expectations and goals to be pursued, which in turn determine the ways in which these could be achieved.

However, most people associate democracy at work with specific institutions, systems and processes. An (inevitably incomplete) selection of these are presented in the image above.

For our understanding of democracy at work, the specific instrument is of secondary importance: what is essential is what the instrument seeks to achieve.
Democracy at work: what, why and how?

What this very wide range of instruments and processes have in common is that they are all in some way oriented towards substantially enhancing workers’ voice and democratic oversight in their work, their organisations (whether publicly or privately owned) and the economy at large. They seek to increase workers’ control and power over work processes, their working environment, and the functioning, direction and goals of the organisation and the economy. In a zero-sum conception, to increase workers’ power means, conversely, limiting managers and/or shareholders’ scope for action (Coates 2003: 35). Hence, measures which seek to somehow involve workers, but without discernibly redistributing authority in their favour, or which only rely on the employer’s goodwill without any guarantee of laws or enforceable agreements, should not be understood to constitute the democratisation of work.

Essentially, then, a call for more democracy at work is a radical call for rethinking how companies and the economy function, as well as how power is unequally distributed at the workplace, in the economy and in society.

Why more ‘democracy at work’?

An array of theoretical, normative and empirical arguments has been developed in different areas of the social sciences, legitimising and intellectually supporting demands for more democracy at work. The following pages explore a host of empirical and efficiency-related considerations about how democracy at work contributes to our societies in terms of job quality, political democracy or economic prosperity, to name just a few.

To this end, this section reviews a selection of core theoretical arguments based on philosophical concepts that are rooted in political liberalism and embedded in Western political systems, such as freedom, justice and equality.

Human rights

The first category of arguments focuses on workers’ inherent value as individual human beings with legitimate aspirations and rights; these concepts mainly arise from moral philosophical theories of human rights and labour law. Employers may use labour instrumentally, but labour should not be considered a mere commodity (Polanyi [1944] 2001). Workers have responsible human agency and consequently the right to exercise human rights and civil liberties, such as autonomy, freedom from domination, freedom of expression, dignity and equality (Collins et al. 2018: 21). Contractual theories of the employment relationship assume that the parties signing an employment contract are equal partners; yet this is clearly not the case in the labour market: workers are subject to the employer’s prerogative without having genuinely consented to it. Faced with the risk of unemployment, workers are clearly not free to escape this subordinated position (Landemore and Ferreras 2016). Therefore, rather than remain subject to economic authoritarianism, they should have a moral right to democratic participation in economic decisionmaking (Dahl 1985). Finally, the main function of constitutional labour law is to protect fundamental rights in the workplace; by definition, it serves to counteract the unequal nature of the employment relationship by conferring collective rather than solely individual rights to workers.

Democratic pluralism

A second group of arguments refers to democracy as a form of community representation that protects a plurality of interests against oligarchic rule. Political theorists have highlighted the resemblance between the state and the firm as political institutions and, accordingly, between the citizen and the worker in an industrial polity (Marshall 1950; Dahl 1985; Ferreras 2017). Therefore, if political democracy is justified for the wider society, it must also be so at the workplace. The principles of justice, the rule of law, the separation of powers constraining arbitrary powers and governing the public sphere should equally apply to private social and economic institutions (Rawls 1999; Cohen 1997). Workers should be able to exert control in their firms’ government and benefit from similar democratic procedures as at the state level. Democratic theory puts forward different conceptions of democracy, each of which rests on a specific fundamental quality – be it representative, deliberative or direct/participatory. These concepts require either formal control rights or procedural frameworks, and arguably reinforce each other by contributing to a more robust democratic culture. The educative role of workplace participation could particularly support democratic practices in the wider political sphere of democracy (Pateman 1975: 44; Cohen 1989: 25).

Stakeholder approaches

For the ‘stakeholder approach’, which has been developed in corporate governance debates, more democracy at work can serve to legitimise and improve internal decision-making (Vitols and Kluge 2011). In large joint stock companies with very dispersed ownership, control is often concentrated in the hands of managers. By involving various stakeholders in strategic deliberative processes of the firm’s government, oligarchic control by managers can be counteracted, and the quality of decision-making is likely to improve. Workers have privileged knowledge of the organisation, they ‘invest’ their labour in the firm (Ferreras 2017) and therefore have a significant stake in its development and success, since generally their very livelihoods depend far more directly on the company than the employer’s does. This is especially true in large companies, where employers tend to diversify their investment to protect their entrepreneurial risks. It has thus been argued that workers should logically be
entitled to rights of control, at least in equal measure as enjoyed by the owners of capital (Pinto 2017: 129).

Ownership and control

A fourth realm of arguments concerns the issue of ownership and control. Ownership does not automatically confer exclusive rights of control; on the contrary, property rights can be decoupled from full control rights. For example, the existence of non-voting shares (which provide shareholders with property over a part of the stock but deprive them of voting rights on corporate matters) illustrates this point. Control rights are also limited in practice when other legal goods are at stake or deserve protection, as in the field of inheritance law (where the children of a deceased person can inherit the ownership of a house, while the partner of the deceased may retain the rights of use and control for a certain time). With the rare exception of those cooperatives in which labour not only owns but also controls capital, workers or their representatives do not usually exert control over the firm (Dow 2003: 103), despite investing their labour and having a large stake in its future. Giving workers a higher degree of control would not only be fair, but also fully compatible with property rights.

Equality

Finally, a coherent stream of arguments is based on the notion that political and economic equality between members is a condition for a fair society. The concern here is not the individual, but the collective redress of imbalances in the world of work. Politically, workers’ collective association rights (collective rights designed to ensure workers’ voice, or the competence to contest employers’ discretionary power, such as the right to strike) and collective bargaining and labour relations systems ensure a countervailing force to capital (Bogg and Estlund 2018). Trade unions can contribute to political equality by preventing or reversing oligarchic managerial power in the firm (O’Neill and White 2018: 252). Economically, they can also promote redistributive and egalitarian policies and attitudes inside and outside the workplace.

In brief, while there are many approaches which promote democracy at work as a positive value for democratic societies and individual citizens, we have not seen enough of this principle in action in our workplaces and economies. It therefore makes sense for democratic arrangements at work to be extended (in geographical, material and personal scope), broadened (by increasing the number of institutions and better linking them to reinforce each other) and deepened (by promoting sounder practices and the exercise of political rights and civil liberties at work).

The many paths towards workers’ empowerment

How is democracy at work implemented, and can it be assessed?

There exist myriad means to strategically pursue the goals of democracy at work, understood here to mean (in its most general sense) a modification of the distribution of authority and power in favour of the workers and their representatives. Figure 4.1 provides an overview of some of the many available means, rights, instruments and institutions for exercising democracy at work. Each mechanism in any given context exhibits a range of characteristics; the interplay between these features can be more easily visualised using the framework of the ‘democracy at work diamond’ (see Figure 4.2), which synthesises how they can vary according to the following axes:

Degree

How deep is democratic participation in the company? Are the employees only informed and/or consulted? Or is there a form of co-decision or negotiation, or even autonomous decision-making, for the employees?

Domain

In which domain is the institution or mechanism focused? Does it cover the workplace or team level, the establishment, the national company or an entire multinational company? Is a particular sector or the whole economy concerned?

Topics

What is the content or subject of the democratic process? Are the issues addressed only job- or task-related; are they operational; do they concern employment conditions, the financial situation or even the strategic choices and orientation of the company?

Coverage

Does the mechanism cover only a few or very specific groups of employees, or does it apply to and engage all workers, including for example atypical workers?

Timing

At which point in the decision-making process are the workers involved? Is it prior to the decisions, during their implementation or only afterwards for the purposes of evaluation?
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Form

How is the democratic process organised? Is it in a direct process which mobilises individual workers, or is it collective and indirect, involving representatives? What is the degree of formalisation of these processes?

The diamond figure should not be seen as a blueprint, but rather as a means to facilitate thinking about the institutions which foster or implement democracy at work, and to explore how each could empower workers and enhance their voice, both within their organisations and in the economy at large.

Ultimately, democracy at work does not exist in a vacuum: the broader institutional, political and economic context crucially affects the potential for any mechanism in the workplace, company or organisation to increase workers' power.

Shining brightly

The Lisbon Treaty established democracy as one of the guiding principles of the European Union. All citizens should have the right to participate in the democratic life of the Union. What happens in companies, public services and the economy at large, however, is all too often considered to be beyond the scope of democratic life.

Yet there are plenty of theoretically grounded reasons for more democracy at work; this principle is based on fundamental rights, democratic theory, legitimate corporate governance, and economic and political equality, all of which are also fully compatible with respect for property. It is high time to nurture and polish our representative and participatory workplace institutions, so that democracy at work 'shines bright like a diamond' (Rihanna 2012).
Civic democracy and democracy at work are two sides of the same coin

There is another side to the work-life balance: what happens at work does not stay there. Experiences and activities at work influence those outside the workplace and vice versa. Privately gained competences are used professionally; frustrations experienced at the workplace are likely to affect private interactions as well. This same interdependence is also evident in the relationship between democracy (or the lack of it) at work and in society.

Political democracy thrives on the participation of citizens. The electorate need to become informed about politics and engage through voting, standing for elections or other ways of making their voice heard politically.

Whether citizens actually engage, however, is shaped by their opportunities to do so. Fundamental rights such as freedom of speech, freedom of association and the right to vote, ensure and stimulate citizens’ involvement in politics.

However, the places where most working-age adults spend most of their active time are rarely arenas of democratic involvement. Companies, organisations and public services are organised along clear and largely immutable hierarchical lines. Workers need to do what they are told by their supervisors, who are in turn usually themselves subordinate to someone else. Freedom of speech is limited and, at least in the vast majority of organisations, there is no right to vote on who should be the manager(s) in charge.

At the same time, even though democracy in society may enjoy better conditions to flourish, many recent trends show that there is cause to worry about the robustness of political democracy (Streeck 2016).

Strengthening democracy at work strengthens civic democracy

Considering the interdependence between the spheres of public life, work life and private life, one of the potential keys to strengthening civic democracy is to enhance democracy at work. In 1970, Carole Pateman argued that democratic work organisation could have positive spill-over effects on the political arena: people who work in non-hierarchical structures gain experience and competences when they engage in collective decision-making; they understand how political processes function; and they learn how to voice their views and engage constructively with others. By contrast, in strictly hierarchical organisations, workers exhibit passivity and political apathy (Pateman 1975). Accordingly, Pateman expected that those employees working in more democratically organised workplaces would have a stronger belief in the value of democracy and would participate more actively in the processes of civic democracy.

Two more recent studies have borne out this argument, showing that, indeed, employees in jobs with greater autonomy and involvement are more politically active and have more trust in democracy (Budd et al. 2018; Timming and Summers 2018). The figures above show the same positive relationship: employees with greater voice, influence, and democracy at work vote more, consider themselves more able to influence politics, and also more often report that they are interested in politics. The message is clear: political democracy and democracy at work are mutually reinforcing. By consequence, failing to foster democracy at work risks jeopardising the future of our political democracies. Policies to strengthen political democracy should thus not limit their focus to the political but should take into account the way in which the economy, companies and public services are organised.
Democracy at work: economic advantage

Democracy at work: more productive employees, a higher labour force participation rate and more innovative companies

A typical criticism of democracy at work is that, according to economic theory, it is by definition inefficient. According to this line of thinking, workers will use any power they have within the firm to increase their own well-being at the expense of the company and its shareholders (Jensen and Meckling 1979; Gorton and Schmid 2004). Therefore, companies will be most efficient if control of the firm is left to shareholders and managers.

A contrasting view is provided by the industrial democracy approach (Freeman and Lazear 1995; Klemsdal et al. 2017). According to this view, worker participation increases the ability of companies to use the experience, tacit knowledge and on-the-spot improvisation of the employees that make ‘planned work’ possible despite the unpredictability of the ‘real world’. Workers are more motivated and committed when they can exercise ‘voice’ and power within the firm. Therefore, companies with worker participation are more productive and innovative than companies without it.

In the current policy debate on the performance of the EU economy, three indicators of economic success play a central role: (1) employment rates, (2) productivity, and (3) innovativeness. The first one refers to the proportion of the population between the ages of 20 and 64 which is actually employed (employment rate). The European target for this is 75% but many countries have significantly lower employment rates. The second is labour productivity, which measures the amount of goods and services (in euros) created by each member of the labour force. The third refers to the ability of countries to introduce new products, services and production methods. In all three cases more democracy at work is associated with a better outcome.

Higher productivity with more democracy at work

In Figure 4.4 we observe that those countries which have high levels of democracy at work also tend to have higher productivity rates. Democracy at work is measured by the European Participation Index (EPI), which takes into account collective bargaining coverage, trade union membership rates, worker representation at the plant level and board-level employee representation. The level of democracy at work, as measured by the EPI, a country-level measure of participation in the mid-2010s, is shown on the horizontal axis. The productivity level per worker is taken from Eurostat for the same time period. The fact that the line in the figure is upwardly sloped indicates that countries with a low level of industrial democracy tend to be less productive than more democratic countries.

Democracy at work therefore does not mean an inefficient economy. On the contrary, the relation seems to be quite the opposite. Explaining this relation is complex as there is no clarity on the direction of the causal path (i.e. does democracy cause higher productivity or are more productive economies more democratic?) and there are many other factors at play.

However, two factors seem particularly relevant. First of all, having a voice at work is likely to increase the efficiency of the work done (and thus the productivity per employee). If workers can voice their concerns, then problems are more likely to be addressed. Workers’ knowledge is essential for the effective and productive functioning of companies; when employees share their knowledge, and identify and
Democracy at work: economic advantage

(where possible) solve problems, the whole organisation learns and develops. This is what Freeman and Medoff have termed ‘employee voice’, which is needed for effective organisational learning (Freeman and Medoff 1984).

Higher employment with more democracy at work

Another argument used against workers’ participation is that countries with greater democracy at work are less open to lower-quality and low-paid jobs. Indeed, where employees have a strong voice, they tend to push for higher wages and better-quality jobs which could, according to some, decrease the number of available jobs in the economy.

This second argument suggests that those countries with more democracy at work and high productivity would also have generally lower employment levels. According to this argument, if low-paid and low-productivity jobs are eliminated, one would expect those employees with low productivity to not find suitable jobs, resulting in overall lower employment levels.

However, the graph on the relation between democracy at work and the employment rate (Figure 4.5) shows that the opposite is true. As in the case of the previous figure, the horizontal axis indicates the level of democracy in different EU countries in the mid-2010s. The vertical axis indicates the labour force participation rate in the same time period. The upwardly sloped line shows that, on average, those countries with more democracy at work also have more people in work.

Democracy at work and innovation

For companies (and economies) to develop, innovation is key. And many innovations in companies come from employees who develop ideas about how to work better or improve the quality of the goods and services. Where employees enjoy democracy at work in the form of greater autonomy, they are more likely to develop and share such innovative ideas. The relation with more collective forms of democracy at work, such as trade unions and works councils, is less clear cut. But several studies have observed that where there is a union or works council present, there is an overall safer climate for workers to share ideas (even disruptive ones) about how to work better (De Spiegelaere et al. 2014).

Similarly to the previous two cases, a comparison of the EPI with country innovativeness (as measured by the World Economic Forum’s Global Competitiveness Index) shows a positive relationship between the two variables (Vitols 2018a). Countries with more democracy at work tend to be more innovative than countries with less workplace democracy.

These figures suggest that democracy at work goes hand in hand with higher productivity, a higher labour force participation rate, and more innovation. A triple win.

Figure 4.5 Democracy at work and national employment rates

Source: x-axis: European Participation Index (Vitols 2013); y-axis: employment rate (20-64 years), figures for 2013, Eurostat (lfsa_ergan).
Democracy at work: less inequality

Greater worker involvement at the workplace means more equal societies

The 2018 World Inequality Report found that in ‘recent decades, income inequality has increased in nearly all countries, but at different speeds, suggesting that institutions and policies matter in shaping inequality’ (Alvaredo et al. 2018: 5). Even though in Europe the rise of inequalities has been relatively moderate compared to other regions of the world, from a historical perspective, the consistent rise in the past years marks an end to the post-war egalitarian era that characterised the continent.

How ownership of capital interacts with inequality

Economic inequality is largely driven by the unequal ownership of capital, whether or not it is privately or publicly owned.

As the authors of the 2018 World Inequality Report show, ‘since 1980, very large transfers of public to private wealth occurred in nearly all countries, whether rich or emerging. While national wealth has substantially increased, public wealth is now negative or close to zero in rich countries. Arguably this limits the ability of governments to tackle inequality; certainly, it has important implications for wealth inequality among individuals. Left alone, companies tend to exacerbate existing inequalities by maximizing managements’ pay out and shareholders’ profits while minimising wages’ (ibid.). That the rise of inequality needs to be contained is illustrated by the development over time of the employee-to-CEO pay ratio: in 2016, CEOs took home 271 times that of the average American worker (the same figure was 20-to-1 in 1965 and 59-to-1 in 1989). From 1978 to 2016, CEO compensation increased by 937%, while typical employees earned a dismal 11% raise over the same nearly four decades (Hansen 2018). In Europe, these discrepancies are less stark, yet still striking: the 2014 records show that in Germany the ratio between CEO and average worker pay was 147:1, in Spain 127:1, in Czechia 110:1 and in France 104:1 (Statista 2014).

Without a doubt, regulatory measures can be applied to contain the development of pay inequalities; however, legal frameworks in this area do not suffice. Furthermore, they are not the sole countermeasure that can be employed to rein in corporate excess. As the authors of the World Inequality Report argue, ‘[o]rganized employee voice on all levels is a strong antidote for inequality as it reduces management and shareholder greed and ensures higher (and equal) wages’ (Alvaredo et al. 2018: 5). The reason is simply that companies operate differently when they are obliged by consultation procedures to share information, respond to critical questions and justify their decisions and actions; where board-level employee participation is in place, this scrutiny of top-level strategic and financial decision-making is even closer. Workers’ participation thus not only limits corporate greed, but it also serves to make companies more sustainable (Vitols and Kluge 2011; Vitols 2010b; Vitols 2017).
Worker participation as an antidote to inequality

The equalising and moderating capacity of democracy at work cannot be ignored in the current world where skyrocketing disparity in pay between CEOs and their employees impacts not only workers, but also society at large. Available research indicates several advantages of introducing greater worker participation.

First and foremost, the effects of workers’ participation at company level were found to affect income distribution at the macroeconomic level and to lead to generally higher income equality (Hörisch 2012). Secondly, workers’ participation has been found to improve company performance: it translates into improved productivity (Mizrahi 2002; Grimsrud and Kvinge 2006; Martes 2012) and increased investment in research and development (Krieger 1992). Moreover, there are numerous studies which demonstrate the significant positive impact of board-level codetermination rights on corporate policy and corporate performance (Hörisch 2012: 7). A recent study on the German stakeholder system of co-determination shows how workers’ participation at company level helps to keep short-termism in corporate decision-making at bay and to move away from the shareholder-oriented corporate governance that fuels rising inequalities (Holmberg 2017; Prasnikar and Gregoric 2002).

The above-mentioned studies are complemented by the ETUI’s own research on workers’ participation. EU Member States which performed better on the Lisbon Strategy indicators had significantly stronger arrangements for worker participation (ETUC and ETUI 2009); they also consistently performed better on all five Europe 2020 targets (comprising, amongst others, employment rates, investment in R&D, and climate and poverty goals).

The above research findings do not necessarily prove causality between worker participation and better performance on the above indicators, nor do they identify workplace democracy as the decisive factor. Obviously, a complex web of factors is involved in explaining cross-national economic and social differences. Nevertheless, these results suggest that strong worker participation, at the very least, does not weaken company performance (Vitols 2010a) and represents a powerful set of institutions and practices which both support a better economic and social performance and foster equality. Research shows that through more workers’ involvement in corporate strategic decisions, the uncontrolled corporate behaviour that fuels inequalities can be contained and enriched by considerations of social sustainability (Vitols and Kluge 2011; Vitols and Kluge 2013; Vitols and Heuschmid 2013).

Since rising inequalities have continued to plague societies for decades now, and because classic legislative tools and any redistributive effects of tax systems have failed to contain these processes, all available resources need to be deployed to stop the rich getting richer at the expense of the wider society, where workers do not benefit equally from rising GDP. Workers’ participation is all the more necessary as the advent of artificial intelligence is expected to bring new challenges to workplaces (Ponce Del Castillo 2017) and deepen existing inequalities as well as introduce new ones (Harari 2018). Working life needs to become more democratic in order to foster more equality, both within companies as well as in society. If democracy is justified in governing the state, it must also be justified in governing economic enterprises (Dahl 1985).
Democracy at work makes companies more sustainable

When workers are represented on a company’s board, their company is generally more sustainable vis-à-vis workers, the environment, and society as a whole (Vitols and Kluge 2011). Companies with board-level employee representation (BLER) score better than companies without it across six different sustainability domains; these include not only human resources but also policies on the environment, human rights, responsible business behaviour, community involvement and corporate governance. This conclusion is based on an analysis of data gathered by the sustainability ratings firm Vigeo Eiris on 607 of the largest European companies for the years 2017–2018. Based on information gathered from company reports, a detailed survey filled out by company managers, media reports, and alerts from stakeholders regarding company practices, Vigeo Eiris rates companies on a scale from 0 (worst score) to 100 (best score) on each of these six areas (Vigeo Eiris 2018). This number is based on the average score of different criteria within each of the six domains. The data is supplemented with data on BLER from the European Federation of Employee Share Ownership.

The graphic shown above (Figure 4.8) clearly shows that companies with workers on the board score significantly higher in all six domains. With a statistical method known as multivariate regression, this analysis takes account of other factors, such as company size, sector of activity, headquarters country and ownership structure. For example, and taking into account all these other factors, companies with BLER have an average score of 43 on human resources policies, compared with a score of 35 for companies with no BLER. To name another example, companies with BLER on average score higher on environmental policies than do companies without (46 versus 37).

Why should workers care about sustainability?

There are many reasons why workers want their companies to be more sustainable (Gold et al. 2010). Firstly, workers tend to have a longer-term interest in their company than do managers and shareholders. Whereas the median tenure for workers in Europe is about 10 years (Eurofound 2015), the average tenure of CEOs of large listed European companies is about 5 years (PwC 2017) and the average holding period for company shares is less than one year (Anginer et al. 2017).

Secondly, workers are directly affected by company policies and thus have an interest in their improvement. This is clearly the case for human resources policies, which directly influence job quality, but also environmental policies (e.g. pollution at the workplace), human rights (e.g. company policies towards organising in a trade union), and community involvement (as workers are also members of the community which hosts the company). Thirdly, workers are concerned about their company’s reputation. Companies are increasingly scrutinised by consumers, investors and the media regarding how responsible their behaviour is.

The analysis presented above shows that worker participation can make a valuable contribution to company sustainability. It is thus in the interest of workers, the environment and society to not only protect worker participation where it already exists but also to strengthen and extend it.

EU policy instruments

Responding to the growing concern about the impact of companies on the workforce, environment, and society, policymakers have launched a number of initiatives. For example, the EU now requires large listed companies to publish reports on their environmental and social performance. To name another example, in March 2018 the European Commission approved an Action Plan on Sustainable Finance, which among other things aims at promoting transparency and a longer-term sustainable orientation in the economic sector.

Figure 4.8 Board-level representation and sustainable company policies

Source: Vitols (2019). Note: y-axis: average score of companies based on an analysis of data gathered by the sustainability ratings firm Vigeo Eiris on 607 of the largest European companies for the years 2017–2018.
Democracy at work: better pay and life satisfaction

Quality jobs have been identified as a policy priority for the European Union on several occasions. The goal is not only about getting people into employment; these jobs should also be feasible and safe, they should increase the competences of the employee, and they should provide enough income. They should, in other words, be good-quality jobs. Much thinking has gone into seeking ways to improve the quality of jobs. Countries have introduced minimum wages, regulated working times, limited precarious employment, and much more. Nevertheless, recent ETUI research has shown that the overall job quality in the EU has seen a deterioration in the aftermath of the 2008 crisis, despite the modest recovery which followed (Piasna 2017). Interestingly, this report also identified where one can expect to find the best-quality jobs: where there is real democracy at work. In countries where employees have access to collective interest representation (such as a works council, a trade union or a similar institution), workers are much more likely to have a high-quality job. This can be seen in the limitation of physical risk factors (noise, danger, chemicals), and better career prospects, job autonomy, and wages. To illustrate just one aspect, as can be seen in Figure 4.9, where employees have better collective interest representation, wages tend to be higher. See also the outcomes in terms of health and safety protection (Fig 4.12).

Democracy at work, pay and working life

Notwithstanding these efforts, recent ETUI research has shown that the overall job quality in the EU has seen a deterioration in the aftermath of the 2008 crisis, despite the modest recovery which followed (Piasna 2017). Interestingly, this report also identified where one can expect to find the best-quality jobs: where there is real democracy at work. In countries where employees have access to collective interest representation (such as a works council, a trade union or a similar institution), workers are much more likely to have a high-quality job. This can be seen in the limitation of physical risk factors (noise, danger, chemicals), and better career prospects, job autonomy, and wages. To illustrate just one aspect, as can be seen in Figure 4.9, where employees have better collective interest representation, wages tend to be higher. See also the outcomes in terms of health and safety protection (Fig 4.12).

Similarly, employees who enjoy a high level of democracy at work (measured here as being involved in decision making and work organisation) tend to show much higher levels of general life satisfaction (see Figure 4.10). In short, democracy at work is clearly linked to good-quality, well-paid jobs and a high degree of life satisfaction.

And this makes sense. If people are given a voice in how their work is done, have opportunities and mechanisms to address problems, and are allowed to propose solutions, then the likelihood that the job will be workable, well organised and aligned to workers’ own requirements, expectations and needs will be much higher.

How it works: how trade unions improve work-life balance

A recent study by Bryson and Forth (2017) shed some light on how democracy at work (expressed as trade union presence) improves work-life balance in UK firms. Comparing unionised and non-unionised firms, they observed that where unions are present, the employer provided more policies aimed at improving work-life balance, employees were less likely to work long hours (over 48 hours a week), and the employer viewed work-life balance more as a shared responsibility and not only something the worker has to address alone.
The Social Pillar and democracy at work

Who knocked Principle 8 out of the Pillar?

The announcement of the European Pillar of Social Rights (EPSR) seemed to herald a way out of the impasse which had stalled European social policy for the past decade (see Chapter 2). It has been more than a year since the EPSR was proclaimed, and many new initiatives have been announced promising to strengthen workers’ rights. Two prominent examples are the proposed Directive on transparent and predictable working conditions and the proposal for a Council Recommendation on access to social protection for workers and the self-employed.

There are, however, no new initiatives related to democracy at work. When it comes to strengthening workers’ voice in their relationship with employers, the status quo is maintained. Instead of buzzing activity, there is complete silence from the European Commission.

Democracy at work in the Social Pillar

Principle 8 of the EPSR defines two rights which are fundamental to the democracy at work agenda. It states that a) the social partners have a right to be consulted on the design and implementation of economic, employment and social policies; and that b) workers and their representatives have a right to be informed and consulted in good time concerning matters relevant to their interests (notably company restructuring, mergers and collective redundancies). In addition, the EPSR encourages social partners’ negotiations and calls for support to increase their capacity. It should be noted, however, that unlike other principles in the EPSR, Principle 8, for the most part, merely repeats the status quo of the EU acquis, failing to chart any new, more progressive, course.

So, lofty proclamations notwithstanding, it should perhaps come as no surprise that despite repeated requests over the years to improve the legal framework on the involvement of workers, the EPSR has failed to trigger any such action.

The only two activities the Commission launched to implement Principle 8 were, firstly, the stocktaking exercise on the application of the EU Quality Framework for anticipation of change and restructuring (European Commission 2018b) and, secondly, the publication of the REFIT-based Evaluation of the Recast European Works Council Directive (COM(2018) 292 final). However, even though both evaluations identify ample scope for improvement in policy and practice, their conclusions fail to propose adequate remedies (Jagodziński and Dorssemont 2018).

A missed opportunity

It is not as though the Commission has lacked opportunities to implement Principle 8.

It should be noted that Principle 8 explicitly refers to workers’ rights to both information and (effective) consultation in the merger and restructuring process. The Company Law Package launched by the Commission in spring 2018 would have been an excellent opportunity to implement these rights. The 2005 Merger Regulation ((EC) No 139/2004, Article 18(4)) and the Cross-border Merger Directive (Directive 2005/56/EC, Article 7) both provide for a rudimentary right to be heard. Since the Pillar and the existing rights to information and consultation go further than this, the Commission should have aligned workers’ rights in its 2018 company law proposals and hence implemented Principle 8 more fully. Instead, the Commission’s proposals remain silent on all aspects of information and consultation which would have matched the level achieved in the EU acquis. For its part, the European Parliament’s report proposes to close precisely these gaps by clearly anchoring the Company Law Package in the information and consultation acquis (see p. 81 on CLP). It remains to be seen whether these improvements will find their way into the final legislation.

Perhaps the Commission felt that workers’ rights have no place in company law, but the Pillar was intended to foster joined-up thinking.

It is to be hoped that the next Commission will take the task of implementing the Pillar’s principles on democracy at work more seriously and holistically than does the current one.
Democracy at work ensures occupational health and safety protection

For the past three decades, workers in the EU have held wide-ranging rights to information and consultation on health and safety issues; indeed, since the adoption of the Community Charter of Fundamental Social Rights for Workers in 1989 (Art. 19) these rights form part of the general framework of workers’ rights. This form of democracy at work is exercised by health and safety representatives as well as by trade unions and works councils active in the workplace. An ETUC study (ETUC 2013) identified a widespread presence of health and safety representation across the EU.

The 1989 Framework Directive on health and safety at work requires all Member States to ensure that employees and their representatives are informed and consulted about occupational health and safety (OSH) matters at the workplace. Employees and their representatives can voice their opinion on health and safety issues, and are also entitled to submit their own proposals for improvements and changes.

The 1989 Framework Directive on Health and Safety at Work has provided the context for 24 more detailed and targeted Directives, in which a specific participative role is foreseen for employee representatives in addressing issues such as handling heavy loads, chemical agents or drilling equipment, or in improving the situation of specific groups of workers (see also ETUI and ETUC 2014: Chapter 7).

New research by the European Agency for Safety and Health at Work (EU-OSHA) in Bilbao presents compelling evidence of the strong impact that democracy at work has on the existence of crucial instruments to safeguard employees’ health and safety at the workplace.

Around 84% of the companies surveyed had a document, available to the workforce, in which the basic occupational health and safety protection policies were described, whether or not there was a works council in place; this rate jumped to 95% where there was also formal health and safety representation in place. New technologies, materials and forms of work cause new hazards and risks that both the legislator and individual companies need to prevent. EU legislation therefore prescribes regular and formal risk assessments for workplaces. Regular risk assessments were, however, only found to have been carried out in 68% of companies which did not report any form of employee representation, and only in 72% of companies in which there was a trade union or a works council in place. However, risk assessments were carried out in fully 89% of companies where there was both health and safety representation in place, and where there was both health and safety representation and a works council or trade union, nearly 94% of companies had conducted the required risk assessments. Training for line managers and team leaders about health and safety protection was reported in just under 60% of companies in which there was no workplace democracy, yet where there was both health and safety representation in place and a works council or trade union, this rate jumped to 80%. Psychosocial risk assessment has only more recently received the attention it deserves in workplace health and safety protection. Here too, democracy at work has had a marked impact: where there is no democracy at the workplace, just under 55% of companies reported that they had introduced specific measures to address psychosocial risks, whereas in 82% of companies in which there was health and safety representation, specific policies to address psychosocial risks had been implemented.

Clearly, democracy at work goes hand in hand with a much stronger compliance with health and safety protection measures.
Democracy at work in the proposed Company Law Package

One step forward, two steps back for democracy at work in the Company Law Package

Research conducted at the University of Maastricht for the ETUI indicates that cross-border corporate reorganisations are becoming increasingly widespread, despite the lack of an EU legal framework for cross-border conversions or divisions, and the existence of fundamental inconsistencies between Member States’ legislation on these matters (Figures 4.13 and 4.14) (Biermeyer and Meyer 2018).

Democracy at work: information, consultation and board-level employee participation

At the time of writing, the Commission’s proposed Company Law Package is being discussed intensively, with a view to being passed before the European Parliament elections in May 2018. The European Parliament has put forward important amendments to improve workers’ rights to democracy at work in the Company Law Package.

The Commission’s proposal skirts existing EU provisions on democracy at work or ignores them entirely; in line with the fundamental concept of the *acquis communautaire*, where the intersection between company law and workers’ rights is evident, each new piece of legislation should take prior legislation into account in order to ensure the cumulative coherence of the whole EU regulatory framework.

A summary analysis of the implications of the Company Law Package, along with a set of recommendations to improve worker involvement rights, strengthen procedures for discouraging abusive behaviour such as tax evasion, and reduce the potential for fraud through online company law tools, can be found in Hoffmann and Vitol’s 2018. There are two dimensions of workers’ involvement rights which must be strengthened: firstly, employees and their representatives at all levels of the company need to be adequately informed and consulted about the company’s plans; they must be involved in addressing the potential implications for employment and the strategies of the company.

Secondly, where the resulting company is of a European scale, information and consultation within the company must be complemented by transnational information and consultation arrangements, as is already the case for the formation of European Companies (SEs). Equally, where employee representatives have the right to representation within the governing bodies of the company, this form of representation must not only be maintained, it must also be extended to the workforces on a Europe-wide scale.

There is no need to reinvent the wheel: where the company law package intersects with workers’ rights, it must be more explicitly embedded into existing employment law, thereby not only strengthening workers’ rights in practice, but also increasing legal certainty for all parties.

However, the lessons from the application of the SE Directive and the Cross-Border Mergers Directive have not been learnt. ETUI research shows that both Directives have been misused to freeze out employee representation, even where a company later reaches thresholds above which representation rights would apply (Cremers and Vitol’s forthcoming; see also Sick 2015). Rather than cementing these current conditions, in which the new legal form is applied, there is a clear need for a dynamic instrument that is able to address changes over time.

The ETUC’s demands for safeguards to be included in the Company Law Package include:

Prior to and during the cross-border legal reorganisation:
- embed the company law package explicitly into the EU acquis on information and consultation rights at national and transnational levels;
- ensure application of standard rules for employee involvement.

After the cross-border legal reorganisation:
- ensure adequate European-scale information, consultation and board-level employee representation and protect acquired rights;
- ensure the existence of genuine and competent management;
- introduce new dynamic elements, including the right to renegotiate;
- impose a moratorium on legal reorganisations that would erode employee representation arrangements for at least ten years.

Information and consultation prior to and during the legal reorganisation of the company and workers’ involvement in the future reorganised companies must be ensured in the Company Law Package.

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Employee representation in company boards

In many countries of the European Economic Area (EEA), democracy at work involves mandatory employee representation in company boards, with a right for worker representatives to vote about top-level strategic matters. The democratic potential of board-level employee representation (BLER) depends not only on the institutional arrangements underlying it, but also on a strong coordination with other institutions of workers’ voice, such as works councils or trade unions (Waddington 2018:204).

However, not only do workers in many countries still lack access to this form of democracy at work, but even among those countries which do have such regulations, the institutional design and implementation vary widely. Thus, the extent of influence and power that board-level employee representatives can exercise depends on their specific societal context (Waddington 2018).

Uneven scope and coverage of board-level employee representation

Mapping the existence of individual employee representatives with mandates in company boards reveals to what extent such representative rights are established and embedded in practice. An ETUI research conducted between 2009 and 2012 identified at least 17,333 board-level employee representatives serving on company boards of thirteen EEA countries (excluding representatives in SEs or SCEs) (Waddington and Conchon 2016: 228). This, however, is an underestimate: for the purposes of this ‘census’, no specific individual board-level employee representatives could be identified in the Czech Republic, Finland, Slovakia, or Portugal, and it was not possible to identify those appointed under the German one-third participation system. Furthermore, Croatia and the Netherlands were beyond the scope of this study.

Most of these board-level employee representatives (around 88%) were concentrated in only five countries, holding seats in company boards governed by Norwegian, Swedish, Danish, German or Austrian law. Conversely, only 11% were members of boards governed by French, Polish, Slovenian or Hungarian legislation. The remaining 1% had their mandate in the other countries with BLER regulation.

Squaring a circle?

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BLER: a well-kept secret?

The survey results identified possible discrepancies between existing regulations and the actual practice and implementation of BLER rights, but it remains extremely difficult, if not impossible, to even estimate real company coverage rates per country. There is generally no official data or public registry tracking board-level employee representatives or identifying companies or boards which are subject to employee representation. France is a case in point. Since 2013, BLER rights may depend on the size of a company’s global workforce. Although several estimates point at more than 200 French multinationals covered by BLER rights (Victoria 2017), this data cannot be verified. Overall, companies are not obliged to report whether they are subject to participation rules or not, and only occasionally do corporate official statistics allow clear-cut disaggregate company categories that align with the very specific criteria for the application of BLER rules, such as employee figures, capital or asset thresholds, form and ownership, or corporate governance structure.

It is usually left to trade unions to help employee representatives to first identify then claim their participation rights. However, it would be a folly to expect trade unions, with their limited resources and uneven access to the workforce, to fill the gap left by the lack of clear, publicly accessible information about whether the criteria to install or expand BLER have even been met.

National variation notwithstanding, employees and their trade unions must have the means of knowing whether BLER rights apply to them, if the democratic potential of board-level employee representation is to be leveraged.
Women’s access to representative institutions

A gender-inclusive democracy ahead

Persistent gender inequality in corporate decision-making and society at large (ETUC and ETUI 2018: 77) is also reflected in women’s limited access to leadership and representative positions in democratic workplace institutions. Despite unions’ efforts to secure adequate representation, not least in response to their increasingly feminised membership demographics (such as in German, Nordic or UK unions), women are still not sufficiently recognised as leaders, often remaining excluded from the unions’ centres of power and mainstream strategies (Ledwith 2012: 190-191). Demanding more democracy at work should thus include demands for more gender inclusiveness in these forms of democratic representation (Young 1990).

Women in trade union leadership

The ETUC’s 11th Annual Gender Equality Survey (ETUC 2018), to which 39 affiliated confederations responded, revealed slight improvements compared with previous years. The ETUC’s active promotion of gender balance in trade union leadership and decision-making structures thus seems to be slowly paying off. However, a significant gender gap persists in formal political representation, which is unrelated to membership and employee gender distribution (women account for around 46% in both cases) (ETUC 2018: 29). As figure 4.16 shows, for the 39 confederations examined, women hold, on average, 33.5% of the representative positions in decision-making bodies that act between congresses (key committees), and 37.2% of the positions of leadership teams (senior positions including vice-presidents, deputy general secretaries and treasurers), but only 26.2% of the 42 key political leadership positions (i.e. presidencies, co-presidencies or general secretariats) are held by women (ETUC 2018: 20-29).

Women in board-level employee representation

Waddington and Conchon point out that, overall, employee representatives have significantly contributed to feminising company boards: more than half of all women found in boards (i.e. including shareholder members) were board-level employee representatives (Waddington and Conchon 2016: 231). Yet in the extensive ETUI survey of 4,155 board-level employee representatives from 16 countries conducted between 2009 and 2012, the authors found a glaring gap in women’s access to these key employee representative positions within companies.

Women occupied only 21.8% employee seats in this sample of company boards (which included representatives in SE boards) (see Figure 4.17). The Germanic group of countries
displayed the least gender-balanced results (10.4%) while Nordic countries had the most feminised representation (24.1%) (Waddington and Conchon 2016: 79).

Since the survey, mandatory rules on gender quotas for board-level composition have been adopted in Germany (2015) and Austria (2017), so the scores may well have risen in these countries since then. Recent research indeed suggests that the share of women in company boards has increased in EU Member States which adopted legislation or other forms of governmental action towards gender quotas (EIGE 2018).

However, EIGE data and gender quota rules refer to boards overall and not necessarily to employee representatives within the board (with the exception of France and Norway), and even exclude them sometimes (Waddington and Conchon 2016: 78). Thus, we cannot assume that mandatory gender quota had a similarly positive impact in ‘feminising’ board-level employee representation.

Currently, seven of the Member States where workers have rights to be represented in company boards also have hard public regulations on gender quotas in company boards: Austria, Germany, Finland, France, Luxemburg, Norway and Slovenia (ETUC and ETUI 2018: 78).

However, it was not possible to assess whether the combination of these two policies contributed to increasing the proportion of female employee representatives on the boards of companies governed by national law in the EEA, because a detailed country-by-country breakdown of the survey data was not available.

**Rising representation of women in SE boards**

Waddington and Conchon found that women were less often represented on SE boards than in other companies (2016: 81), but the number of SEs has increased and new laws on gender quotas have been passed since the original survey, so it is worthwhile taking another look at this. In fact, more recent and comprehensive data on SE board-level employee representation still indicate the existence of a gender gap, but a less pronounced one. Of a sample of 227 board-level employee representatives identified in SEs for which the number of BLER members and the sex of at least one of them was known (namely, 65 SEs based in France, Austria, Germany and Hungary (ECDB 2018)), 170 were men (74.9%) and only 57 were women (25.1%), as shown in Figure 4.18.

The mandatory gender quota rules adopted in Germany in May 2015 seem to have accelerated the nomination of women as board-level employee representatives in German SEs. As Figure 4.19 shows, of the nominations recorded in the period 2015–2018 in German SEs (50 nominations altogether), 18 were women (36%) and 32 were men (64%). In comparison, between 2000 and 2014, out of 73 nominations in German SEs, there were only 14 female nominations (19.18%), compared with 59 male nominations (80.82%). A positive trend is thus perceptible for German SEs; hard law on gender quotas seems to be contributing to the achievement of more diversity and equality in representative positions in German SE boards.
Democracy at work: inequality within and between countries

No equal access to democracy at work

The collective representation of employees is a cornerstone of democracy at work. Where workers' voice is expressed collectively, the range of their interests can be more effectively aggregated, balanced, and defended. Furthermore, collective forms of representation also serve to shield individuals from possible retaliation for having expressed their concerns or grievances in the first place.

A comparison across EU Member States demonstrates that access to democracy at work is unequally distributed, both within and between countries. In other words, although workers' rights to information, consultation and participation are fundamental rights in the EU, in reality, these rights are far from being universally implemented.

Inequality within countries

In the figure above, we show the percentage of employees who have access to collective interest representation, be it via a works council, a trade union or another kind of workplace-based representative body. The picture is sobering: about one in two employees in Europe do not have any access to such a representative structure. Even in countries with a high level of representation, like Sweden, Finland and Denmark, a considerable minority still has no access to any kind of collective workplace representation. In the countries with the lowest level of representation, such as Estonia, Poland and Lithuania, as many as three in four employees are not represented at the workplace. In no Member State are all workers covered by collective representation at the workplace. Generally, it is employees from smaller companies who lack access. However, whether or not a fundamental right can be exercised should not depend on the number of employees working at an organisation. This means that employees in many countries have far less opportunities and rights to speak their mind in (and about) the organisation they work in. And, as we have seen in these pages, the degree of democracy at work in a country is strongly related to many other important issues such as job quality, economic performance, inequality and much more.

The EPI combines data on
(1) the proportion employees who are members of a trade union,
(2) the proportion employees covered by a collective agreement,
(3) the proportion of employees who have access to some kind of workplace representation, and (4) the strength of employee rights to board-level representation.

Inequality between countries

That access to collective interest representation varies between countries is readily apparent in Figure 4.20 above.

The broader European Participation Index (EPI) depicted in Figure 4.21, below, takes into account different levels of collective representation (see box).

The EPI shows that in some countries, the overall level of democracy at work is quite high (Finland, Sweden and Denmark being the prime examples), while in others, such as in Latvia, Bulgaria and Estonia, this type of democracy is available for only a very few workers.

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Cross-border management needs cross-border democracy at work

Article 27 of the European Charter of Fundamental Rights is very clear: ‘Workers or their representatives must, at the appropriate levels, be guaranteed information and consultation in good time in the cases and under the conditions provided for by Community law and national laws and practices’.

Moreover, the Charter specifies that this right must be exercised ‘at the appropriate level’. In multinational companies, the relevant level is therefore the European (or even global) one, which means that effective European-level institutions are needed to put this fundamental right into effect. As shown in Figures 4.20 and 4.21, there is a great deal of variation in the exercise of democracy at work, both between and within countries.

At the same time, we know that the number and share of companies operating across borders (see box) has been rapidly increasing. For employees in these multinational companies, engaging with local or national-level management seldom suffices for them to be meaningfully informed and consulted. If decisions are taken by the transnational management, information and consultation must be organised at that level too. Otherwise, employees will not have the necessary information, and by consequence any consultation will be meaningless, if not outright impossible.

European Works Councils (EWCs), and later also SE-WCs, were specifically introduced as institutions for cross-border, company-level information and consultation in a bid to address the mismatch between the location of decision-making centres across companies’ (increasingly supranational) structures and the level of dialogue with workers (traditionally national or local).

As can be seen in Figure 4.22 above, the number of EWCs has been steadily increasing over the years; each of these EWCs represents one of a wide range of ambitious attempts to bridge the gaps between national traditions of employee participation by installing tailor-made and meaningful transnational social dialogue at the company level.

In 2018, the European Commission finally released its long-delayed Evaluation of the Recast EWC Directive (European Commission 2018a), which confirmed what researchers and practitioners have been pointing out for years: the EWC legislation, and hence the EWCs themselves, do not function as intended, but rather are hampered by a wide range of legal and practical hurdles. Most worryingly, EWCs are only rarely meaningfully consulted in good time about important transnational decisions. It is obvious that the implementation and enforcement of workers’ fundamental rights to information and consultation at the appropriate level is not currently being achieved.

Unfortunately, while the diagnosis is correct, the cure offered is a mere placebo (Dorssemont and Jagodziński 2018). Given that the EU has been undergoing an ever-deepening democratic legitimacy crisis, it is folly to ignore the democratic potential of EWCs as well as workers’ participation in general. While in the 1990s the EU was a pioneer in creating transnational institutions of information and consultation, 25 years later it is not fulfilling its duties as a warden of that right: many problems remain and few steps are being taken to strengthen EWCs as the only European institutions enabling a truly European voice for employees in MNCs.

More and more multinational companies in Europe

According to the data of the EuroGroups Register (EGR) there are over 47,000 multinational enterprise groups active in the EU. These are companies of which at least two enterprises or legal units are located in different countries (of which at least one should be in the EU or in the EFTA). Compared to 2015, the register observed an increase of 25%. Taken together, these companies employ over 43 million employees.
Democracy at work: when subsidiarity leads to inequality

One worker, one vote?

The notion that every citizen’s voice should count equally is, of course, fundamental to democracy. Indeed, this principle was first brought into the trade union political discourse by the British trade unionist George Howell (1880). Despite the wide variation in national systems of industrial relations across the EU, this principle still holds true for European-level arrangements for democracy at work. However, it turns out that when different national systems of industrial relations are applied to determine membership of a single transnational institution, the principle of subsidiarity trumps that of equality. European Works Councils (EWCs) or SE works councils (SE-WCs) are transnational worker representation institutions introduced by the EU to give workers the ability to engage in company-level information and consultation on cross-border matters. In these transnational bodies, each national workforce is generally represented by one or more representatives: the allocation of seats among the different countries is usually done according to the relative size of each workforce. It stands to reason then, that in order to accurately determine the relative size of each workforce, the same method of calculating workforces should apply.

A closer look at the implications of national diversity

An ongoing research project by the ETUI reveals that in the transposition of the EWC and SE Directives, there are stark differences in how EWC and SE-WC members are elected to the same body. Based on the data for 18 EU Member States collected so far, the way in which part-time employees are counted, and whether or not agency workers are counted at all, amount to substantially different calculations of the size of each national workforce.

It should be noted that, notwithstanding the default rules laid down in national legislation about the distribution of mandates, alternative arrangements can be agreed between the company’s central management and the special negotiating body. Here it may be agreed, for example, that the common method of workforce calculation is applied or rather that the seats are allocated according to criteria other than relative workforce size, such as company divisions.

Part-time workers

Firstly, we look at how part-time workers are accounted for when calculating workforce size for the purposes of setting up an EWC and distributing mandates. While 11 EU Member States use a straightforward headcount, six Member States convert part-time workers to ‘full-time equivalents’ when calculating workforce size: e.g. two part-time employees working 50% amount to one full-time employee.

Agency workers

Secondly, we looked at whether or not agency workers are included in the workforce totals in the calculations for EWC thresholds. Here too, there are clearly different approaches: in seven countries, agency workers are included in the total (occasionally subject to certain conditions), while in ten countries, agency workers are specifically excluded.

Why does it matter?

Imagine workers’ delegates from several European countries sitting in the same EWC; where each country is attributed a different number of seats as a result of different national methods of counting the same employees, this subverts the very notion of equal access to representative workplace democracy.

With a consistently increasing share of part-time work and temporary contracts in Europe (see Chapter 2) this is an issue of growing importance. In sectors such as retail, in which part-time work is widespread, the fact that workers in some countries literally count as only a fraction of those in other countries raises serious questions about the equity of the distribution of mandates. Similarly, in sectors such as construction and manufacturing, where the proportion of agency workers easily amounts to nearly half of the workforce which is physically present, their exclusion from proportional representation results in an arbitrary and unequal representation of each workforce in the same transnational body.

The above findings on formal rules of representation are just the tip of the iceberg. Due to variations in national law, workers’ representatives sitting on the same EWC or SE-WC often have access to quite different resources, ranging from access to legal support and protection to resources such as office equipment, meetings and communication facilities, etc. Such variation creates new inequalities and has also been found to contribute to an east-west divide (ETUI and ETUC 2018: 73).
Conclusions

Democracy at work: from slogan to reality?

The founding documents of the European Union established democracy as one of the EU’s guiding principles. Furthermore, certain areas of EU legislation clearly apply this principle of democratic participation to the world of work. However, all that this has yielded so far are fragmented strands of workers’ rights to involvement, information, consultation and participation woven into the EU acquis communautaire. Furthermore, the effect of the legal gaps, loopholes and lack of enforceability which plague workers’ participation in particular is compounded by the lack of any innovations in other areas which foster democracy at work, such as collective bargaining, board-level representation, or the right to strike.

It is against this rather unpromising backdrop that we take the declared aspirations of the Union as a call to explore the ways in which democracy at the workplace may be realised. In light of the great variety of models and cultures of workplace relations, it is necessary to acknowledge that democracy at work means different things to different people. It is therefore useful to at least sketch out what is or can be meant by ‘democracy at work’, in order to explore how democratic participation at the workplace might indeed be extended to more workers and issues, broadened and reinforced by multiplying and linking existing institutions, and deepened by promoting the exercise of political rights and civil liberties at work. In short, how can democracy be more firmly embedded in the workplace?

Why more ‘democracy at work’?

An array of theoretical, normative, and empirical arguments has been developed in different areas of the social sciences, serving to legitimise and intellectually support demands for more democracy at work. What this very wide range of instruments and processes have in common is that they are all in some way oriented towards substantially enhancing workers’ voice and democratic oversight of their work, their organisations (whether publicly or privately owned), and the economy at large. They seek to increase workers’ control and power over work processes, their working environment, and the functioning, direction and goals of the individual enterprise and the economy. In essence, seeking to promote more democracy at work amounts to a call for rethinking how companies and the economy function, and how power is distributed at the workplace, in the economy and in society.

At the time of writing in the run-up to the 2019 elections to the European Parliament, decades of austerity politics have eroded what were once more robust structures of social inclusion and support, and European society has become increasingly polarised. The time is thus ripe to revisit some ideas of democracy at work. Accordingly, the ETUC has also launched an initiative across its affiliates in support of policies that promote more democracy at work.

Anything goes?

This chapter has approached democracy as a universal value, based on fundamental rights, democratic theory, legitimate corporate governance, and economic and political equality. However, most people associate democracy at work with specific institutions, systems and processes. Ultimately, of course, democracy at work does not exist in a vacuum: the broader institutional, political and economic context crucially affects the potential for any mechanism in the workplace, company or organisation to increase workers’ power.

As depicted in the first image of this chapter, there exist myriad practices with which to pursue the goals of democracy at work. While most of the instruments shown are likely to be generally accepted by readers as legitimate forms of democracy at work, a few of them, such as direct or financial participation, may well be vehemently rejected by some readers. Yet for others, it is precisely these more individualised means of exerting influence which provide the platform for larger democratic aspirations. We do not shy away from these often divergent conceptions, but rather seek to foster a debate and shared appreciation of this rich diversity. For our understanding of democracy at work, the specific instrument is of secondary importance: what is essential is what the instrument achieves, and how it does so in its particular context.

How is democracy at work implemented, and can it be assessed?

We defined democracy at work in this discussion in its most general sense: democracy at work amounts to a modification of the distribution of authority and power in favour of the workers and their representatives.

To try to make sense of the diversity of forms, we have developed a framework which is depicted in the opening section of this chapter as the ‘diamond of democracy at work’. This framework provides a means of grasping the impact and interplay of the many available means, rights, instruments and institutions for democracy at work. It synthesises these aspects to demonstrate how work-related democratic institutions or mechanisms can vary along six axes: degree, level, topics, proportion, and form. The diamond figure should not be seen as a blueprint, but rather as a means to facilitate thinking about the institutions which foster or implement democracy at work, and to explore how each could enhance the voice of workers and empower them, both within their organisations and in the economy at large.

Building upon this conceptualisation which embraces diversity, the chapter goes on to explore a host of empirical and efficiency-related considerations about how democracy at work contributes to our societies in terms of job quality, political democracy or economic prosperity, to name just a few.
Our findings confirm that democracy at work and political democracy are mutually reinforcing: if workers are more empowered at work, they will carry this engagement into civic life, and vice versa. General life satisfaction is also linked to higher levels of democracy at work. Furthermore, we found that more workers’ involvement at the workplace means more equal societies. It also comes with a higher labour force participation rate and greater innovation in companies. Democracy at work also promotes company sustainability because when workers have a voice in the workplace or on the company board, the company has been found to generally pursue more sustainable policies towards the workers, the environment, and society as a whole. Using only the presented figures in this chapter, we cannot establish a direct causal relationship, but the observable correlation between democracy at work and many beneficial outcomes remains a strong signal in favour of giving employees more voice.

Where are we now?

We have taken a critical look at various instruments and institutions with which democracy at work has been implemented across the EU. The transnational dimension deserves specific attention, since cross-border company mobility and transnational company management needs the effective counterbalancing influence of cross-border democracy at work. Yet despite the EU’s accelerated facilitation of economic and business integration across borders, any concomitant strengthening of workers’ democratic rights in fulfilment of the goals proclaimed in the Treaties persistently lags behind. We highlight the generally acknowledged positive impact that various directives, such as those fostering information and consultation rights at the local, national, and cross-border company levels, and take a critical look at the lack of democratic instruments proposed in the Company Law Package, which is, at the time of writing, subject to negotiation by EU lawmakers. We argue that in line with the fundamental concept of the acquis communautaire, where the intersection between company law and workers’ rights is evident, each new piece of legislation should take prior legislation into account in order to ensure the cumulative coherence of the whole EU regulatory framework.

The contribution of democracy at work is also identifiable in promoting gender equality: policy innovations and political commitments have increased the shares of women in leadership positions within the trade union movement, and the share of women among employee representatives in particular has been growing too. Furthermore, the evidence demonstrates that the implementation of health and safety protection policies at the workplace is more robust and coherent where there are democratic arrangements in place for a greater involvement of workers.

Still a long way to go...

In summary, we find that while there are many approaches which promote democracy at work as a positive value for democratic societies and individual citizens, and despite its demonstrable social, political and economic benefits, democracy at work is not sufficiently developed in the workplace and the economy. Despite exhortations in the founding documents of the European Union to foster democracy, and even its most recent inclusion in the Social Pillar, we conclude that progress remains woefully inadequate. The Social Pillar has so far failed to yield any new impetus in this field. Although there is clearly a positive and beneficial relationship between various instruments of workplace democracy, there are still marked deficiencies in the provision and exercise of democratic rights at the workplace and company levels across the European Union. This means that there is plenty left to do for many actors, from policymakers at the EU and national levels to trade unions and their activists in the workplace.
1. Macroeconomic developments in Europe: tackling the growth, inequality and climate change challenges


References


2. Labour market and social developments


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3. **Wages and collective bargaining: time to deliver on the European Pillar of Social Rights**


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AROP at risk of poverty
BLER board-level employee representation
CEE central and eastern Europe
CJEU Court of Justice of the European Union
CMD Carcinogens and Mutagens Directive
CSR country-specific recommendation
CWP Commission Working Programme
EC European Commission
ECB European Central Bank
ECHR European Convention on Human Rights
ECOFIN Economic and Financial Affairs Council
ECSR European Committee of Social Rights
ECHHR European Court of Human Rights
EEA European Economic Area
EFTA European Free Trade Association
EIB European Investment Bank
EIGE European Institute for Gender Equality
EPI European Participation Index
EPSR European Pillar of Social Rights
ESD European Social Dialogue
ESENER European Survey of Enterprises on New and Emerging Risks
ETUC European Trade Union Confederation
ETUI European Trade Union Institute
EU European Union
EU-OSHA European Agency for Safety and Health at Work
EUROFEDOP European Federation of Public Service Unions
EU-SILC EU statistics on income and living conditions
EWC European Works Council
f forecast
FTE full-time equivalent
GDP gross domestic product
GHG greenhouse gases
IEA International Energy Agency
ILO International Labour Organisation
IMF International Monetary Fund
ISCED International Standard Classification of Education
ISCO International Standard Classification of Occupations
MNC multinational company
MS Member State
NEET ‘Not in education, employment, or training’
OECD Organisation for Economic Co-operation and Development
OEL occupational exposure limit
PP percentage point
PPP purchasing power parity
PPS purchasing power standard
Q quarter
QE quantitative easing
R&D research and development
REFIT Regulatory Fitness and Performance Programme
SCE European Cooperative Society
SE Societas Europaea (European Company)
SE-WC Societas Europaea Works Council
SGP Stability and Growth Pact
TFEU Treaty on the Functioning of the European Union
UNEP United Nations Environment Programme
wa weighted average
WSI Institute of Economic and Social Research (Hans-Böckler-Foundation)
The Benchmarking Group

Foreword
Luca Visentini, ETUC, General Secretary
Maria Jepsen, ETUI, Director of Research Department
Philippe Pochet, ETUI, General Director

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Sotiria Theodoropoulou, Oliver Picek and Béla Galgóczi
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Stan De Spiegelaere, Aline Hoffmann, Romuald Jagodziński,
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(ETUI)

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The European Trade Union Confederation (ETUC)

The European Trade Union Confederation (ETUC) exists to speak with a single voice, on behalf of the common interests of workers, at European level. Founded in 1973, it now represents 90 trade union organisations in 38 European countries, plus 10 European Trade Union Federations. The ETUC represents 45 million members.

The ETUC is a democratic and independent organisation, recognized by the European Union, the Council of Europe and the European Free Trade Association as the sole representative, multi-sector, trade union organisation at European level.

The ETUC is the only social partner representing workers at European level in the framework of European social dialogue. The ETUC aims to ensure that the EU is not just a single market for goods and services, but is also a Social Europe, where improving the wellbeing of workers and their families is an equally important priority.

etuc@etuc.org
www.etuc.org